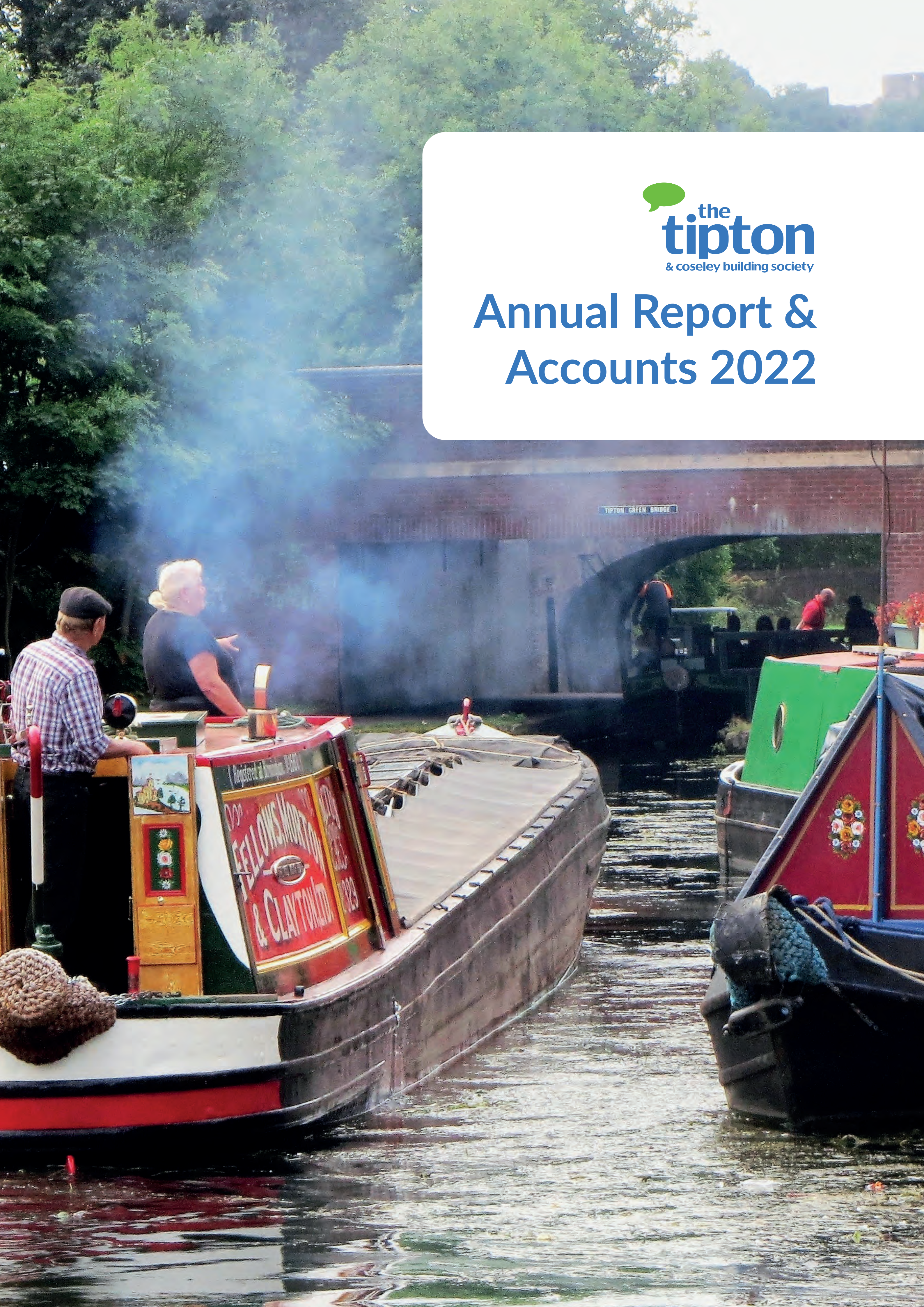

the tipton & coseley building society

Annual Report & Accounts 2022

Contents

Cover photo of Tipton Canal Festival by Tipton Civic Society

2022 Highlights

£108M
GROSS MORTGAGE LENDING

£416M
TOTAL SAVINGS BALANCES

£3.8M
UNDERLYING PROFIT BEFORE TAX

£4.8M
PROFIT BEFORE TAX

2.24%
NET INTEREST MARGIN

1.48%
MANAGEMENT EXPENSES RATIO

23.7%
LIQUID ASSETS RATIO

26.8%
TIER 1 CAPITAL RATIO

Chair's welcome

Welcome to our 2022 Annual Report & Accounts. I hope they provide you with an insightful update on our activities during the year and our prospects for the future.

Performance

We saw a rapidly changing economic environment during 2022, in part due to the war in Ukraine and September's political turmoil in the UK when the financial markets reacted negatively to the Truss Government's mini budget, with annual CPI inflation soaring to over 11% and the Bank of England increasing Base Rate eight times, all of which has resulted in increasing pressure on the cost of living. Despite this, I am pleased to report that we have delivered another good performance in these challenging circumstances. Savings and mortgage balances have hit record levels again resulting in continuing balance sheet growth, and underlying profitability remains strong.

During the year we continued our strategy of investing in our people, processes, and technology to enable us to provide quality products and excellent service to our members, both existing and new - and it is this focus that continues to underpin our strong delivery.

I am immensely proud of the tremendous contribution of Society colleagues who have delivered these results alongside dealing with multiple Base Rate changes, each of which results in significant additional administrative work. On behalf of the Board, I would like to offer them all our heartfelt thanks.

Succession

On a personal note, I was delighted to be appointed as Chair of the Board in April, succeeding Andrew Higgins who retired after nearly 10 years' service. On behalf of the Board, I would like to thank Andrew for his tireless service to the Society. During his tenure as Chair, the Society grew by over 30%, we were the first building society to launch a mobile app that allows customers to open, view and manage savings accounts on the go, and we emerged from the pandemic as a more resilient, independent, and stronger regional building society.

Outlook

Whilst economic conditions and market dynamics are likely to become more challenging during the year ahead, the Society is financially strong and well positioned to continue the positive progress of recent years. With the likelihood of lower housing transaction levels, competition is set to be fierce for mortgages, and likely to remain so for savings, as a result we expect and have planned for a modest growth rate in the coming year. Our commitment to maintaining an appropriate level of financial strength remains uncompromising.

Finally, I would like to thank you, our members, for your support and commitment to the Society, and we look forward to this continuing in 2023 and beyond.

Jeremy Cross
Chair of the Board
6 March 2023

Chief Executive Officer's highlights

2022 was another successful year for the Society in the face of multiple interest rate increases by the Bank of England, and financial markets turmoil arising from the Government's mini budget in September.

The economy and marketplace

The overriding theme for 2022 was one of uncertainty following the economic rebound in 2021. The UK entered the year with inflation at 5.4%[1], driven in part by the post-pandemic industrial demand for energy, energy prices and inflation then surged with the war in Ukraine being a key driver.

The Bank of England began increasing its Base Rate ("Base Rate") interest rate in December 2021, with its monetary policy remit to achieve the Government's target of keeping inflation at 2%. During 2022 the Bank increased Base Rate a further eight times in its fight against inflation which peaked at 11.1% in October. Market expectations for Base Rate are mixed, with c.4% - 4.5% a likely maximum compared to the current rate of 4%, before the Bank adopts a wait and see approach to reductions in inflation.

Up to August, house prices continued to rise, driven by the impact of limited new house building and a historically low supply of property available for sale. In the latter months of the year, prices started to slow down, with the first month on month falls since July 2021. At December, a year-on-year increase in prices of 2.8% was reported by Nationwide's house price index.

Competition and the supply of available products in the mortgage market was high up until the Government's mini-budget on 23 September, following which there was financial market turmoil with lenders withdrawing products for a brief period and fixed rate mortgages becoming significantly more expensive. As confidence returned, lenders re-entered the market although fixed rates remain higher than prior to the mini-budget.

In the savings market, interest rates increased during the year as a result of Base Rate increases and increasing competition for savers funds. Savers are now receiving materially higher rates of return than they have been for over a decade, albeit rates have not kept pace with inflation.

Financial performance

Against the backdrop of these economic and political challenges, we have continued to focus on the things we do well, and your Society has had a successful year delivering another strong financial performance.

We achieved gross mortgage lending of £108m, our second highest year following 2021's record. This contributed to continued mortgage book growth of 6.8%, our fifth successive year of growth totalling 46% over this period.

Underlying profit before taxation was a record £3.8m. The increase was primarily due to mortgage book growth, an increase in interest receivable on liquid assets due to Base Rate increases, and stronger overall net interest margin. Profit before taxation, including accounting adjustments for derivatives, was £4.8m. These adjustments will unwind over future years. Our profitability reinforces our strong capital position enabling us to continue to invest for the future benefit of members.

We remain conscious of the need to balance financial performance alongside the conflicting interests of savers and borrowers, and have been conscious of the pressure on members' finances, with inflation, energy costs, and interest rates increasing pressure on the cost of living for households across the UK.

[1] Office for National Statistics Consumer Prices Index ("CPI")

Chief Executive Officer's highlights (continued)

With borrowers seeing increasing costs for mortgages because of increases in Base Rate, and with market expectations of further increases to come, we have been measured in our approach to increasing our Standard Variable Mortgage Rate ("SVR") during the year. Although Base Rate has increased by 3.4% since December 2021 to the end of 2022, we have been able to lessen the impact on borrowers by restricting the resultant increase in our SVR to 2.35%.

Savings members have benefitted from significant increases to our interest rates offered this year, as we strive to give good value to members. It is pleasing to report that our approach resulted in the Society attracting £33m in new savings balances from both existing and new members. This increase in savings balances will support future mortgage lending activity.

Our people

My heartfelt thanks go to my colleagues for their commitment to the Society; they play a vital role in our ongoing success, striving to provide great service to members every day.

During the year we invested in strengthening functional areas where needed, and made good progress on our approach and practices for diversity and inclusion and developing our People Plan for the ensuing year. In addition, in the face of the increasing cost of living, we adopted the Living Wage Foundation's real Living Wage as our minimum hourly rate of pay and made two additional payments of up to £500 each to colleagues.

Community activity

Supporting and making a positive contribution to our local community is important to us.

During the year total charitable donations amounted to £26,915. This included a donation of over £15,000 to our Charitable Foundation ("Foundation"), and £9,000 to Midlands Air Ambulance Charity ("MAA").

Our Foundation donation included £5,000 as a result of members saving in our Community Saver accounts. The Foundation supports charitable activities within the Black Country area with the principal purposes of raising educational standards, increasing health provision, and supporting the hospice movement.

Once again, my colleagues adopted MAA as their charity partner. In addition to the amount donated by the Society as a result of members saving in our MAA savings accounts, colleague fund raising activity resulted in a further donation of £6,600.

During the year, and conscious of the increasing pressure on the cost of living, we increased our support to the Black Country Foodbank with total donations of £2,545.

Colleagues also supported Santa's Black Country Toy Appeal through donating toys and other gifts; the charity offers support to children struggling due to parents losing their job, losing their home, or worse still, children who have lost their parents to illness.

We reviewed our long-standing partnership with Wolves FC during the year and supported their introduction of a new Magic Moments initiative which aims to create memories for deserving supporters; this includes Premier League mascot packages and exclusive invitations to meet-and-greet with the first team at the training ground.

We have also continued our long-standing support of numerous local clubs and associations, including our ongoing support and sponsorship of Tipton Harriers Athletics Club and Tipton Town FC, keeping us at the heart of our local community.

The environment

During the year we worked with ClimatePartner, a leading solutions provider for climate action, to understand the emissions from our operations and establish our baseline carbon footprint. We then offset these emissions, through accredited projects in the UK and around the world, to become carbon neutral.

We will continue to work with ClimatePartner during 2023 as we aim to reduce the emissions produced through our operations. This will include outlining a sustainable reduction plan, taking a look at the actions available for short, medium and long term reductions in our emissions, and engaging with colleagues on building awareness around climate change and our impact as a business.

Outlook

The economic conditions are likely to become more challenging during the year ahead, and members will undoubtedly be impacted. We would encourage any member having difficulty paying their mortgage, credit card or personal loan, to talk to their lender as soon as possible. Your lender will work with you to provide support that is tailored to your individual circumstances and your credit score will not be impacted when finding out what options are available.

The increase in cost of living will have implications for the housing market, as supply and demand rebalances, and affordability continues to be stretched. A more muted market with lower house purchase transaction levels is expected in 2023 and as a result, intense competition for mortgage business is likely.

In conclusion

We are financially strong and well positioned to respond to the potential impact of this uncertainty and competition, and we will continue to take opportunities as they arise. We remain focused on delivering on our principal purpose of helping members to own a home at all stages of life, and to help them save for the future with a safe and secure home for their savings.

Thank you for your continued support.

Richard Newton
Chief Executive Officer
6 March 2023

Strategic review

Our principal purpose is to help members own a home at all stages of life, and to help them save for the future with a safe and secure home for their savings. We achieve this through, at its core, a simple business model. We provide a focused range of mortgages to our members, which are funded primarily by retail savers and our accumulated profit reserves.

As a regional building society and a mutual organisation, we play an important role in bringing diversity and choice to the mortgage and savings marketplaces. We do not aim to maximise profit; we balance rewarding members with competitively priced products, whilst ensuring that we are financially strong and able to continue to invest for the future benefit of members.

Funding

Our funding is sourced primarily from retail savers (through our 4 local branches, online App and by post), wholesale markets, and from accumulated previous years' profits.

Growing our retail savings balances is key to ensuring we can sustain mortgage book growth in the long-term. We achieve this by providing attractive savings products and good service to customers. During 2022, we were able to significantly increase our average savings rates from 0.45% in December 2021 to 2.13% in December 2022, and our savers benefitted from the Society paying 0.62% above market average rates[1] in 2022.

To diversify our funding, we have also drawn funding from the Bank of England under the TFSME scheme, and to a limited extent from other corporate bodies.

Mortgages

We are committed to providing mortgages to customers at all stages of life, and are passionate in providing a quality, personalised service that our customers value. In particular, our underwriters individually assess every new mortgage on its merits and we invest time engaging with potential borrowers to better understand their individual circumstances. This depth of understanding means that we can offer mortgages to more complex, credit-worthy, borrowers that larger providers may reject.

We offer products across underserved segments of the mortgage market to ensure that we do not become over exposed to any one segment; this means we remain well positioned to cope with changes in competition and the market.

[1]Bank of England Database

In 2022, we supported borrowers to purchase or remortgage homes including:

- First time buyers;
- Borrowers with higher income multiple requirements;
- Lending into later life, including retirement;
- Buy to Let, including to ex-pat borrowers; and
- Borrowers wanting to build or refurbish a property.

In 2023, we intend to extend our support to customers by widening our product range to include shared ownership mortgages.

Unfortunately, some mortgage customers will experience financial difficulty at times. Our approach is to help these customers, with empathy and respect - this can include providing forbearance measures appropriate to their circumstances.

Managing liquidity

We maintain a prudent level of liquidity to ensure that we are able to support expected mortgage lending, and other future needs. Throughout the year, liquidity was maintained significantly above minimum regulatory requirements.

Our liquid assets are held primarily in the form of cash with the Bank of England, and with other highly rated credit institutions.

Net interest margin

Our objective is to balance the need to offer attractive rates to both savers and borrowers, whilst ensuring that we achieve a sustainable overall net interest margin. Our margin is influenced by a number of factors including product price, mix of products, and changes to Bank of England Base Rate. We enter into hedging arrangements to manage our exposure to risks associated with changes in Base Rate.

Cost management

Operating efficiently is an important focus for us to ensure that we are able to generate sufficient profit to maintain a strong financial position. Costs reflect our operation across 4 local branches, serving our savings customers, sourcing and administering mortgages, and ensuring we remain compliant with the multitude of regulations we operate under.

A high proportion of our costs relate to our colleagues, who we aim to pay fairly to ensure we attract and retain talent. We invested in improving processes during the year, including an upgrade of our core systems, so that we are well placed to continue to provide great service to customers in the future, and to remain operationally resilient should unexpected events arise. Investment will continue in 2023, including ongoing improvements to our mortgage processes, cyber security, and in colleague development.

Ensuring sustainable capital

Our capital reserve has been generated since our inception in 1901, and is entirely from historic profits. As a regional mutual this is realistically the only source of capital available. It is used to ensure we are financially strong, both currently and into the future, and is necessary to support future mortgage lending, and investment in the Society.

Our capital position is significantly above regulatory requirements; this provides both a buffer for unforeseen stress events and gives us confidence to make investments in line with our longer term strategic plans.

Key performance indicators

Key performance indicator	What is measured	Performance	Commentary
Underlying profit before tax	An alternative profit measure, used by the Senior Leadership Team, that excludes gains/(losses) on derivative financial instruments, and any one-off items.	2022 £3.8m 2021 £2.7m 2020 £1.5m	Underlying profit increased as a result of a strong net interest margin, which benefitted from rises in the Base Rate, offset by increased costs, and by impairment charges reflecting the deteriorating economy at the end of 2022.
Profit before tax	As reported in the Income Statement, this is a measure of capital generation in the year, to support future Society growth.	2022 £4.8m 2021 £3.0m 2020 £1.1m	In addition to underlying profit growth, profit before tax increased as a result of accounting for fair value gains on derivatives; these gains will unwind in future years.
Gross mortgage lending	The value of mortgages lent to our customers during the year.	2022 £108m 2021 £115m 2020 £77m	The Society continued to support new borrowing at a level above its historic market share.
Net mortgage lending	The annual increase in the total mortgage book, excluding fair value adjustments, and impairments.	2022 £27.1m 2021 £48.7m 2020 £22.0m	Net lending, although healthy, was less pronounced than in 2021. As a result of Base Rate and mortgage rate rises, there was a modest increase in existing borrowers refinancing to alternate lenders.
Net interest margin	The difference between interest received on assets (principally mortgages, and liquidity), and interest paid on liabilities (principally funding), as a percentage of mean assets.	2022 2.24% 2021 2.06% 2020 1.86%	Whilst the Society continued to offer competitive mortgage rates throughout the year, customer rates increased significantly, as a result of increases in Base Rate. Funding costs rose significantly in the year, reflecting eight Base Rate increases, which ended the year at 3.50%. Net interest margin benefitted from hedging fixed rate mortgages, and from additional interest income generated from capital reserves, arising from increases in Base Rate.

Strategic review (continued)

Key performance indicator	What is measured	Performance	Commentary
Tier 1 capital ratio	Tier 1 capital (principally profit reserves) as a percentage of Risk Weighted Assets ("RWA").	2022: 26.8% 2021: 26.6% 2020: 27.6%	Strong profitability in the year strengthened the ratio, following several years of modest reductions in the ratio. The underlying trend is the result of increasing RWAs which are associated with growth of the Society.
Liquid assets ratio	Total of cash in hand, loans and advances to credit institutions, and debt securities as a percentage of mean shares and borrowings.	2022: 23.7% 2021: 21.5% 2020: 18.7%	The Society adopted a prudent approach to liquidity in the year, maintaining levels above regulatory minimums.
Savings balances	Shares and deposits held by members and by other customers.	2022: £416.0m 2021: £380.0m 2020: £341.4m	The Society focused on increasing savings balances to fund mortgage lending, ahead of repayment of Bank of England TFSME loans by the end of 2025. Savings balances are now at record levels.
Impairment coverage	Impairment provision as a percentage of the year end mortgage book, prior to fair value adjustments.	2022: 0.32% 2021: 0.28% 2020: 0.39%	The deterioration in the economy in the second half of the year, with a slowdown in annual house price increases, and impact of cost of living on mortgage customers, resulted in a higher estimate of impairments. At the end of 2022 there were no mortgages 12 months or more in arrears (2021: none).
Management expense ratio	The aggregate of administrative expenses, depreciation and amortisation, as a percentage of mean total assets.	2022: 1.48% 2021: 1.53% 2020: 1.55%	Costs increased in the year due to additional investment in people (with average headcount rising from 94 to 97) and in our systems. This investment supports future mortgage and savings growth, and customer service levels. This was offset by 10% growth in Total Assets.

Risk management

Financial risk management objectives and policies

The Society operates in an environment where financial risks arise as a natural consequence of its business activities. To mitigate these risks the Society operates a formal structure for managing risk which is closely monitored and controlled by the Board, supported by four Board sub-committees, the Audit, Risk & Compliance, Nominations and Remuneration committees. In addition, the Society operates three executive management sub-committees which actively measure and monitor risk; the Assets & Liabilities Committee ("ALCO"), the Retail Credit Risk Committee ("RCRC") and the Executive Risk Committee ("ERC") which all report into the Board Risk & Compliance Committee.

The Board has overall responsibility for risk management and ensuring that the approach is aligned to the Society's business strategy and objectives. The Board has put in place a formal risk management framework which includes oversight by the Board Risk & Compliance Committee, risk policy statements, risk appetites including risk metrics, mandates and reporting lines, and an active risk review process. Risk exposures are monitored monthly and managed in accordance with Board approved strategic policies.

The Society uses financial instruments for risk management purposes; the nature of these instruments and details of the financial risks are set out in note 26.

As part of the Capital Requirements Directive ("CRD"), the Board has assessed the adequacy of capital resources and Pillar 3 disclosures, which are a requirement of the CRD, together with the disclosures to comply with the requirements of Article 89 of the Capital Requirements Directive IV ("CRD IV"). All these disclosures are provided on the Society's website.

Principal risks and uncertainties

Managing risk is an essential element of running any successful business, and many of the risks the Society faces are those normally associated with any business striving to prosper in a competitive market including interest margin pressures, regulatory and statutory developments, reputation, colleague recruitment and retention, as well as the challenges presented by cyclical changes in the economy.

The Society's risk management framework ensures it carefully manages the principal risks and uncertainties arising from its activities, and so helps to protect members' interests. The framework is underpinned by the three lines of defence model which ensures roles and responsibilities for managing risk are clearly defined.

The first line of defence retains overall accountability and ownership of risks within the business area. This includes responsibility for implementing the requirements of the risk management framework, including the identification, measurement, assessment, monitoring, control, and mitigation of risk.

The Society's Risk & Compliance team act as the second line of defence and are responsible for the design of the risk management framework and overseeing its successful implementation in the first line. They also provide support, oversight and challenge to the first line, and report their findings to executive management sub-committees, Board sub-committees and/or the Board as per oversight arrangements.

The third line of defence are the Society's internal auditors who provide independent assurance over the effective operation of first- and second-line activities, and report on the effectiveness of the systems of internal control to the Board Audit Committee.

The principal risks and uncertainties the Society faces are as follows:

Strategic risk

Strategic risk is the risk that the Society fails to achieve its strategic objectives as set out in the corporate plan. This can occur through changes in the external operating environment which threaten the Society's business model, or through poor execution.

Strategic risk is managed by:

- Focusing on creating and maintaining a long-term sustainable business model, through the development and challenge of strategy and detailed business plans, risk appetites and policies. Annually, the Board formally reviews and approves the corporate plan;
- Monitoring the external environment, including the current cost of living pressure and the potential for recession. Both could have significant short-term consequences and long-term impacts on the economy;
- Maintaining a diverse product portfolio to mitigate against significant changes in the market;
- Continued investment in people, processes, and technology to improve the resilience of the Society and the service to customers, and so supporting sustainable growth of the Society;
- Managing costs, monitoring them closely against corporate plan. If necessary, the Society will adjust its plans to ensure costs remain at acceptable levels; and
- The Board providing challenge and monitoring of business performance.

Credit risk

Credit risk (mortgage and wholesale) is the risk that customers or counterparties will not meet their financial obligations to the Society as they fall due. This risk is most likely to arise in the potential inability of members to make repayments on their mortgage, and of treasury counterparties failing to repay loan commitments.

Mortgage credit risk is managed by:

- Focusing on lending where the Society has appropriate knowledge and expertise;
- Setting a Board approved risk appetite, supported by a lending policy and specific segmental lending limits, and robust underwriting processes which seek to ensure that customers only assume a debt that they can afford to repay.
- Ongoing monitoring of performance and the exposure against risk appetite by RCRC, with oversight from the Board Risk & Compliance Committee; and
- Proactive engagement with members who have difficulty in making repayments, and working with them to clear arrears, make arrangements, or provide forbearance, where appropriate.

In respect of wholesale credit risk, the Board has an established treasury policy framework which limits treasury exposures to only those institutions considered highly credit worthy, along with limits in place to restrict the amount of exposure that can be taken in relation to any one counterparty, industry sector and geographic region. Monitoring and oversight of treasury positions is performed by ALCO with further oversight provided by the Board Risk & Compliance Committee.

Interest rate risk

Interest rate risk is the risk that income and expenditure arising from the Society's assets and liabilities may change adversely because of changes in interest rates. One type of interest rate risk is basis risk; this is the risk that assets and liabilities that are linked to different variable indices (such as Base Rate or SONIA) may not move in accordance with each other.

The Society manages this risk on a continuous basis, utilising derivative financial instruments where appropriate. Exposure limits are set by the Board, with monitoring and oversight performed by ALCO monthly, and further oversight provided by the Board Risk & Compliance Committee.

Further information on the Society's derivative financial instruments is set out in note 26. The interest rate sensitivity of the Society is set out in note 26.

Strategic review (continued)

Liquidity and funding risk

Liquidity and funding risk is the risk that the Society is unable to meet its financial obligations as they fall due or can only do so at excessive cost.

The Board approved liquidity policy is to maintain sufficient liquid resources both as to amount and quality to cover cash flow imbalances and fluctuations in funding, to maintain full public confidence in the solvency of the Society and to meet its financial obligations as they fall due.

The Society maintains a level of liquid assets in line with the Board approved treasury policy. Adherence to these limits is monitored by the Finance Director with further oversight provided by ALCO and the Board Risk & Compliance Committee.

An Internal Liquidity Adequacy Assessment is performed annually to determine an appropriate level of liquid resources required under stressed conditions. Regular stress testing is performed to confirm the level of liquid resources is adequate under adverse scenarios.

Capital risk

Capital risk is the risk that the Society has insufficient capital resources to meet current or future business requirements. The Board has set a minimum risk appetite, against which performance is monitored monthly.

An Internal Capital Adequacy Assessment is performed annually to determine the appropriate level of capital required to support current and future activities. Stress testing enables the Society to understand the impact on the capital position, and Recovery Plans are maintained, should a significant stress event occur.

Operational risk (including cyber risk)

Operational risk is the risk of financial or reputational loss arising from inadequate or failed internal processes, people, and systems or from external events. The Society assesses the impact and likelihood of such risks occurring and then ensures controls have been established and are maintained which appropriately manage the risks in accordance with risk appetite and policies.

The threat of cyber risk continues to increase and is a key focus for the Society to ensure that it safeguards members assets. The Society continues to invest in protecting systems and data against potential cyber-attacks with a rolling programme of investment aimed at further improving resilience.

Exposure to operational risk is monitored by ERC with further oversight provided by the Board Risk & Compliance Committee.

Conduct risk

Conduct risk is the risk that the Society's behaviour leads to poor customer outcomes. The Society's Conduct Risk Policy sets out how conduct risk is managed, and sets out clear expectations around how the Society must conduct business with its customers to ensure they receive appropriate advice and support.

The Risk & Compliance team monitor the Society's conduct risk exposure through assessing the effectiveness of controls in place to manage this risk. Their findings are reported to ERC and the Board Risk & Compliance Committee.

Financial risks from climate change

Climate change represents a risk to both the Society and its members. During 2022, we continued to develop our approach to identifying, monitoring and managing climate related risks, noting that while most of the financial impacts from climate change may not emerge for many years, there are a number of shorter term impacts associated with the transition to a low-carbon economy that need to be carefully monitored and managed.

Governance

The Board has delegated oversight of climate related risks to the Board Risk & Compliance Committee which is responsible for approving the overall risk appetite in relation to climate change risk and providing oversight of the Society's exposure, including monitoring the effectiveness of any actions taken to reduce the exposure. It is supported in this by the ERC, RCRC, and the Risk & Compliance Director who is the Senior Management Function holder with responsibility overseeing management of the financial risks from climate change. The Audit Committee provides oversight of external disclosures relating to the management of climate change risk.

A Climate Change Risk Policy has been developed which sets out the approach to managing climate related risks. This includes details of the roles and responsibilities of each of the three lines of defence, including the Board.

Strategy

Many climate related risks have an emergence period of 50 years or more so they can be difficult to identify, measure and manage. To support the ongoing development of the Society's approach all such risks are considered through two perspectives:

- Physical risks - the risks arising from weather events (such as flooding, heatwaves, and storms) and long-term shifts in the climate (such as increased mean temperatures, rising sea levels and increases in extreme weather events); and
- Transition risks – the risks arising from adjustment towards a low-carbon economy, including Government climate related policy and regulatory developments, the emergence of disruptive technologies and shifting sentiment and societal pressures.

A range of climate change risks which, if they materialised, may have a financial impact on the Society have been identified, as set out below:

Principle risk type	Climate change risk type	Examples	Emergence time horizon[1]
Retail Credit Risk	Transition	• Increase in defaults due to transition costs of moving to greener economy and/or increased energy costs. • Declining property values due to Government housing policy such as minimum EPC standards.	Short - medium
	Physical	• Declining property values due to increase in severe weather events. • Increase in insurance costs leading to increase in uninsured properties or creating trapped borrowers.	Long
Operational Risk	Transition	• Re-evalution of third party relationships due to their carbon footprint. • Increase in cost base, such as increases in energy costs. • Reputational damage as a result of not proactively promoting environmental credentials.	Medium
	Physical	• Physical damage to Society offices/branches and/or loss of services/systems due to increased number of severe weather events.	Long
Conduct Risk	Transition	• Increase in advice risks from advice given in relation to green products.	Medium
Liquidity and Funding Risk	Transition	• Market participants seeking to deal only with firms with strong environmental credentials.	Medium
	Physical	• Increased risk of market distruption/volatility due to severe weather events. • Reduction in retail deposits due to transition costs of moving to greener economy and/or increased energy costs. • Reduction in retail deposits as a result of failing to adopt green policies and practices.	Medium - long
Strategic Risk	Transition	• Increase in reputational risk as a result of poor environmental credentials. • Increase in costs as a result of reducing our carbon footprint.	Medium
	Physical	• Loss of income as a result of disruption caused by severe weather events. • Deterioration of balance sheet asset quality as a result of physical impacts.	Long

[1] Emergence time horizon is defined as Short (1 – 5 years), Medium (5 – 10 years), Long (10 years +).

We support the UK's ambition to be net-zero by 2050 and are conscious of our own contribution, both directly and indirectly, to global greenhouse gas emissions. During 2022, we worked with ClimatePartner, a leading solutions provider for climate action, to understand the emissions from our operations and to establish our baseline carbon footprint. We then offset these emissions, through accredited projects in the UK and around the world to become carbon neutral.

With approximately 16% of the UK's carbon emissions coming from homes, we recognise that our lending policy can have a positive impact on reducing this. Currently, we have minimum EPC ratings for certain types of lending and will not lend against properties with a very high risk of flooding.

Strategic review (continued)

Risk management

External data has been used to help quantify the current exposure to climate change risks. This has included property-level data relating to the risk of flooding, coastal erosion, and subsidence, and includes modelling to show how exposure to these risks may change under a range of climate change scenarios out to 2060.

We have assessed exposure to the physical risks of climate change within our mortgage book using the Met Office's Climate Projections 2009 ("CP09") and 2018 ("CP18"). These in turn use four Representative Concentration Pathways that include a range of assumptions around how climate change will evolve.

The analysis below demonstrates that, even under the most pessimistic climate change scenario where global emissions continue to rise throughout the rest of the century, we have no material exposure to properties at risk of flooding, coastal erosion, or subsidence.

Risk metrics

Mortgage portfolio	% By number based on most pessimistic scenario					
	Flooding		Coastal Erosion		Subsidence	
	31/12/22	31/12/21	31/12/22	31/12/21	31/12/22	31/12/21
Properties expected to be impacted at least every 10-years by 2060	0.5%	0.4%	0.0%	0.0%	0.5%	0.4%
Properties not expected to be impacted at least every 10-years by 2060	96.4%	88.2%	96.9%	88.6%	96.4%	88.2%
Properties where data is not available[1]	3.1% (2021 - 11.4%)					

[1] Mortgages advanced during 2022 after external analysis undertaken.

We monitor the Energy Performance Certificate ("EPC") ratings of our mortgage book to help better understand the impact of lending activities in terms of carbon emissions, identify opportunities to change lending policies to reduce those emissions, and to understand the degree to which borrowers may be exposed to potential changes in Government housing policy.

The distribution of EPC ratings across the core mortgage portfolio is shown below against both the current and potential EPC rating if energy efficiency improvements were made.

Current EPC rating	Owner occupied % by number		Buy-to-Let % by number		Total % by number	
	31/12/22	31/12/21	31/12/22	31/12/21	31/12/22	31/12/21
A-C	25.8%	24.8%	38.4%	37.4%	27.7%	26.2%
D-E	67.7%	69.3%	54.1%	60.4%	65.7%	68.3%
F-G	4.1%	4.6%	0.7%	1.3%	3.5%	4.2%
Unknown[2]	2.4%	1.3%	6.8%	0.9%	3.1%	1.3%

Potential EPC rating	Owner occupied % by number		Buy-to-Let % by number		Total % by number	
	31/12/22	31/12/21	31/12/22	31/12/21	31/12/22	31/12/21
A-C	90.5%	90.4%	89.0%	91.3%	90.2%	90.5%
D-E	6.8%	7.8%	3.9%	7.5%	6.4%	7.8%
F-G	0.3%	0.4%	0.2%	0.3%	0.3%	0.4%
Unknown[2]	2.4%	1.4%	6.9%	0.9%	3.1%	1.3%

[2] Properties purchased before EPCs became mandatory in 2008, where the certificate is more than 10 years old and has expired or those advanced during 2022 after external analysis undertaken.

Climate change – future plans

We will continue to develop the work we carry out to understand the climate change impact of our business activities, including considering how these can be reduced or eliminated.

Jeremy Cross
Chair of the Board
6 March 2023

Board of Directors
as at 31 December 2022

Non-Executive Directors

Jeremy Cross Chair

Jeremy was appointed to the Board in 2022 as Chair he also Chairs the Nominations Committee. He has been a Chartered Accountant for 30 years with a background in Retail and Financial Services. Prior to joining the Society, Jeremy was Chair of another regional building society and has worked within the mutual sector for over 10 years. In addition, he serves on the Board of his local NHS Foundation Trust, as well as chairing the Board of a Children's Hospice.

Keith Rolfe Vice Chairman and Senior Independent Director

Keith was appointed to the Board in 2015. He has extensive risk management experience gained from front line risk roles in leading global financial institutions, latterly in an executive role within Barclays Corporate as Chief Credit Officer. He has also worked for UBS and Credit Suisse in Risk Management roles. He is Chair of the Risk & Compliance Committee and is a member of the Nominations Committee.

Sally Veitch Non-Executive Director

Sally was appointed to the Board in 2018. She Chairs the Audit Committee and is a member of the Risk & Compliance and Remuneration Committees. She is a Chartered Accountant, qualifying in 1997 whilst working for Coopers & Lybrand, and in her executive career she was a senior executive at Home Retail Group. She holds non-executive positions at Perenna Bank and LHV UK. She is also Chair of Settle Housing Association and a governor at Roundwood Park School Academy Trust.

Myron Hrycyk Non-Executive Director

Myron was appointed to the Board in 2017. He has an MBA from Birmingham University and is a chartered member of the British Computer Society. During his career he has been Group Chief Information Officer ("CIO") and Digital Director at Severn Trent plc, and IT Director at Unipart Advanced Logistics. He is a Cabinet Office Crown Representative working with the UK Government's strategic digital technology suppliers, and a Non-Executive Director at Rooftop Housing Association. He is Chair of the Remuneration Committee and a member of the Audit and Risk & Compliance Committees.

Board of Directors (continued)

Belinda Moore Non-Executive Director

Belinda was appointed to the Board in 2020. She has extensive experience across a wide spectrum of marketing disciplines gained from a career of over 30 years in the UK and overseas. She holds non-executive roles at Benenden Healthcare and University of Essex Campus Services. She is a member of the Audit and Remuneration Committees.

Jill Bentley Non-Executive Director

Jill was appointed to the Board in 2022, having recently retired from an executive risk role at Barclays Bank. She has over 30 years risk management and prudential risk experience gained from senior roles across several large financial services firms. During her career she has also had several external secondments, including serving as Chief Risk Officer at what was then the Department of Communities and Local Government, and Policy Director at what was then the British Bankers Association. Jill is a member of the Audit, Risk & Compliance and Nominations Committees.

Executive Directors

Richard Newton Chief Executive

Richard joined the Society in 1991 as an administrative assistant. Following his appointment as Finance Manager he qualified as a Chartered Certified Accountant in 2001. He was appointed to the Board in July 2011 and is a former Finance Director of the Society. He was appointed Chief Executive in December 2013 and is a member of the Nominations Committee.

Alastair Shand Finance Director

Alastair was appointed to the Board as Finance Director upon joining the Society in 2021. He is a Chartered Accountant, qualifying in 1993, and holds an MBA from the University of Warwick. Prior to joining the Society, Alastair has worked in financial services for over 20 years, most recently in a senior finance role at Skipton Building Society.

Adam Evetts Risk & Compliance Director

Adam joined the Society in 2020 and was appointed to the Board in 2022. He has worked within the building society sector for over 27 years, with 22 years working within risk and compliance roles, including senior risk roles at two top-ten building societies. He holds an MBA from Leicester University. He is a member of the Nominations Committee and is also the Society's Secretary.

Corporate Governance Report

Our approach to corporate governance

The purpose of this report is to provide an overview of the way in which the Board has operated over the last twelve months and to describe how we incorporate good governance in our decisions and activities. Corporate governance is about the rules and policies we use to manage the Society. The Board is committed to high standards of corporate governance and believes this is integral to the Society's culture and values.

The Board has reviewed corporate governance practices against the UK Corporate Governance Code 2018 ("the Code") and although the Society is not required to comply with the Code, as it only applies to publicly listed companies, where the Code is considered relevant the Society has had regard for its principles on a proportionate basis.
The Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA") also require the Board to have regard for the Code.

Highlights from 2022

Annual General Meeting ("AGM"):
The AGM returned to being held in person following the disruption caused by COVID in 2020 and 2021. Nearly 2,300 members cast their vote in total, representing a turnout of c.11%.

Changes to the Board in 2022:
In April, Andrew Higgins, Chair of the Board, retired. He was replaced by Jeremy Cross who was appointed to the Board as a Non-Executive Director ("NED") and Chair. Following Conrad Almond's resignation from the Board in June, we appointed Jill Bentley as a NED in November. In September, Adam Evetts was appointed to the Board as Risk & Compliance Director and Secretary. Jeremy, Jill and Adam will all be standing for election at the next AGM.

People Plan:
Throughout the year the Society continued to develop its approach to people recognising the value of a diverse workforce and the importance of an inclusive working environment. A comprehensive plan of further work has been developed for 2023 and beyond.

Role of the Board

The Board is accountable to members for the strategic direction and financial soundness of the Society.
A governance framework is in place which facilitates both clear oversight of the Society's activities and effective decision making.

The Board has a formal Terms of Reference ("ToR") which articulates a clear set of roles and responsibilities. Board responsibilities include establishing the Society's purpose, values, and strategy, and satisfying itself that these and its culture are aligned.

It achieves this through review and approval of the Society's Corporate Plan and monitoring culture through Board and sub-Committee management information, reviewing measures such as complaints, number of risk events, feedback from customers, feedback from regulators, and employee surveys.

The Board are responsible for approving budgets, regulatory assessments of the Society's capital and liquidity positions, the Society's Risk Management Framework, and key supporting policies.

The Board must approve the Society's annual report and accounts, and ensure it is fair, balanced and is both understandable and provides the necessary information for members to assess performance of the Society. The responsibilities of the Directors in relation to the preparation of the accounts and the statement that the business is a going concern are contained on pages 26 and 27.

Board composition

As at 31 December 2022 the Board was comprised of nine Directors, of whom three were executive Directors and six were independent non-executive Directors. This complies with the Code which requires at least half of the Board, excluding the Chair, to be made up of independent non-executive Directors.

The Board considers that the current mix of Directors' skills, experience, backgrounds, and opinions is appropriate given the nature of the Society's business and protects members' interests and ensures effective leadership and direction.

Chair of the Board

The Chair leads the Board and is responsible for its overall effectiveness and sets its culture and direction, facilitating and encouraging effective contribution and challenge from Directors, and maintaining constructive relations between the non-executive and executive Directors. The Chair also ensures the Board as a whole has a clear understanding of the views of the Society's members.

The current Chair, Jeremy Cross, was appointed in April 2022 following the retirement of Andrew Higgins at the AGM. He was appointed following a rigorous recruitment process, supported by Warren Partners, and brings a wealth of experience, having previously held the role of Chair at another building society. Jeremy will stand for election at the 2023 AGM.

The other members of the Board, facilitated by the Senior Independent Director, annually review the experience, commitment and capability of the Chair, and whose reappointment as Chair is ratified annually following the AGM. The Board considers that Jeremy has continued to meet the criteria of independence in his role as Chair.

Conflicts of interest

All Directors have a statutory duty to avoid any actual or potential conflicts of interest. The Board Governance Manual sets out procedures for declaring and, if appropriate, managing any such conflicts and the Secretary maintains a register of conflicts which is reviewed at least annually. All external appointments must be approved by the Nominations Committee prior to being accepted. Executive Directors are not permitted to accept other executive appointments.

The Board considers that neither the Chair or any other Director had any material conflicts of interest which would impact the effective discharge of their responsibilities during the year ended 31 December 2022.

Time commitments and external appointments

All Board members are required to declare at least annually details of their other commitments and to ensure they have sufficient capacity to undertake their role as a Director of the Society. The Board considers that all individual Directors have sufficient time to discharge their duties at the Society and they do not hold more than the prescribed number of Directorships under Article 91 of the Capital Requirements Directive IV.

Tenure and succession

The Society has a succession plan for Board members and the wider Senior Leadership Team. This includes the timeline for non-executive Director succession in the normal course of business.

The Nominations Committee lead the process for Board recruitment, determining the keys skills required and the approach to recruitment. This may include using external recruiters to ensure a broad and diverse pool of candidates is considered. The Board make the final decision on such appointments. All Directors must be elected by members at the next AGM following appointment to the Board.

The typical standard tenure for non-executive Directors is a term of nine years. Flexibility is required for non-executive Directors to serve beyond the standard tenure and in exceptional circumstances any non-executive Director serving for over nine years will require annual re-election at the AGM. The overriding principle is that a non-executive Director should only continue in office if this is in the best interests of the Society.

Board meeting arrangements

The Board meet as often as is necessary to discharge its obligations and ensure the smooth running of the Society. This usually comprises 10 meetings a year, with two additional meetings dedicated to planning and strategy.

For each Board meeting a comprehensive and timely set of papers is provided in advance of the meeting. The Board receives certain regular items at every meeting such as the minutes of the previous meeting, a schedule of outstanding actions, an update from the CEO on strategic developments and current business performance, the FD on financial performance, supporting updates from each business area including progress on change initiatives, and an overview of risk exposures against agreed risk appetites.

The materials provided to the Board are reviewed regularly to ensure Directors are provided with the information required for effective decision making.

The Secretary is appointed by the Board and ensures that Board members have access to appropriate information and resources, as well as ensuring papers are issued well in advance of meetings to allow Board members sufficient time to prepare for meetings.

All Board members may seek advice from the Secretary on any matter relating to the governance of the Society.

If necessary, Board members can seek independent professional advice to support their deliberations at the Society's cost.

Board committees

To assist the Board in carrying out its objectives and in order that specific matters can be discussed and considered in more detail, certain responsibilities are delegated to several Board committees, each one having a clear and detailed Terms of Reference ("ToR"). Copies of the Board and sub-committees ToR's are available from the Secretary. The Chair, Senior Independent Director, and Chief Executive, have specific regulatory responsibilities associated with the role, details of these are available from the Secretary.

Each Board committee is comprised of a majority of independent non-executive Directors, with committee members selected for their relevant skills and expertise. The Chair of each committee is responsible for ensuring appropriate information is provided to assist with committee discussions and decision making. A brief description of these committees is set out below:

Audit Committee: page 21 contains details of the Committee's composition and duties.

Remuneration Committee: page 23 contains details of the Committee's composition and duties.

Nominations Committee: The Committee meets at least twice a year and comprises Jeremy Cross (Chair), Richard Newton (Chief Executive), Keith Rolfe, (Vice-Chair of the Board, Senior Independent Director and a contact point for employees and members), Jill Bentley, (Non-Executive Director), and Adam Evetts (Risk & Compliance Director/ Secretary). It reviews succession plans and carefully considers the skills and attributes necessary for Board appointments. The Chair does not chair the Committee when it is dealing with the appointment of their successor. The Committee also leads the process for Board appointments and oversees the appraisals of Directors' performance including their independence.

Risk & Compliance Committee: The committee meets at least four times a year and comprises four Non-Executive Directors, Keith Rolfe (Committee Chair), Jill Bentley, Myron Hrycyk and Sally Veitch. It is responsible for developing and reviewing the Society's risk management and compliance frameworks, including ensuring there is a comprehensive understanding of the risks facing the Society and that the Society complies with its regulatory and legislative obligations. Further details on Risk Management are set out on pages 10 to 14.

Performance and effectiveness reviews

The Code requires boards to undertake a formal and rigorous annual evaluation of their performance. The Nominations Committee is responsible for overseeing and following up this evaluation process along with the annual review of individual Director performance, and producing an appropriate Board training plan. The Chair ensures matters relating to both the Board and individual Director performance are suitably addressed.

The Code also requires the Board seek an external review of its effectiveness on a periodic basis. The last such review was completed in 2020.

All Board committees evaluate their own performance and effectiveness annually. This process serves to identify any areas where committee members may require further training or development to discharge their duties effectively, or where the overall performance or approach of the committee or Chair could be improved.

The outcome of the 2022 review of effectiveness concluded that the Board and its sub-committees were operating effectively.

Non-Executive Directors regularly debate strategy and long-term sustainability at Board and Committee meetings and meet periodically, without Executive Directors present, to consider all aspects of Board responsibilities, governance and performance.

Non-Executive Directors also have a prime role in appointing, removing and holding Executive Directors to account for their performance against agreed performance objectives.

Stakeholder engagement

The Board has a duty to engage appropriately with all stakeholders, ensuring their views are, where appropriate, considered within Board discussions and decision making. Key stakeholders include members, colleagues, regulators and third parties.

Members

Engagement with members is carried out in several different ways including social media, customer surveys, questionnaires, in-branch suggestion boxes and during activities supporting our local community.

Each year members are invited to attend the AGM where Directors are available to answer questions. The AGM pack sent to members includes the Summary Financial Statement and a newsletter which outlines the Society's activity in the community and addresses topical product and service issues. Members are encouraged to use their vote and attend the AGM and a donation to charity is made for each vote cast. There is an informal session at the end of the AGM giving further opportunity for members to speak to Directors and the Senior Leadership Team to discuss matters relating to governance of the Society and its performance in general.

Colleagues

The Society's employees can engage with non-executive Directors through a programme of regular business visits.

Annually, colleagues are asked to complete a detailed survey to enable the Board and Senior Leadership Team ("SLT") to better understand their views on key matters. Where required, action plans are developed to improve any weaknesses identified.

The Chief Executive holds bi-monthly forums with groups of colleagues from across the business, allowing colleagues to share their views and opinions on a variety of Society matters, supported by a programme of periodic visits to branches.

Corporate Governance Report (continued)

Regulators

We have an open and transparent relationship with both the PRA and the FCA.

Third Parties

Our third-party partners provide an essential role in helping us deliver services to our members. We closely monitor the performance of key third party suppliers, ensuring the services they provide are resilient, effective and provide appropriate value for money. Members of the SLT engage with key suppliers regularly, including the completion of ongoing due diligence checks, to ensure they remain the right partner for the Society.

Whistleblowing

The Senior Independent Director is the Society's Whistleblowing Champion, and all colleagues are aware of how to raise concerns with him, anonymously if required, for investigation. A summary report covering the operation and effectiveness of the Society's policy in relation to whistleblowing is submitted annually to the Board for review.

Audit, risk, and internal control

Internal governance arrangements support the ongoing independence and effectiveness of the Society's Internal Audit function and the integrity of financial statements. The Audit Committee Report on pages 21 to 22provides further information.

The Risk Management Report on pages10 to 14 provides further details of the Society's principal risks and an overview of the approach to risk management.

Jeremy Cross
Chair of the Board
6 March 2023

Board and Committee Attendance Record

Director	Board	Audit	Remuneration	Nominations	Risk & Compliance
C D J Almond (resigned 26 May 2022)	4 (4)	2 (2)	-	-	1 (1)
J Y Bentley (appointed 4 November 2022)	2 (2)	1 (1)	-	-	1 (1)
J D Cross (appointed 28 April 2022)	8 (8)	-	-	3 (3)	-
A J Evetts (appointed 1 September 2022)	4 (4)	-	-	1 (1)	-
A J Higgins (retired 27 April 2022)	2 (2)	-	-	1 (1)	-
M Hrycyk	10 (10)	4 (4)	3 (3)	-	4 (4)
B M Moore	10 (10)	4 (4)	3 (3)	-	-
R J Newton	10 (10)	-	-	4 (4)	-
K A Rolfe	10 (10)	-	-	4 (4)	4 (4)
A J Shand	10 (10)	-	-	-	-
S J Veitch	10 (10)	3 (4)	3 (3)	-	4 (4)

The figures in brackets represent the maximum number of meetings each Director could have attended.

Audit Committee Report

The Audit Committee ("Committee") is a key part of the Society's governance framework and has oversight of financial reporting, internal audit and external audit. It reports directly to the Board.

The Committee meets at least four times a year and comprises four Non-Executive Directors: Sally Veitch (Chair), Jill Bentley, Myron Hrycyk and Belinda Moore. Other regular attendees at Committee meetings include the Chief Executive, Finance Director, and the Risk & Compliance Director, along with representatives from the outsourced internal auditor Deloitte LLP, and the external auditor BDO LLP. Other senior managers are invited to attend as required. The Board is satisfied that at least one member of the Committee has recent and relevant financial services experience, and all members have experience of working in regulated companies.

All meetings conclude with an opportunity for the Committee to discuss matters with the internal and external auditors without Executive's being present. Minutes of meetings are circulated to all Board members and the Chair of the Committee reports to the Board at the next Board meeting.

Financial reporting

The Committee has primary responsibility to review and assess the integrity of the financial statements. It achieves this through:

- Advising the Board on whether the Annual Report and Accounts, when taken as a whole, are fair, balanced and understandable and provide the information necessary for Members to assess the Society's position and performance, business model and strategy;
- Reviewing the appropriateness and consistency of accounting policies;
- Reviewing material areas in which significant judgements and assumptions have been applied by management; and
- Reviewing the going concern assumption.

The main areas of financial reporting judgement considered by the Committee during 2022 were:

- Mortgage Impairment Provision – review and challenge of the assumptions and judgements used to determine the mortgage impairment provision;
- Revenue recognition – review and challenge of the estimates and judgements applied to the calculation of interest income and fees under the effective interest rate methodology;
- Other provisions and liabilities – review and challenge of the estimates and judgements made by management when calculating the level of other provisions and liabilities;
- Going concern assumption – evaluation of the application of the going concern assumption for the year ended 31 December 2022 through review of forecast profitability, liquidity position, funding availability and regulatory capital position. The review also considered the results of stress testing completed as part of the annual capital and liquidity assessments; and
- External audit findings – review and assess reports and findings from the external auditor.

Internal controls

The Board is collectively responsible for determining the strategies for risk management and control and the nature and extent of the principal risks the Society is willing to take. Each Board sub-committee is responsible for the risks and controls which fall under its remit. The Senior Leadership Team is responsible for designing, operating, and monitoring systems of risk management and control. Further details on the assessment and mitigation of risk can be found in the Directors Report on pages 26 and 27.

The Committee reviews the effectiveness of the internal control systems throughout the year to ensure they continue to be appropriate. Internal Audit provide independent assurance to the Board on the effectiveness of the internal control framework through the Committee. The main areas of internal control which were reviewed by the Committee during 2022 were:

- Conduct and control weaknesses identified by the internal auditor, Deloitte LLP, through delivery of their Audit Plan in relation to the Society's systems and controls;
- Status of conduct and control issues raised in internal audit reports, including volume and age of outstanding issues;
- Control weaknesses identified by the external auditor, BDO LLP, in relation to the financial reporting process; and
- Annual Internal Audit plan.

The information received by the Committee provided reasonable assurance that during 2022 there were no material breaches of control or regulatory standards. In addition, Deloitte LLP (as internal auditor) confirmed that an effective internal control framework had been maintained throughout the year.

Internal audit

The Committee is responsible for monitoring and reviewing the effectiveness of internal audit activities and the adequacy of resources. To provide the level of expertise and depth of resources, the Society has outsourced internal audit work to Deloitte LLP.

Prior to the start of each year the Committee approves the Internal Audit plan and the corresponding audit fee. During the year it considers findings from internal audit reviews designed to monitor and assess the Society's internal control effectiveness and managements responsiveness to recommendations.

On an annual basis the Committee performs an annual appraisal of the effectiveness of the internal audit services provided by Deloitte LLP. The Committee concluded that the services provided during 2022 were in line with that agreed in the Internal Audit plan.

External audit

The Committee is responsible for overseeing the relationship with the external auditor. This role includes:

- Reviewing the auditor independence and objectivity;
- Reviewing the effectiveness of the audit process;
- Recommending to the Board, the appointment, reappointment, or removal of the auditor, along with approving their annual remuneration and terms of engagement; and
- Approving the annual policy on the engagement of the auditor for non-audit services.

The current external auditor is BDO LLP, who were appointed in 2019 following a competitive tender process.

Prior to the commencement of the annual audit, the Committee reviewed the External Audit plan which included audit planning materiality, areas of audit focus, terms of engagement, fees payable, and confirmation of auditor independence.

Audit firms often have specialist skills and expertise and can provide non-audit services competitively. The Society has a policy for the use of external auditors for non-audit work and would not consider the appointment of the external auditor for the provision of non-audit services where it might impair their independence. All material non-audit services require Committee approval to ensure that auditor objectivity and independence is safeguarded.

The Committee carries out an annual appraisal of the external auditor to ensure that their independence and effectiveness is maintained. The Committee concluded that the services provided by BDO LLP were in line with the External Audit plan and remained satisfied with their objectivity, independence, and effectiveness.

Committee effectiveness

The Committee conducted an internal review of its own effectiveness during the year. The process involved each Committee member considering how effective the Committee was at performing its role, resources available, and whether it had performed in line with its Terms of Reference. The Committee concluded that it continued to operate effectively.

Sally Veitch
Chair of Audit Committee
6 March 2023

Report of the Remuneration Committee

Introduction

The Society's success is built on having brilliant people working for it. Our remuneration practices therefore need to help both attract and retain committed and engaged colleagues which will support long-term sustainability and represent value to members. The Remuneration Committee is responsible for overseeing the approach and in doing so ensuring we meet the remuneration requirements set out by the PRA and FCA and have regard for the requirements set out in the UK Corporate Governance Code.

2022 Remuneration Review

Competition within the financial services industry for high-calibre individuals remained intense during 2022 despite the economic outlook. In response, we have developed a People Plan that will help us ensure we can attract and retain the right people by creating a vibrant workplace that encourages colleagues to thrive. Remuneration is one element of this, and we have continued to develop our remuneration strategy which aims to ensure remuneration practices support five key objectives:

- Attract, motivate, and retain talented colleagues;
- Promote and reward behaviours that support the Society's values;
- Keep the Society safe;
- Ensure pay is fair and equitable for all colleagues; and
- Motivate colleagues to increase their engagement, productivity, and performance.

As concerns over the cost of living increased during the year, we kept our approach to remuneration under review which included benchmarking ourselves against our peers and the wider financial services industry and responding accordingly. We adopted the Living Wage Foundation's real Living Wage as our minimum hourly rate of pay in April, and during the second half of the year we made two additional payments of up to £500 each to colleagues.

In the coming year we will review our recruitment practices and reward packages, as well as focusing on developing our colleague talent pool to support future succession. By being a great place to work we believe this will support long-term sustainability and strengthen our position as a local employer of choice.

Role of the Remuneration Committee

The Remuneration Committee comprises only non-executive Directors, all of whom are independent. The Chair of the Board is not permitted to be a member of the Committee.

The Chair of the Committee must have previously been a member of a Remuneration Committee for at least 12 months prior to appointment.

The Remuneration Committee is responsible for the remuneration policy for all colleagues, ensuring it is fair, aligns with the wider organisational culture, and supports the Society's strategic objectives. The Committee makes independent recommendations to the Board regarding remuneration, incentive schemes and contractual arrangements.

The Committee has responsibility for ensuring that the Society complies with the relevant aspects of the regulators' remuneration codes and reviews the Society's Remuneration Policy annually, recommending its approval to the Board.

The Committee meets at least twice per year and makes recommendations to the Board regarding the suitability of Executive remuneration packages and incentive schemes. Where required the Committee will seek external professional advice if appropriate, on comparable remuneration packages.

In assessing Executive Director remuneration, the Committee considers individual performance, information from external sources including comparable building society data, the performance of the Society as a whole, and relevant factors from the external economic environment. It then makes recommendations to the Board regarding levels of salary, benefits, and performance related pay awards. The Committee also make recommendations to the Board regarding levels of salary, benefits, and performance related pay in respect of the appointment of Executive Directors, which is considered in light of information from external sources including comparable building society data.

The minutes of the Committee are circulated to all Board members and the Chair of the Committee reports to the Board at the next Board meeting.

Overview of Executive Directors remuneration

The remuneration for Executive Directors reflects their responsibilities, expertise, experience, and overall contribution to the successful performance of the Society. Their benefits package is designed to motivate decision making in the interests of members as a whole and is aligned to delivery of corporate strategy. This year the overall package comprised basic salary, a performance related pay scheme, and other benefits. Performance related payments are non-contractual and non-pensionable.

Report of the Remuneration Committee (continued)

The Society does not have a share option scheme and none of the Directors has any beneficial interest in, or any rights to subscribe for shares in or debentures of, any commercial undertaking of the Society.

Executive Directors remuneration comprises of three elements:

- Basic Salary: The Society requires professional and highly competent individuals in leadership roles each of whom require regulatory approval under the Senior Managers Regime. Basic salary is set having regard for these requirements, the consequential regulatory accountability, and having had consideration for information from external sources including comparable building society data.

- Performance Related Pay Scheme: This annual scheme has regard for best practice by emphasising the need for sustainable performance and recognises that ensuring effective risk management and a sustainable business model are vital requirements for the long-term well-being of the Society. It has been aligned to the corporate objectives and provides an incentive to perform at the highest level in a manner consistent with the long-term interests of members.

  It requires high performance across a range of measures before the maximum award of 20% of basic salary can be achieved. The Committee recommends to the Non-Executive members of the Board the scheme target measures, these are designed to ensure the continuing security and financial strength of the Society, recognise corporate and individual performance in accordance with good risk management, treat customers fairly, uphold excellent customer service, conduct, and quality of work standards. In assessing performance against the Performance Related Pay Scheme, the Committee will ensure performance is aligned with business objectives and activities and have regard for the overall regulatory conduct, member satisfaction and the effect of general market conditions. Awards are subject to the Society's regulatory obligations with regards remuneration, including clawback, for a period of one year after the award has been made. The Non-Executive Directors of the Board have sole discretion on awards made under this scheme which includes overriding formulaic outcomes.

- Other Benefits: Executive Directors are members of the Society's Defined Contribution Pension Scheme. The Society makes a contractual contribution of 15% of basic salary for Executive Directors pension payments and this is taken into consideration when assessing their overall remuneration package; the pension scheme provider for Executive Directors is the same as for other employees.

Executive Directors also receive benefits including a car allowance and private health care scheme (covering only themselves). The Society does not provide subsidised mortgages.

Each year the Executive Directors are appraised by the Chairperson of the Board in respect of their individual performance as members of the Board and by the Chief Executive in respect of their executive duties.

Executive Directors have contracts of employment as set out below:

Executive	Date contract signed	Notice required by:	
		Executive	Society
Richard Newton	19/12/13	6 months	12 months
Alastair Shand	05/05/21	6 months	6 months
Adam Evetts	01/11/22	6 months	6 months

There are no special terms in the event of amalgamation, transfer of engagements or transfer of business where employment is to be terminated.

Executive Directors who hold outside Directorships do not receive any remuneration from those organisations.

Overview of Non-Executive Directors fees

Fees relating to Non-Executive Directors are considered by the Chief Executive and Finance Director, with the Board Chair in attendance, having regard for the amount permissible under the Society's Rules. No Director is involved in setting their own fees.

The basic fee payable to Non-Executive Directors is assessed using information from comparable organisations, the time commitment required and responsibilities of the role. A supplementary fee is paid to the Chair of the Board, the Chair of Audit Committee, and the Chair of Risk & Compliance Committee to reflect the additional responsibilities and time commitment required of these roles. Non-Executive Directors do not participate in any incentive schemes or receive any other benefits. Non-Executive Directors have a letter of appointment rather than a contract of employment.

Myron Hrycyk
Chair of the Remuneration Committee
6 March 2023

Directors' remuneration

Non-executive Directors (audited)	2022 Total Fees	2021 Total Fees
	£'000	£'000
C D J Almond (resigned 26 May 2022)	13	31
J Y Bentley (appointed 4 November 2022)	5	-
J D Cross (appointed 28 April 2022)	36	-
A J Higgins (retired 27 April 2022)	15	47
M Hrycyk	32	31
B M Moore	32	31
K A Rolfe	38	37
S J Veitch	38	37
Total	**209**	**214**

Executive Directors (audited)	Salary	Performance related pay	Benefits	Sub-total	Pension contributions	Total
2022	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
R J Newton	175	35	11	221	26	247
A J Evetts (appointed 01/09/22)	45	9	3	57	7	64
A J Shand	149	30	9	188	19	207
	369	**74**	**23**	**466**	**52**	**518**

Executive Directors (audited)	Salary	Performance related pay	Benefits	Sub-total	Pension contributions	Total
2021	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
R J Newton	169	31	11	211	25	236
A J Shand (appointed 14/06/21)	90	13	4	107	-	107
A J Lumby (resigned 21/04/21)	41	-	3	44	6	50
S A Morgan (resigned 31/10/21)	218	-	7	225	15	240
	518	**44**	**25**	**587**	**46**	**633**

All Executive Directors are eligible to be members of the Society's defined contribution pension scheme. During 2021 and 2022, A J Shand elected with agreement from the Society, to take a proportion of pension contributions as salary.

During January 2021, A J Lumby gave notice of his resignation, which took effect from 21 April 2021 for his Board role, and consequently forfeited rights to any entitlements in respect of Performance Related Pay for 2021. S A Morgan left the Society on 31 October 2021. Her salary included £117,000 arising from a contractual payment in lieu of notice and an ex-gratia payment which included an amount in lieu of 2021 Performance Related Pay, and accrued holiday pay.

Directors' Report

The Board is pleased to present its annual report and accounts and annual business statement for the year ended 31 December 2022.

Information on business objectives and activities, business review and future developments, including key performance indicators, and principal risks and uncertainties, is provided within the Chief Executive Officer's Highlights and the Strategic Report on pages 5 to 14.

Creditor payment policy

It is our normal policy to agree the terms of payment at the commencement of trading with each supplier, to ensure that they are aware of those terms and to abide by them. Where terms of payment have not been agreed we settle the supplier's invoice on being satisfied that the supplier has fully conformed with the terms and conditions of purchase. The creditor days were 15 at 31 December 2022 (2021: 15 days).

Going concern

The Directors have prepared forecasts over a four-year time horizon which takes account of the Society's business activities and future plans as set out on pages 5 to 7, and the principal risks and uncertainties as detailed on pages 10 to 14.

The forecasting process considers various stress tests and scenarios including a range of severe but plausible events. The stress tests and scenarios indicate that the Society has sufficient operating liquidity and capital for the foreseeable future.

As such the Directors are satisfied that the Society has adequate resources to continue in business for the foreseeable future. For this reason, the accounts continue to be prepared on the going concern basis.

Directors' responsibilities in respect of the annual report and accounts, the annual business statement, and the Directors' report

The Directors are responsible for preparing the Annual Report and Accounts, Annual Business Statement, and the Directors' Report in accordance with applicable law and regulations.

The Building Societies Act 1986 ("the Act") requires the Directors to prepare Society annual accounts for each financial year. Under that law they have elected to prepare the Society annual accounts in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 the Financial Reporting Standard applicable in the UK and Republic of Ireland.

The annual accounts are required by law to give a true and fair view of the state of affairs of the Society as at the end of the financial year and of the income and expenditure of the Society for the financial year.

In preparing the annual accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the annual accounts;
- assess the Society's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Society or to cease operations, or have no realistic alternative but to do so.

In addition to the annual accounts, the Act requires the Directors to prepare, for each financial year, an Annual Business Statement and a Directors' Report, each containing prescribed information relating to the business of the Society.

Directors' responsibilities for accounting records and internal controls

The Directors are responsible for ensuring that the Society:

- keeps proper accounting records that disclose with reasonable accuracy at any time the financial position of the Society, in accordance with the Act; and
- takes reasonable care to establish, maintain, document and review such systems and controls as are appropriate to its business in accordance with the rules made by the Financial Conduct Authority and Prudential Regulation Authority under the Financial Services and Markets Act 2000.

The Directors are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Society and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Society's website. Legislation in the UK governing the preparation and dissemination of annual accounts may differ from legislation in other jurisdictions.

Directors
The names of the Directors of the Society at 31 December 2022, their roles and membership of Board committees are detailed on pages 15 to 16.

The following Directors also served on the Board during the year:
- C D J Almond (resigned 26 May 2022)
- A J Higgins (retired 27 April 2022)

No Director has any beneficial interest in the shares of any connected undertaking of the Society.

Auditor
In accordance with Section 77 of the Building Societies Act 1986, a resolution to reappoint BDO LLP as external auditor will be proposed at the annual general meeting of the Society.

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are aware, there is no relevant audit information of which the Society's auditor is unaware; and each Director has taken all steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Society's auditor is aware of that information.

Post balance sheet events
The Directors consider that no events have occurred since the year end to the date of this Annual Report that are likely to have a material effect on the financial position of the Society, as disclosed in the Annual Accounts.

Jeremy Cross
Chair of the Board
6 March 2023

Independent Auditor’s Report

Independent auditor’s report to the members of Tipton and Coseley Building Society

Opinion on the financial statements

In our opinion, the financial statements:

- give a true and fair view of the state of the Society’s affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986.

We have audited the financial statements of Tipton and Coseley Building Society (the ‘Society’) for the year ended 31 December 2022 which comprise the Income Statement, the Statement of Financial Position, the Statement of Changes in Members’ Interests, the Statement of Cash Flows and notes to the Accounts, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of our report.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the audit committee.

Independence

Following the recommendation of the audit committee, we were appointed by the Board of Directors on 4 July 2019 to audit the financial statements for the year ended 31 December 2019 and subsequent financial periods. The period of total uninterrupted engagement is 3 years, covering the years ending 31 December 2019 to 31 December 2022. We remain independent of the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Society..

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors’ use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors’ assessment of the Society’s ability to continue to adopt the going concern basis of accounting included:

- Assessing the Director’s assessment of going concern including supporting financial forecasts through review of key ratios such as Profitability, net assets, capital and liquidity for significant deterioration, indicating issues related to going concern;
- Reviewing the Internal Capital Adequacy Assessment Process document (ICAAP), Internal Liquidity Adequacy Assessment Process (ILAAP) and regulatory capital and liquidity requirements;
- Challenging the Directors’ assumptions and judgements made with regards to their base forecast and stress-tested forecasts. In doing so we agreed key assumptions such as forecast growth to historic actuals and relevant market data and considered the historical accuracy of the Directors forecasts;
- Assessing how the Directors have factored in key external factors expected to impact the Society such as rising interest rates and falling house prices and their corresponding economic impact, checking that these had been appropriately considered as part of the Directors’ going concern assessment.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Society’s ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Overview

		2022	2021
Key audit matters	Revenue Recognition	✓	✓
	Impairment on loans and advances	✓	✓
Materiality	£482,000 (2021: £440,000) based on 1% of Net Assets (2021: 1% of Net Assets)		

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the Society's activities and its environment, including the Society's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters		How the scope of our audit addressed the key audit matter
Revenue Recognition As disclosed in Note 2 and explained in Note 1.13 (Accounting estimates and judgements) the Society's mortgage interest income is recognised using an effective interest rate ("EIR") method.	Revenue comprises contractual mortgage income and an adjustment for fees and expenses in order to recognise this income on an EIR basis. The models used to achieve this are reliant on the completeness and accuracy of input data. Management judgement is required to determine the expected cash flows for the Society's loans and advances, in particular the expected behavioural life redemption profiles of the mortgages due to the impact on timing and quantum of expected future cash flows. As a result of the magnitude of gross interest income and its significance to the financial statements, the revenue recognition thereof was considered to be a key area of focus for our audit.	We assessed whether the revenue recognition policies adopted by the Society are in accordance with requirements of the accounting framework. This included an assessment of the types of fees and costs being spread within the effective interest rate models versus the requirements of the applicable financial reporting standard. Through inspection of contractual terms we challenged the fees and costs included or excluded from the effective interest rate estimates, including early redemption charges. We utilised data analytics to perform a full recalculation of the 2022 contractual interest on loans advanced. We assessed the models for their sensitivities to changes in the key assumptions by considering different profiles of behavioral life. We assessed the completeness and accuracy of data and key model inputs feeding into the EIR models by agreeing the samples back to the loan management system or source documents. With the use of data analytics, we performed a recalculation of gross mortgage interest income to determine the accuracy and completeness. We challenged management's assessment relating to loan behavioural life run-off curves which were based on the Society's historical data and considered the trends in more recent customer behavior. This included reviewing the sensitivity analysis performed by management, obtaining supporting evidence where necessary. We reviewed the relevant interest income and effective interest rate disclosures made by management to ensure compliance with accounting standards and agreed the disclosures to supporting evidence. **Key observations:** Based on the procedures performed, we have not identified any indicators to suggest that the recognition of mortgage interest income was inappropriate.

Independent Auditor's Report (continued)

Key audit matters		How the scope of our audit addressed the key audit matter
Impairment on loans and advances As disclosed in Note 13, the Society has recognised £1.3m of impairment provisions at the year-end. This comprises a specific provision of £0.04m (2021: £0.1m) and a collective provision of £1.3m (2021: £1.0m) Management's associated accounting policies are detailed in Note 1 with detail about judgements in applying accounting policies and critical accounting estimates in Note 1.13.	The Society accounts for the impairment of loans and advances to customers using an incurred loss model. In accordance with the recognition and measurement criteria of relevant accounting standards, management has calculated two types of provisions. (i) A specific provision is calculated for individual loans where there is an observable loss event. (ii) A collective provision is recognised for loans where there has not been an observable loss event but based on experience impairment is expected to be present in the portfolio of loans. Estimating both the specific and collective loan loss provision requires significant management judgement and estimation in determining the value and timing of expected future cash flows. The specific provision is sensitive to key judgements and assumptions in respect to the underlying value of collateral held. The collective provision is calculated within a model that uses a combination of the Society's historical experience, segmentation of the loans by risk and external data, adjusted for current conditions including the impact of the increases in interest rates and expected deterioration in economic conditions. The model is sensitive to key judgements and assumptions including probability of defaults, future house price movements and forced sale discounts against collateral. Due to the sensitivity to key inputs judgements and estimates and high degree of estimation uncertainty the Society's collective impairment provision has a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. Error within the loan loss provisioning models itself or bias in key assumptions applied could result in the material misstatement of impairment provisions.	We assessed the specific and collective impairment methodology in accordance with the applicable accounting framework. We evaluated the completeness and accuracy of data and key assumption inputs feeding into the collective and specific provision calculations through reconciliation to underlying records. We assessed that management's stated loan provisioning assumption inputs have been consistently applied to the specific provision and collective provision model calculations. We profiled the loan population and tested a sample of loans, including performing loans for impairment indicators including arrears and high loan to values to identify individual loans, which may have impairments not identified by management to challenge the completeness and accuracy of management's impairment provision estimate. We assessed the collective impairment provision for sensitivity to changes in key inputs to identify areas requiring additional focus. For the specific and collective impairment provision, we evaluated and challenged management key assumptions in the model. The assumptions challenged included forced sales discount, discount applied on the House Price Index (HPI), other sales costs, probability of default and the management overlay for macroeconomic factors not identified in the model. These were challenged with reference to historic Society experience, the reasonableness of external data points used, and the level of the overall collective impairment provision to comparable peer organizations. We assessed the adequacy of the Society's disclosures in respect of loan loss provisioning and of the degree of estimation involved in arriving at the provision. **Key observations:** We are satisfied that the provision for loans and advances is reasonably estimated in consideration of the key assumptions and judgements made.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financialstatements as a whole and performance materiality as follows:

	2022 £	2021 £
Materiality	482,000	440,000
Basis for determining materiality	1% of Net Assets	1% of Net Assets
Rationale for the benchmark applied	We determined that Net assets was the most appropriate benchmark considering the different stakeholders. Net assets is considered to be the measure which closely corresponds to regulatory capital. Regulatory stability is considered to be a main driver for the Society as well as the purpose of the Society which is to optimise rather than maximise profits.	
Performance materiality	75% (361,000)	75% (330,000)
Basis for determining performance materiality	On the basis of our risk assessment together with our assessment of the Society's overall control environment and expected total value of known and likely misstatements, based on past experience, our judgement was that overall performance materiality for the Society should be 75% of materiality.	

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £9,600 (2021: £8,800). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Independent Auditor's Report (continued)

Other Building Societies Act 1986 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Building Societies Act 1986 and ISAs (UK) to report on certain opinions and matters as described below.

Annual business statement and Directors' report	In our opinion, based on the work undertaken in the course of the audit: • The annual business statement and the Directors' report have been prepared in accordance with the requirements of the Building Societies Act 1986; • The information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and • The information given in the annual business statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given. In the light of the knowledge and understanding of the Society and its environment obtained in the course of the audit, we have not identified any material misstatements in the Directors' report.
Matters on which we are required to report by exception	We have nothing to report in respect of the following matters in relation to which the Building Societies Act 1986 requires us to report to you if, in our opinion: • adequate accounting records have not been kept; or • the financial statements are not in agreement with the accounting records; or • we have not received all the information and explanations we require for our audit.

Opinion on other matter prescribed by the Capital Requirements (Country-by-Country Reporting) Regulations 2013

In our opinion the information given in Note 29 for the financial year ended 31 December 2022 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Responsibilities of Directors

As explained more fully in the Statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Society or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

We gained an understanding of the legal and regulatory framework applicable to the Society and the industry in which it operates and considered the risk of acts by the Society which would be contrary to applicable laws and regulations, including fraud. These included but were not limited to compliance with the Building Societies Act 1986, Prudential Regulation Authority ("PRA") and Financial Conduct Authority ("FCA") regulations, pension legislation, tax legislation.

We considered compliance with this framework through discussions with the Audit Committee and performed audit procedures on these areas as considered necessary.
Our procedures involved enquiry with the management and the Audit Committee, review of the reporting to the Directors with respect to compliance with laws and regulation, review of board meeting minutes and review of legal correspondence.

We assessed the susceptibility of the financial statements to material misstatement, including fraud and considered the fraud risk areas to be management override of controls and in relation to accounting estimates such as the EIR and loan loss provisioning.

Our procedures included, but were not limited to:
- obtaining an understanding of the control environment in monitoring compliance with laws and regulations;
- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with the relevant laws and regulations discussed above;
- enquiring of management and those charged with governance about their own identification and assessment of the risks of irregularities, including fraud;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and correspondence with the Financial Conduct Authority and the Prudential Regulation Authority;
- in addressing the risk of fraud in accounting estimates, the procedures performed in the key audit matters section of our report assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and;
- we also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Society's members, as a body, in accordance with section 78 of the Building Societies Act 1986. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

Matthew Hopkins
(Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor

London
6 March 2023

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Income Statement
for the year ended 31 December 2022

	Notes	2022 £'000	2021 £'000
Interest receivable and similar income	2	**16,975**	11,088
Interest payable and similar charges	3	**(5,410)**	(1,723)
Net interest income		**11,565**	9,365
Fees and commissions receivable		**948**	697
Fees and commissions payable		**(834)**	(650)
Net gains from derivative financial instruments	4	**1,033**	296
Total net income		**12,712**	9,708
Administrative expenses	5	**(7,497)**	(6,712)
Depreciation and amortisation	14,15	**(150)**	(225)
Impairment (charge)/credit on loans and advances	13	**(254)**	256
Provisions for liabilities	22	**-**	-
Profit Before Tax		**4,811**	3,027
Tax expense	8	**(937)**	(533)
Profit for the financial year	**24**	**3,874**	2,494

Profit for the financial year arises from continuing operations. Total comprehensive income is the same as the profit for the 2022 and 2021 financial years and is attributable to the members of the Society.

The notes on pages 38 to 72 form part of these accounts.

Statement of Financial Position

as at 31 December 2022

	Notes	2022 £'000	2021 £'000
Assets			
Cash and cash equivalents			
Cash in hand and balances with Bank of England	9	**110,433**	90,723
Loans and advances to credit institutions	10	**5,651**	4,954
Derivative financial instruments	11	**11,456**	2,223
Loans and advances to customers	12	**409,545**	390,837
Intangible fixed assets	14	**129**	193
Tangible fixed assets	15	**1,702**	1,534
Prepayments and accrued income		**1,196**	529
Total Assets		**540,112**	490,993
Liabilities			
Shares	17	**415,657**	380,006
Amounts owed to credit institutions	18	**69,425**	59,239
Amounts owed to other customers	19	**4,135**	5,750
Derivative financial instruments	11	**625**	219
Current tax liabilities	20	**557**	300
Deferred tax liabilities	16	**50**	20
Accruals and deferred income	21	**1,469**	1,139
Provisions for liabilities	22	**16**	16
Total Liabilities		**491,934**	446,689
Reserves			
General reserves	24	**48,178**	44,304
Total Liabilities and Equity (Members' Capital)		**540,112**	490,993

The notes on pages 38 to 72 form part of these accounts.

These accounts were approved by the Board of Directors on 6 March 2023 and signed on its behalf:

Jeremy Cross Chair
Richard Newton Chief Executive
Alastair Shand Finance Director

Statement of Changes in Members' Interests
for the year ended 31 December 2022

	Notes	General Reserves £'000	Total £'000
2022			
Balance as at 1 January 2022		**44,304**	**44,304**
Profit for the year		**3,874**	**3,874**
Balance as at 31 December 2022	24	**48,178**	**48,178**
2021			
Balance as at 1 January 2021		41,810	41,810
Profit for the year		2,494	2,494
Balance as at 31 December 2021	24	44,304	44,304

The notes on pages 38 to 72 form part of these accounts.

Statement of Cash Flows
for the year ended 31 December 2022

	Notes	2022 £'000	2021 £'000
Cash flows from operating activities			
Profit before tax		**4,811**	3,027
Depreciation and amortisation		**159**	181
(Profit)/Loss on disposal of intangible assets		**(9)**	43
Increase/(Decrease) in Provisions for bad and doubtful debts		**254**	(256)
Loans and advances written off net of recoveries		**(2)**	3
Total cashflow from operating activities		**5,213**	2,998
Changes in operating assets and liabilities			
(Increase) in prepayments and accrued income		**(656)**	(247)
Increase in accruals and deferred income		**1,320**	234
(Decrease) in other liabilities		**-**	(2)
Net (increase) in loans and advances to customers		**(18,960)**	(44,962)
Net (increase)/decrease in loans and advances to credit institutions		**-**	6,076
Net increase in amounts owed to credit institutions		**9,754**	32,718
Net (decrease)/increase in amounts owed to other customers		**(1,628)**	1,142
Net increase in shares		**35,095**	38,643
Movement in derivative financial instruments		**(8,827)**	(3,963)
Taxation paid		**(650)**	(268)
Net cash inflow from operating activities		**20,661**	32,369
Cash flows from investing activities			
Purchase of tangible and intangible assets		**(279)**	(88)
Disposal of tangible and intangible assets		**25**	-
Net cash (outflow) from investing activities		**(254)**	(88)
Net increase in cash		**20,407**	32,281
Cash and cash equivalents at start of year		**95,677**	63,396
Cash and cash equivalents at end of year	**25**	**116,084**	95,677

The notes on pages 38 to 72 form part of these accounts.

Notes to the accounts

1 Accounting policies
The principal accounting policies adopted in the preparation of these financial statements are set out below.

Basis of preparation
Tipton & Coseley Building Society (the "Society") has prepared these annual accounts in accordance with the Building Societies Act 1986, the Building Societies (Accounts and Related Provisions) Regulations 1998 and Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"). As permitted in Section 11 of FRS 102, the Society has chosen to apply the recognition and measurement provisions of IAS 39 Financial Instruments: Recognition and Measurement. The presentation currency of these annual accounts is sterling.

All amounts in the annual accounts have been rounded to the nearest £1,000.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these annual accounts.

Judgements made by the Directors, in the application of these accounting policies that have significant effect on the annual accounts and estimates with a significant risk of material adjustment in the next year are discussed in note 1.13.

Included within the notes and financial statements are references to the Income Statements and the profit and loss account. These terms are the same and refer to items included within the Society's Income Statement reported on page 34.

Going Concern
The accounts have been prepared on the going concern basis. The Society has prepared forecasts for a four year time horizon which considers current and future operating conditions and uncertainties. Furthermore, the Society is required to review annually its Internal Capital Adequacy Assessment Process (ICAAP) and its Internal Liquidity Adequacy Assessment Process (ILAAP) which include the requirement to stress test its capital and liquidity positions respectively over a range of severe but plausible scenarios. The stress tests model the impact of changes to various factors including residential house prices, borrowers' propensity to default, interest rates and circumstances that may give rise to funding outflows.

Supported by the results of these scenarios and stress tests the Directors are satisfied that the Society has sufficient operating liquidity and capital for the foreseeable future and for a period of at least 12 months from the date of signing these accounts.

1.1 Measurement convention
The annual accounts are prepared under the historical cost basis except for the following assets and liabilities which are stated at their fair value: derivative financial instruments and investment property classified as at fair value.

1.2 Interest
Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' (EIR) is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the EIR, the Society estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the EIR includes transaction costs and fees paid or received that are an integral part of the EIR. Transaction costs include incremental costs that are directly attributable to the acquisition of a financial asset or financial liability.

1.3 Fees and commission
Fees and commission income and expense that are integral to the EIR on a financial asset or financial liability are included in the measurement of the effective interest rate (see 1.2).

Other fees and commission income and expenses - including account servicing fees, sales commission and other fees are recognised as the related services are performed.

1.4 Expenses
Operating leases
Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease.

Other Expenses
Other expenses are recognised in the profit and loss account in the period to which the goods are received or the service is provided.

1.5 Taxation
Tax on the profit for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in other comprehensive income.

Notes to the accounts (continued)

1.5 Taxation (continued)
Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the year-end date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the annual accounts. The following timing difference is not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met, to the extent that it is not probable that they will reverse in the foreseeable future and the Society is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the year-end date. Deferred tax balances are not discounted.

1.6 Financial instruments
Recognition
The Society initially recognises loans and advances, deposits and debt securities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the settlement date, which is the date on which the Society transfers any consideration for an instrument. If any transactions were committed to at the year-end date these are included in contractual commitments. No adjustments to fair values are made for contractual commitments of financial instruments due to the short period between settlement and trade dates.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition.

Classification
Financial assets
The Society classifies its financial assets into one of the following categories:

a) Loans and receivables
'Loans and advances' are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Society does not intend to sell immediately or in the near term.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method (see 1.2). When the Society chooses to designate the loans and advances as measured at fair value through profit or loss, they are measured at fair value with fair value changes recognised immediately in profit or loss.

Should the Society purchase a financial asset and simultaneously enter into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement would be accounted for as a loan or advance, and the underlying asset would not be recognised in the annual accounts.

b) At fair value through profit and loss
Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

Fair value hedges
On initial designation of the hedge, the Society formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. An assessment is made, both at inception of the hedge relationship and on an on-going basis, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80–125% of fair value effectiveness.

Where a derivative financial instrument is designated as a hedge of the variability in fair value of a recognised asset or liability or an unrecognised firm commitment, all changes in the fair value of the derivative are recognised immediately in profit or loss. The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged (even if it is normally carried at cost or amortised cost) and any gains or losses on remeasurement are recognised immediately in the income statement (even if those gains would normally be recognised directly in reserves). If hedge accounting is discontinued and the hedged financial asset or liability has not been derecognised, any adjustments to the carrying amount of the hedged item are amortised into profit or loss using the effective interest method over the remaining life of the hedged item.

Financial liabilities
The Society classifies its financial liabilities, other than loan commitments, as measured at amortised cost or fair value through profit or loss.

1.6 Financial instruments (continued)

Derecognition

Financial assets or liabilities are derecognised when the contractual right to the cash flows from the financial asset or liability are discharged, cancelled or expire.

On derecognition of a financial asset or liability the difference between the carrying amount of the asset or liability (or the carrying amount allocated to the portion of the asset or liability derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss. The Society has not transferred the risks and rewards of ownership of any financial assets to another party during the year ended 31 December 2022.

Measurement

a) Amortised cost measurement

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method, of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

b) Fair value measurement

'Fair value' is the amount for which an asset could be exchanged, a liability settled, or an equity instrument granted could be exchanged, between knowledgeable, willing parties in an arm's length transaction.

When available, the fair value of an instrument is measured using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis.

If there is no quoted price in an active market, then the Society uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If it is determined that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

Identification and measurement of impairment

At each reporting date, the Society assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is 'impaired' when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired includes:

- significant financial difficulty of the borrower or issuer;
- default or delinquency by a borrower;
- the restructuring of a loan or advance by the Society on terms that the Society would not consider otherwise;
- indications that a borrower or issuer will enter bankruptcy;
- the disappearance of an active market for a security; and
- observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

Evidence of impairment for loans and advances is considered at both a specific asset and a collective level. All individually significant loans and advances are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances that are not individually significant are collectively assessed for impairment by grouping together loans and advances with similar risk characteristics.

In assessing collective impairment, modelling is used, as well as the timing of recoveries and the amount of loss incurred, and an adjustment is made if current economic and credit conditions are such that the actual losses are likely to be greater or less than is suggested by historical trends.

Impairment losses on assets measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

Notes to the accounts (continued)

1.6 Financial instruments (continued)

A range of forbearance options are available to support customers who are in financial difficulty. The purpose of forbearance is to support customers who have temporary financial difficulties and help them get back on track. The main options offered by the Society include:

- temporary transfer to an interest only mortgage;
- reduced monthly payment;
- product review;
- capitalisation of arrears; and
- extension of mortgage term.

Customers requesting a forbearance option will need to provide information to support the request which is likely to include a budget planner, statement of assets and liabilities, bank/credit card statements and payslips, in order that the request can be properly assessed. If the forbearance request is granted the account is monitored in accordance with the Society's policy and procedures. At the appropriate time the forbearance option that has been implemented is cancelled, with the exception of capitalisation of arrears, and the customer's normal contractual payment is restored.

Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired assets continues to be recognised through the unwinding of the discount. If an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through profit or loss.

1.7 Cash and cash equivalents

For the purposes of the Statement of Cash Flows, cash comprises cash in hand and unrestricted loans and advances to credit institutions repayable on demand. Cash equivalents comprise highly liquid unrestricted investments that are readily convertible into cash with an insignificant risk of changes in value with original maturities of less than three months.

1.8 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Tangible fixed assets include investment property. Certain items of tangible fixed assets that had been revalued to fair value on or prior to the date of transition to FRS 102, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets, for example land is treated separately from buildings. All current leases are classified as operating leases. The Society assesses at each reporting date whether tangible fixed assets are impaired.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Land is not depreciated. The estimated useful lives are as follows:

- freehold premises – between 10 to 50 years straight line;
- short leasehold premises - Straight line over the remaining term of the lease;
- motor vehicles - 25% reducing balance;
- equipment and fixtures - 10% to 20% straight line; and
- computer hardware – 20% straight line.

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since the last annual reporting date in the pattern by which the Society expects to consume an asset's future economic benefits.

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are initially recognised at cost and subsequently carried at fair value. Changes in fair value are recognised in the Income Statement in the period that they arise. No depreciation is provided in respect of investment properties.

1.9 Intangible fixed assets

Intangible assets are stated at cost less cumulative amortisation and impairment losses. Intangible assets are tested for impairment in accordance with Section 27 of FRS 102 Impairment of assets when there is an indication that an intangible asset may be impaired.

Assets are reviewed for impairment at each Statement of Financial Position date or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount, if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the Asset's fair value less costs to sell, and its value in use.

Notes to the accounts (continued)

1.9 Intangible fixed assets (continued)

Computer Software

Purchased software and costs directly associated with the internal development of computer software are capitalised as intangible assets where the software is an identifiable asset controlled by the Society which will generate future economic benefits and where costs can be reliably measured. Costs incurred to establish technological feasibility or to maintain existing levels of performance are recognised as an expense as incurred.

Amortisation begins when the asset becomes available for operational use and is charged to the income statement on a straight-line basis over the estimated useful life of the software, which is generally 3 to 7 years. The basis for choosing these useful lives is dependent on the software asset expected life. The Society reviews the amortisation period and method when events and circumstances indicate that the useful life may have changed since the last reporting date.

1.10 Impairment excluding financial assets and deferred tax assets

The carrying amounts of the Society's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. An impairment loss is reversed if the reasons for the impairment have ceased to apply.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.11 Employee benefits

Pensions

The Society operates a defined contribution scheme, with contributions charged to the Income Statements as they fall due.

Incentive Schemes

The costs of bonuses payable after the year end in which they are earned are recognised in the year in which the employees render the related service.

1.12 Provisions and contingent liabilities

A provision is recognised in the Statement of Financial Position when the Society has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

The Society has an obligation to contribute to the Financial Services Compensation Scheme (FSCS) to enable the FSCS to meet compensation claims from, in particular, retail depositors of failed banks. A provision is recognised to the extent it can be reliably estimated and when the Society has an obligation in accordance with IFRIC 21. The amount provided is based on information received from the FSCS, forecast future interest rates and the Society's historic share of industry protected deposits. Contingent liabilities are potential obligations from past events which shall be confirmed by future events.

Contingent liabilities are not recognised in the Statement of Financial Position.

1.13 Accounting estimates and judgements

The Society makes estimates and judgements that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These are described below:

a) Impairment losses on loans and advances to customers

The mortgage portfolio is reviewed on at least a quarterly basis to assess impairment. In determining whether an impairment loss should be recorded, the Society is required to exercise a degree of judgement. Specific impairment triggers are principally when an account has been in arrears in the 12 months preceding the Statement of Financial Position date, or when forbearance arrangements have been agreed. Impairment provisions are calculated using historical arrears experience, modelled credit risk characteristics and expected cashflows. Estimates are applied to determine prevailing market conditions (e.g. interest rates and house prices), customer behaviour (e.g. default rates) and the length of time expected to complete the sale of properties in possession as at the balance sheet date.

In determining the level of impairment provision any deterioration in economic and credit conditions is considered. The accuracy of the provision would be affected by unexpected changes to these assumptions. In the event that a fall in house prices was 5% greater than assumed, the estimated impact would be to increase the impairment provision by £467k. A 5% decrease in the estimated fall in house prices would reduce the impairment provision by £350k.

Notes to the accounts (continued)

1.13 Accounting estimates and judgements (continued)

b) Effective interest rate

Amounts related to the EIR adjustment included within the income statement totalled £25k (2021: £(46k)) with an EIR asset included in the Statement of Financial Position of £155k (2021: £135k). The EIR will affect the carrying values of loans and receivables. One of the key components of the estimates within EIR is the expected mortgage life. In determining the expected life of mortgage assets, the Society uses historical and forecast redemption data as well as management judgement. During the year the expected life of mortgage assets are reassessed for reasonableness. This year the expected average lives have remained stable, reflecting the Society's proactive approach to contacting customers shortly before the end of their initial product term and the competitive nature of the remortgage market. Any variation in the expected life of mortgage assets will change the carrying value in the Statement of Financial Position and the timing of the recognition of interest income. A 10% change in the life profile of mortgage assets would result in a change in the value of loans on the Statement of Financial Position of approximately £28k.

c) Fair value of derivatives and financial assets

The following techniques are employed in determining the fair value of its derivatives and financial assets:

- derivative financial instruments - calculated by discounted cash flow models using yield curves that are based on observable market data, which is discussed further in note 4.

The impact of interest rate risk sensitivities can be found in note 26 to the financial statements.

Notes to the accounts (continued)

2. Interest receivable and similar income

	2022	2021
	£'000	£'000
On loans fully secured on residential property	**13,845**	11,597
On other loans	**106**	108
On liquid assets	**1,605**	75
On derivative hedging of financial assets	**1,419**	(692)
At 31 December	**16,975**	11,088

3. Interest payable and similar charges

	2022	2021
	£'000	£'000
On shares held by individuals	**4,303**	1,703
On deposits and other borrowings	**1,015**	62
On derivative hedging of financial liabilities	**92**	(42)
At 31 December	**5,410**	1,723

4. Net gains from derivative financial instruments

	2022	2021
	£'000	£'000
Derivatives in designated fair value hedge relationships	**8,563**	3,851
Adjustments to hedged items in fair value hedge accounting relationships	**(7,794)**	(3,667)
Derivatives not in designated fair value hedge relationships	**264**	112
At 31 December	**1,033**	296

The net gain from derivative financial instruments of £1,033,000 (2021: £296,000 gain) represents the net fair value movement on derivative instruments that are matching risk exposure on an economic basis. Some volatility arises on these items due to ineffectiveness on designated hedges, or because hedge accounting is not achievable on certain items. The movement is primarily due to timing differences in income recognition between derivative instruments and the hedged assets or liabilities. This gain or loss will trend to zero over time and this is taken into account by the Board when considering underlying performance.

Notes to the accounts (continued)

5. Administrative expenses

	2022	2021
	£'000	£'000
Staff costs		
Wages and salaries	3,554	3,408
Social security costs	393	365
Other pension costs	242	227
	4,189	4,000
Operating lease rentals	25	25
Other administrative costs	3,283	2,687
At 31 December	7,497	6,712

Other administrative costs include:

Remuneration of Auditor and its associates (excluding VAT):		
Audit of these financial statements	165	109
For other assurance services	1	18

6. Employees

	2022	2021
	Number	Number
The average number of persons employed during the year was:		
Full time	68	63
Part time	29	31
	97	94

The average number of persons employed during the year was:		
Head office	65	64
Branch offices	32	30
	97	94

The average number of employees on a full time equivalent basis was 87 (2021: 82) and all of these are employed within the UK.

Notes to the accounts (continued)

7. Directors' loans and transactions

a) Directors' remuneration
Directors' remuneration totalling £727,000 for 2022 (2021: £847,000) is shown as part of the Report of the Remuneration Committee on pages 23 to 25.

b) Directors' loans
There were no loans granted or outstanding to Directors or connected persons in the year (2021: nil).

A register is maintained at the head office of the Society which shows details of all loans, transactions and arrangements with Directors and their connected persons. A statement of the appropriate details contained in the register will be available for inspection at the head office for a period of 15 days up to and including the date of the Annual General Meeting.

c) Other Directors' transactions
Directors and connected persons hold savings balances with the Society; all accounts have the same terms and conditions as available to customers of the Society. The savings balances are not detailed in the register unlike loans and transactions above, due to their sensitive nature. The aggregate amount of all savings balances at 31 December 2022 was £31,251 (2021: £21,857).

8. Taxation

	2022	2021
	£'000	£'000
UK corporation tax at 19% (2021: 19%)	**907**	572
(Over) provision in previous year	-	(66)
Total current tax	**907**	506
Deferred tax (note 16)	**30**	27
Total tax expense	**937**	533

The total tax charge for the period differs from that calculated using the UK standard rate of corporation tax. The differences are explained below:

	2022	2021
	£'000	£'000
Profit before taxation	**4,811**	3,027
Expected tax at 19% (2021: 19%)	**914**	575
Effects of:		
Adjustment to tax charge on deferred tax	**(1)**	-
Changes in tax rate	**7**	5
Fixed asset differences	**16**	19
Adjustment for prior years	**1**	(66)
Tax expense for the year	**937**	533

Current tax has been provided at the rate of 19%. The Society has assumed an increase in the main rate of corporation tax to 25% from April 2023.

The deferred tax asset at 31 December 2022 has been calculated based on the prevailing tax rate when the timing differences are expected to reverse.

Notes to the accounts (continued)

9. Cash in hand and balances with Bank of England

	2022	2021
	£'000	£'000
Cash in hand	**574**	547
Bank of England Reserve Account	**109,859**	90,176
Included in cash and cash equivalents (note 25)	**110,433**	90,723

10. Loans and advances to credit institutions

	2022	2021
	£'000	£'000
Accrued interest	-	11
Repayable on demand	**5,651**	4,943
At 31 December	**5,651**	4,954

At 31st December 2022, accrued interest was excluded from loans and advances to credit institutions and included within prepayments and accrued income. This is considered a more appropriate treatment under FRS102.

11. Derivative financial instruments

	2022		2021	
	Assets	**Liabilities**	Assets	Liabilities
	£'000	**£'000**	£'000	£'000
Derivatives designated as fair value hedges				
Unmatched derivatives	**305**	**(13)**	45	(17)
Derivatives designated in hedging relationships	**11,151**	**(612)**	2,178	(202)
Total recognised derivative assets/(liabilities)	**11,456**	**(625)**	2,223	(219)

Typically unmatched derivatives arise during the final 3 months of an interest rate swap's life where the derivative's change in fair value are immaterial, or where a new interest rate swap contract has been agreed but the corresponding asset or liability is still to be realised on the Statement of Financial Position.

12. Loans and advances to customers

	2022	2021
	£'000	£'000
Loans fully secured on residential property	**419,543**	392,379
Other loans – loans fully secured on land	**1,421**	1,503
	420,964	393,882
Provision for impairment losses on loans and advances (note 13)	**(1,350)**	(1,098)
Fair value adjustment for hedged risk	**(10,069)**	(1,947)
At 31 December	**409,545**	390,837

Maturity analysis

The remaining maturity of loans and advances to customers including fair value adjustment for hedged risk at the reporting date is as follows:

	2022	2021
	£'000	£'000
In not more than three months	**3,457**	1,789
In more than three months but not more than one year	**6,734**	8,961
In more than one year but not more than five years	**44,882**	55,593
In more than five years	**355,822**	325,592
	410,895	391,935
Provision for impairment losses on loans and advances (note 13)	**(1,350)**	(1,098)
At 31 December	**409,545**	390,837

The maturity analysis above is based on contractual maturity and not expected redemption levels.

Loans and advances totalling £135,100,000 (2021: £133,100,000) have been pledged as collateral with the Bank of England to provide access to contingent liquidity and secured funding, including the Term Funding Scheme with additional incentives for SMEs ("TFSME").

13. Provision for bad and doubtful debts

	Loans fully secured on residential property	Other loans fully secured on land	Total
	£'000	£'000	£'000
Individual provision			
At 1 January 2022	**127**	**19**	**146**
Amounts written off	**-**	**-**	**-**
(Release) for the year	**(87)**	**(19)**	**(106)**
At 31 December 2022	**40**	**-**	**40**
Collective provision			
At 1 January 2022	**934**	**18**	**952**
Amounts written off	**-**	**-**	**-**
Charge/(Release) for the year	**367**	**(9)**	**358**
At 31 December 2022	**1,301**	**9**	**1,310**
Individual provision			
At 1 January 2021	254	19	273
Amounts written off	-	-	-
(Release) for the year	(127)	-	(127)
At 31 December 2021	127	19	146
Collective provision			
At 1 January 2021	1,070	8	1,078
Amounts written off	-	-	-
(Release)/charge for the year	(136)	10	(126)
At 31 December 2021	934	18	952

The charge to the income statement comprises:	
Net charge for the year above	252
Amounts written off	2
Charge to the income statement in 2022	**254**
(Release) to the income statement in 2021	(256)

Notes to the accounts (continued)

14. Intangible fixed assets

	Purchased Software
	£'000
2022	
Cost	
At 1 January 2022	**1,174**
Additions	**7**
Disposal	**-**
At 31 December 2022	**1,181**
Amortisation	
At 1 January 2022	**981**
Charge for the year	**71**
On disposal	**-**
At 31 December 2022	**1,052**
Net Book Value	
At 31 December 2022	**129**
2021	
Cost	
At 1 January 2021	1,156
Additions	18
Disposals	-
At 31 December 2021	1,174
Amortisation	
At 1 January 2021	899
Charge for the year	82
On disposal	-
At 31 December 2021	981
Net Book Value	
At 31 December 2021	193

15. Tangible fixed assets

	Freehold Land & Buildings	Short Leasehold	Equipment, Fixtures, Fittings and Vehicles	Total
	£'000	£'000	£'000	£'000
2022				
Cost				
At 1 January 2022	**1,566**	**101**	**1,433**	**3,100**
Additions	-	-	**272**	**272**
Disposal	-	-	**(45)**	**(45)**
At 31 December 2022	**1,566**	**101**	**1,660**	**3,327**
Depreciation				
At 1 January 2022	**251**	**76**	**1,239**	**1,566**
Charge for the year	**16**	**7**	**65**	**88**
On disposal	-	-	**(29)**	**(29)**
At 31 December 2022	**267**	**83**	**1,275**	**1,625**
Net Book Value				
At 31 December 2022	**1,299**	**18**	**385**	**1,702**
2021				
Cost				
At 1 January 2021	1,566	101	1,587	3,254
Additions	-	-	70	70
Disposal	-	-	(224)	(224)
At 31 December 2021	1,566	101	1,433	3,100
Depreciation				
At 1 January 2021	231	70	1,332	1,633
Charge for the year	20	6	73	99
On disposal	-	-	(166)	(166)
At 31 December 2021	251	76	1,239	1,566
Net Book Value				
At 31 December 2021	1,315	25	194	1,534

Land and buildings

The net book value of freehold land and buildings occupied for own use at 31 December 2022 was £1,227,000 (2021: £1,243,000). Land and buildings include investment properties held at fair value at 31 December 2022 of £72,000 (2021: £72,000); no gains or losses have been recognised in 2022 (2021: nil).

16. Deferred tax (liability)/asset

	2022	2021
	£'000	£'000
At 1 January	(20)	7
(Increase) in liability/(Decrease) in asset for the year (note 8)	(30)	(27)
At 31 December	(50)	(20)

Tax effect of timing differences due to:		
FRS102 transitional adjustments	(8)	(12)
Accelerated capital allowances	(103)	(100)
Collective loss provision	61	92
	(50)	(20)

The deferred tax liability at 31 December 2022 has been calculated based on the prevailing tax rate when the timing differences are expected to reverse.

17. Shares

	2022	2021
	£'000	£'000
Held by individuals	416,038	380,057
Other shares	6	10
Fair value adjustment for hedged risk	(387)	(61)
At 31 December	415,657	380,006

Shares are repayable from the date of the Statement of Financial Position in the ordinary course of business as follows:		
Accrued interest	1,004	446
Repayable on demand	259,413	249,454
In not more than three months	77,467	80,532
In more than three months but not more than one year	54,370	27,828
In more than one year but not more than five years	23,790	21,807
Fair value adjustment for hedged risk	(387)	(61)
At 31 December	415,657	380,006

18. Amounts owed to credit institutions

	2022	2021
	£'000	£'000
Amounts owed to credit institutions are repayable at the reporting date in the ordinary course of business as follows:		
Accrued interest	**453**	21
In not more than three months	**1,000**	-
In more than three months less than one year	**12,972**	4,218
In more than one year but not more than five years	**55,000**	55,000
At 31 December	**69,425**	59,239

Amounts owed to credit institutions include £55,000,000 (2021: £55,000,000) of TFSME, secured against certain loans and advances to customers.

At 31 December 2022, £10,972,000 (2021: £1,218,000) had been received from credit counterparties as collateral against derivative contracts.

19. Amounts owed to other customers

	2022	2021
	£'000	£'000
Amounts owed to other customers are repayable at the reporting date in the ordinary course of business as follows:		
Accrued Interest	**19**	6
Repayable on demand	**2,116**	1,844
In not more than three months	**1,000**	1,000
In more than three months less than one year	**1,000**	900
In more than one year but not more than five years	**-**	2,000
At 31 December	**4,135**	5,750

20. Current tax liabilities

	2022	2021
	£'000	£'000
Falling due within one year		
Corporation tax	557	300
At 31 December	**557**	300

Corporation tax		
As at 1 January	300	63
Current year corporation tax charge (note 8)	907	506
Payments made in year	(650)	(269)
At 31 December	**557**	300

21. Accruals and deferred income

	2022	2021
	£'000	£'000
Accruals	1,469	1,139
At 31 December	**1,469**	1,139

22. Provision for liabilities

	2022	2021
	Total	Total
	£'000	£'000
At 1 January	16	18
Charge for the year	-	-
Provision utilised	-	(2)
At 31 December	**16**	16

Other Provisions
Other provisions have been made in respect of various customer claims, including claims in relation to previous sales of payment protection insurance.

Financial Services Compensation Scheme levy
The FSCS levy represents the estimated amount payable under the FSCS for the 2022/23 scheme year, which runs from April 2022 to March 2023. There is no information provided by the FSCS or other information that indicates an obligation to be provided for.

23. Retirement benefit obligations

Defined contribution schemes
The Society operates a defined contribution scheme, the assets of which are held separately from those of the Society. The total cost for the year was £242,000 (2021: £227,000). There were no outstanding or prepaid contributions at either the beginning or end of the year.

24. General reserves

	2022 £'000	2021 £'000
At 1 January	**44,304**	41,810
Profit for the financial year	**3,874**	2,494
At 31 December	**48,178**	44,304

25. Cash and cash equivalents

	Notes	2022 £'000	2021 £'000
Cash in hand and balances with the Bank of England	9	**110,433**	90,723
Loans and advances to credit institutions repayable on demand	10	**5,651**	4,954
At 31 December		**116,084**	95,677

Notes to the accounts (continued)

26. Financial instruments

A financial instrument is a contract which gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Society is a retailer of financial instruments in the form of mortgage and savings products, and also uses wholesale financial instruments to invest liquid asset balances, raise wholesale funding and to manage the risks arising from its operations.

The Society has a formal structure for managing financial risk, including established risk limits, reporting lines, mandates and other control procedures. This structure is reviewed regularly by the Society's Executive Assets & Liabilities Committee (ALCO), which is charged with the responsibility for managing and controlling balance sheet exposures. Instruments used for risk management purposes include derivative financial instruments (derivatives), which are contracts or agreements whose value is derived from one or more underlying price, rate or index inherent in the contract or agreement, such as interest rates.

Derivatives are only used by the Society in accordance with the Building Societies Act 1986, to limit the extent to which the Society will be affected by changes in interest rates. Derivatives are not used in trading activity or for speculative purposes and all derivatives are, therefore, designated as hedging instruments. The principal derivatives used in balance sheet risk management are interest rate swaps which are used to hedge balance sheet exposures arising from fixed rate mortgage lending and from fixed rate savings accounts.

The Society applies fair value hedging techniques to reduce its exposure to interest rate risk as follows:

Activity	Risk	Fair value interest rate hedge
Fixed rate mortgages	Increase in interest rates	Society pays fixed, receives variable SONIA
Fixed rate savings accounts	Decrease in interest rates	Society receives fixed, pays variable SONIA

The fair values of these hedges at 31 December 2022 and 31 December 2021 are shown in note 11.

Summary terms and conditions and accounting policies of financial instruments:

Financial instrument	Terms and conditions	Accounting policy
Loans and advances to credit institutions	Fixed interest rate Fixed term Short to medium term maturity	Loans and receivables at amortised cost Accounted for at settlement date
Loans and advances to customers	Secured on property or land Standard contractual term typically 25-35 years Fixed or variable rate interest	Loans and receivables at amortised cost Accounted for at settlement date
Shares	Fixed or variable term Fixed or variable interest rates	Amortised cost Accounted for at settlement date
Amounts owed to credit institutions	Fixed interest rate Fixed term Short to medium term maturity	Amortised cost Accounted for at settlement date
Amounts owed to other customers	Fixed or variable term Fixed or variable interest rates Short to medium term maturity	Amortised cost Accounted for at settlement date
Derivative financial instruments	Fixed interest received/paid converted to variable interest paid/ received Based on notional value of the derivative	Fair value through profit and loss

26. Financial instruments (continued)

Financial assets and liabilities are measured on an on-going basis either at fair value or at amortised cost. Note 1: 'Accounting policies' describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The tables below analyse the Society's assets and liabilities by financial classification:

Carrying values by category 31 December 2022	Held at amortised cost		Held at fair value		
	Loans and receivables	Financial assets and liabilities at amortised cost	Derivatives designated as fair value hedges	Unmatched derivatives	Total
	£'000	£'000	£'000	£'000	£'000
Financial assets					
Cash in hand & balances with Bank of England	-	110,433	-	-	110,433
Loans and advances to credit institutions	-	5,651	-	-	5,651
Derivative financial instruments	-	-	11,151	305	11,456
Loans and advances to customers	409,545	-	-	-	409,545
Total financial assets	**409,545**	**116,084**	**11,151**	**305**	**537,085**
Non-financial assets	-	3,027	-	-	3,027
Total assets	**409,545**	**119,111**	**11,151**	**305**	**540,112**
Financial liabilities					
Shares	-	415,657	-	-	415,657
Amounts owed to credit institutions	-	69,425	-	-	69,425
Amounts owed to other customers	-	4,135	-	-	4,135
Derivative financial instruments	-	-	612	13	625
Accruals and deferred income	-	1,469	-	-	1,469
Total financial liabilities	**-**	**490,686**	**612**	**13**	**491,311**
Non-financial liabilities	-	623	-	-	623
Total liabilities	**-**	**491,309**	**612**	**13**	**491,934**

26. Financial instruments (continued)

Carrying values by category 31 December 2021	Held at amortised cost		Held at fair value		
	Loans and receivables	Financial assets and liabilities at amortised cost	Derivatives designated as fair value hedges	Unmatched derivatives	Total
	£'000	£'000	£'000	£'000	£'000
Financial assets					
Cash in hand & balances with Bank of England	-	90,723	-	-	90,723
Loans and advances to credit institutions	-	4,954	-	-	4,954
Derivative financial instruments	-	-	2,178	45	2,223
Loans and advances to customers	390,837	-	-	-	390,837
Total financial assets	**390,837**	**95,677**	**2,178**	**45**	**488,737**
Non-financial assets	-	2,256	-	-	2,256
Total assets	390,837	97,933	2,178	45	490,993
Financial liabilities					
Shares	-	380,006	-	-	380,006
Amounts owed to credit institutions	-	59,239	-	-	59,239
Amounts owed to other customers	-	5,750	-	-	5,750
Derivative financial instruments	-	-	202	17	219
Accruals and deferred income	-	1,139	-	-	1,139
Total financial liabilities	**-**	**446,134**	**202**	**17**	**446,353**
Non-financial liabilities	-	336	-	-	336
Total liabilities	-	446,470	202	17	446,689

There have been no reclassifications during either year.

Notes to the accounts (continued)

26. Financial instruments (continued)

Fair values of financial assets and liabilities

The table below analyses the book and fair values of the financial instruments held at amortised cost at 31 December:

		2022	2022	2021	2021
		Book value	**Fair value**	Book Value	Fair value
		£'000	**£'000**	£'000	£'000
Financial assets					
Cash in hand and balances with Bank of England	a	**110,433**	**110,433**	90,723	90,723
Loans and advances to credit institutions	b	**5,651**	**5,651**	4,954	4,954
Loans and advances to customers	d	**409,545**	**408,720**	390,837	401,031
Other assets		**3,027**	**3,027**	2,256	2,256
Financial liabilities					
Shares	e	**415,657**	**415,657**	380,006	380,033
Amounts owed to credit institutions	c	**69,425**	**69,425**	59,239	59,239
Amounts owed to other customers	c	**4,135**	**4,135**	5,750	5,750
Other liabilities		**2,092**	**2,092**	1,475	1,475

Fair value is the value for which an asset or liability could be exchanged or settled between knowledgeable willing parties in an arm's length transaction. The estimated fair value of the financial assets and liabilities above has been calculated using the following valuation methodology:

The fair value hierarchy when deriving fair values is split into three levels, as follows:

- **Level 1** – quoted prices (unadjusted) in active markets for identical assets or liabilities
- **Level 2** – inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly or indirectly
- **Level 3** – inputs for the asset or liability that are not based on observable market data

a) Cash in hand and balances with Bank of England – Level 1

The fair value of cash in hand and deposits with central banks is the amount repayable on demand.

b) Loans and advances to credit institutions – Level 2

The fair value of overnight deposits is the amount repayable on demand. The estimated fair value of loans and advances to credit institutions is calculated based on discounted expected future cash flows.

c) Amounts owed to credit institutions and amounts owed to other customers – Level 2

The fair value of fixed interest bearing deposits and other borrowings without a quoted market price is based on expected future cash flows determined by the contractual terms and conditions discounted at prevailing market rates for items of similar remaining maturity.

d) Loans and advances to customers – Level 3

Loans and advances are recorded net of provisions for impairment together with the fair value adjustment for hedged items as required by IAS39. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received taking account of expected prepayment rates.

Estimated cash flows are discounted at prevailing market rates for items of similar remaining maturity. The fair values have been adjusted where necessary to reflect any observable market conditions at the time of valuation.

e) Shares – Level 3

The fair value of shares with no stated maturity is the amount repayable on demand. The estimated fair value of fixed share accounts is based on expected future cash flows determined by the contractual terms and conditions discounted at prevailing market rates for items of similar remaining maturity.

Notes to the accounts (continued)

26. Financial instruments (continued)

Fair values of financial assets and liabilities

The table below summarises the fair values of the Society's financial assets and liabilities that are accounted for at fair value, analysed by the valuation methodology used by the Society to derive the financial instruments fair value:

	Note	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
31 December 2022					
Financial assets					
Derivative financial instruments					
Interest rate swaps	11	-	**11,456**	-	**11,456**
		-	**11,456**	**-**	**11,456**
Financial Liabilities					
Derivative financial instruments					
Interest rate swaps	11	-	**625**	-	**625**
		-	**625**	**-**	**625**
31 December 2021					
Financial assets					
Derivative financial instruments					
Interest rate swaps	11	-	2,223	-	2,223
		-	2,223	-	2,223
Financial Liabilities					
Derivative financial instruments					
Interest rate swaps	11	-	219	-	219
		-	219	-	219

Valuation techniques

The main valuation techniques employed to establish fair value of the financial instruments disclosed above are set out below:

Interest rate swaps

The valuation of interest rate swaps is based on the 'present value' method. Expected interest cash flows are discounted using the prevailing yield curves. The yield curves are generally observable market data which is derived from quoted interest rates in similar time bandings which match the timings of the interest cash flows and maturities of the instruments.

26. Financial instruments (continued)

Credit risk

Credit risk is the risk that the Society incurs a financial loss arising from the failure of a customer or counterparty to meet their contractual obligations. The Society structures the level of credit risk it undertakes by maintaining a governance framework involving delegated approval authority levels and credit procedures, the objective of which is to build and maintain asset portfolios of high quality.

The Society's maximum credit risk exposure is detailed in the table below:

	2022	2021
	£'000	£'000
Credit Risk Exposure		
Cash in hand and balances with Bank of England	**110,433**	90,723
Loans and advances to credit institutions	**5,651**	4,954
Derivative financial instruments	**11,456**	2,223
Loans and advances to customers	**409,545**	390,837
Total Statement of Financial Position exposure	537,085	488,737
Off Statement of Financial Position Exposure – mortgage commitments	32,954	32,419
Total	570,039	521,156

26. Financial instruments (continued)

a) Loans and advances to credit institutions, debt securities and derivative financial instruments

The Board is responsible for approving treasury counterparties for both derivatives and investment purposes. Limits are placed on the amount of risk accepted in relation to a single counterparty, or group of counterparties, and to industry sectors. This is monitored daily by the Finance Director and reviewed monthly by the ALCO.

Policy only permits lending to central government (which includes the Bank of England), banks with a high credit rating and building societies. The Finance Director performs regular analysis of counterparty credit risk and monitoring of publicly available information to highlight possible indirect exposures.

An analysis of the treasury asset concentration is shown in the tables below:

	2022	**2022**	2021	2021
	£'000	**%**	£'000	%
Industry sector				
Banks	**5,651**	**4.87**	4,954	5.18
Central Bank	**110,433**	**95.13**	90,723	94.82
Total	**116,084**	**100.00**	95,677	100.00

	2022	**AA**	**A**	**Other**
Geographic region	**£'000**	**%**	**%**	**%**
United Kingdom	**116,084**	**95.13**	**4.87**	**-**

	2021	AA	A	Other
Geographic region	£'000	%	%	%
United Kingdom	95,677	94.82	5.18	-

There is no exposure to foreign exchange risk. All instruments are denominated in Sterling.

The derivative financial instruments are analysed in the table below:

	2022	**AA**	**A**	**Other**
Geographic region	**£'000**	%	%	%
United Kingdom	**277,620**	**46.7**	**53.3**	**-**

	2021	AA	A	Other
Geographic region	£'000	%	%	%
United Kingdom	228,950	44.7	53.3	-

There are no impairment charges against any of the Society's treasury assets at 31 December 2022 (2021: £nil).

26. Financial instruments (continued)

b) Loans and advances to customers

All mortgage loan applications are assessed with reference to the Society's credit risk appetite statement and lending policy which are approved by the Board. When deciding on the overall risk appetite that is to be adopted, both numerical and non-numerical considerations are taken into account, along with data on the current UK economic climate and competitor activity. The lending policy must comply with all the prevailing regulatory requirements. The lending portfolio as originated is monitored by the Board to ensure that it remains in line with the stated risk appetite, including adherence to the lending principles, policies and lending limits.

For new customers the first assessment of credit risk is achieved through individual case underwriting, which assesses the credit quality of potential customers prior to making loan offers. The customers' credit assessment combines demographic and financial information. A second element is lending policy rules which are applied to new applications to ensure that they meet the risk appetite of the Society. All mortgage applications are overseen by the Mortgage department who ensure that lending criteria are applied and that all information submitted within the application is validated.

To ensure good customer outcomes and responsible lending the Society ensures at the outset that the customer can meet the mortgage repayments. This is achieved by obtaining specific information from the customer concerning income and expenditure but also with reference to external credit reference agency data. The maximum credit risk exposure is disclosed in the table on page 61.

Loans and advances to customers are predominantly made up of £419.5m retail loans fully secured against UK residential property, which is split between primarily residential loans and buy-to-let loans. The remaining £1.4m being secured on commercial property.

The Society operates throughout England & Wales and an analysis of the geographical concentration of the loan book is shown in the table below:

Geographical analysis	**2022**	2021
	%	%
East Anglia	**3.45**	3.64
East Midlands	**5.59**	6.43
Greater London	**24.33**	19.45
North	**1.55**	1.69
North West	**5.31**	5.53
South East	**11.23**	8.40
South West	**9.85**	9.76
Wales	**2.40**	2.45
West Midlands	**32.00**	38.31
Yorkshire and Humberside	**4.29**	4.34
	100.00	100.00

26. Financial instruments (continued)

The average loan to value (LTV) is the mean LTV for the portfolio. Each individual LTV is calculated by comparing the value of the mortgage loan to the value of collateral held and adjusted by a house price index (HPI) for loans which are on residential property.

The average LTV of mortgage loans is 46.11% (2021: 46.89%). Mortgage Indemnity Insurance is taken out for all residential loans above 80% LTV at origination for a five year period from inception with a Lloyds of London insurance firm. Total mortgage loans of £166,189,000 are covered by mortgage indemnity guarantees which covers 13.74% of the outstanding credit exposure (2021: £179,260,000, 13.77%).

Further LTV information on the mortgage portfolio is shown below:

	2022	2021
	%	%
LTV analysis		
>0% - 50%	**35.76**	34.70
>50% - 60%	**16.39**	15.13
>60% - 70%	**21.53**	18.74
>70% - 80%	**15.99**	20.17
>80% - 90%	**8.27**	10.09
>90% +	**2.06**	1.17
	100.00	100.00

Weighted average loan to value of mortgage loans	56.20	58.40

26. Financial instruments (continued)

The table below provides information on loans by payment due status, net of provision and fair value adjustments:

	2022	2022	2021	2021
	£'000	%	£'000	%
Arrears analysis				
Not impaired:				
Neither past due or impaired	**398,997**	**97.42**	383,563	98.14
Past due up to 3 months but not impaired	**9,369**	**2.29**	4,988	1.28
Past due over 3 months but not impaired	**732**	**0.18**	802	0.21
Impaired:				
Not past due	-	-	678	0.17
Past due up to 3 months	**95**	**0.02**	373	0.09
Past due 3 to 6 months	**352**	**0.09**	-	-
Past due 6 to 12 months	-	-	241	0.06
Past due over 12 months	-	-	-	-
Possessions	-	-	192	0.05

	Indexed	Unindexed	Indexed	Unindexed
	£'000	£'000	£'000	£'000
Value of Collateral held:				
Neither past due or impaired	**918,145**	**752,121**	855,577	692,716
Past due but not impaired	**22,834**	**16,915**	12,271	8,856
Impaired	**662**	**515**	2,152	1,645
	941,641	**769,551**	870,000	703,217

The Society uses HPI indexing to update the property values of its residential and buy-to-let portfolios on a quarterly basis. Collateral values are adjusted by the Nationwide house price index to derive the indexed valuation at 31 December. This is a UK house price index and takes into account regional data from the 12 standard planning regions of the UK. The collateral consists of UK property and land.

With collateral capped to the amount of outstanding debt, the value of collateral held against loans 'past due but not impaired' at 31 December 2022 is £10,101,000 (2021: £5,790,000) against an outstanding debt of £10,101,000 (2021: £5,790,000). In addition, the value of collateral held against 'Impaired' assets at 31 December 2022 is £447,000 (2021: £1,485,000) against outstanding debt of £447,000 (2021: £1,485,000).

Notes to the accounts (continued)

26. Financial instruments (continued)

Mortgage indemnity insurance acts as additional security. It is taken out for all residential loans where the borrowing exceeds 80% of the value of the total security at the point of origination.

The status ‘past due up to three months but not impaired’ and ‘past due over three months but not impaired’ includes any asset where a payment due is received late or missed but no individual provision has been allocated. The amount included is the entire loan amount rather than just the overdue amount.

Possession balances represent those loans where the Society has taken action to realise the underlying security. Various forbearance options are available to support customers who may find themselves in financial difficulty.

Forbearance

Temporary transfer to an interest only concession is offered for a set period for customers in financial difficulty. The concession allows customers to reduce monthly payments to cover interest only, and if made, the arrears status will not increase.

Capitalisations occur where arrears are incorporated into the capital balance outstanding for the purposes of re-structuring the loan.

The term of the mortgage can be extended in order to reduce payments to a level which is affordable to the customer based on their current financial circumstances.

Product reviews for mortgages are undertaken if a change of product is appropriate; this could be due to a customer not switching product on the maturity of their fixed or discount term. All customers are contacted by the Society on maturity of their discount or fixed product rate.

All forbearance arrangements are formally discussed with the customer and reviewed by management prior to acceptance of the forbearance arrangement. By offering customers in financial difficulty the option of forbearance the Society potentially exposes itself to an increased level of risk through prolonging the period of non-contractual payment and/or potentially placing the customer into a detrimental position at the end of the forbearance period.

The level and different types of forbearance activity is reported to the Board on a monthly basis. In addition, all forbearance arrangements are reviewed and discussed with the customer on a regular basis to assess the ongoing potential risk to the Society and suitability of the arrangement for the customer.

The table below details the number of forbearance and payment deferral cases:

	2022	2021
	Number	Number
Type of Forbearance		
Interest only concessions at year end	**7**	8
Total	**7**	8

In total £764,000 (2021: £1,366,000) of loans are subject to a forbearance arrangement. Individual impairment provisions of £nil (2021: £20,000) are held in respect of these loans. In addition, a collective provision of £1,308,000 (2021: £952,000) is held.

Notes to the accounts (continued)

26. Financial instruments (continued)

Liquidity risk

Liquidity risk is the risk that the Society will not have sufficient financial resources available to meet its obligations as they fall due, under either normal business conditions or a stressed environment. A significant amount of liquid assets are carried in the form of cash and other readily realisable assets in order to:

i) meet day-to-day business needs;
ii) meet any unexpected cash needs;
iii) maintain public confidence; and
iv) ensure maturity mismatches are provided for.

Monitoring of liquidity, in line with the Society's Internal Liquidity Adequacy Assessment Process (ILAAP) document is performed daily. Compliance with the policy is reported to ALCO and to the Board monthly.

The ILAAP demonstrates the Society has sufficient liquid resources to withstand a range of stressed scenarios. A series of liquidity stress tests have been developed as part of the liquidity risk assessment process. They include scenarios that fulfil the specific requirements of the PRA (the idiosyncratic, market-wide and combination stress tests). The stress tests are performed monthly and reported to the Board, on a quarterly basis ALCO confirm that the liquidity policy remains appropriate.

The Society's liquid resources comprise high quality liquid assets, including a Bank of England reserves account, supplemented from time to time by deposits with credit institutions and UK Government Treasury bills. At the end of the year the ratio of liquid assets to shares and deposits was 23.73% compared to 21.50% for 2021.

The table below analyses the Society's assets and liabilities into relevant maturity groupings, based on the remaining period to contractual maturity at the Statement of Financial Position date. This is not representative of the Society's management of liquidity. Loans and advances to customers rarely run their full course. The actual repayment profile is likely to be significantly different from that shown in the analysis. For example, most mortgages have a contractual maturity of around 25-35 years but are generally repaid much sooner. Conversely, retail deposits repayable on demand may remain on balance sheet for an extended period.

Notes to the accounts (continued)

26. Financial instruments (continued)

Residual maturity as at 31 December 2022	On demand	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	No specific maturity and loss provision	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Financial assets							
Liquid assets							
Cash in hand and balances with Bank of England	110,433	-	-	-	-	-	110,433
Loans and advances to credit institutions	5,651	-	-	-	-	-	5,651
Total liquid assets	116,084	-	-	-	-	-	116,084
Derivative financial instruments	-	51	1,605	9,800	-	-	11,456
Loans and advances to customers	-	3,457	6,734	44,882	355,822	(1,350)	409,545
Other assets	-	192	-	-	-	2,835	3,027
	116,084	**3,700**	**8,339**	**54,682**	**355,822**	**1,485**	**540,112**
Financial liabilities and reserves							
Shares	260,030	77,467	54,370	23,790	-	-	415,657
Amounts owed to credit institutions	453	1,000	12,972	55,000	-	-	69,425
Amounts owed to other customers	2,135	1,000	1,000	-	-	-	4,135
Derivative financial instruments	-	27	303	295	-	-	625
Other liabilities	-	-	-	-	-	2,092	2,092
Reserves	-	-	-	-	-	48,178	48,178
	262,618	**79,494**	**68,645**	**79,085**	**-**	**50,270**	**540,112**
Net Liquidity gap	**(146,534)**	**(75,794)**	**(60,306)**	**(24,403)**	**355,822**	**(48,785)**	**-**

26. Financial instruments (continued)

Residual maturity as at 31 December 2021	On demand	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	No specific maturity and loss provision	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Financial assets							
Liquid assets							
Cash in hand and balances with Bank of England	90,723	-	-	-	-	-	90,723
Loans and advances to credit institutions	4,943	11	-	-	-	-	4,954
Total liquid assets	95,666	11	-	-	-	-	95,677
Derivative financial instruments	-	1	17	2,205	-	-	2,223
Loans and advances to customers	-	1,789	8,961	55,593	325,592	(1,098)	390,837
Other assets	-	-	-	-	-	2,256	2,256
	95,666	1,801	8,978	57,798	325,592	1,158	490,993
Financial liabilities and reserves							
Shares	249,900	80,532	27,828	21,746	-	-	380,006
Amounts owed to credit institutions	21	-	4,218	55,000	-	-	59,239
Amounts owed to other customers	1,850	1,000	900	2,000	-	-	5,750
Derivative financial instruments	-	13	59	147	-	-	219
Other liabilities	-	-	-	-	-	1,475	1,475
Reserves	-	-	-	-	-	44,304	44,304
	251,771	81,545	33,005	78,893	-	45,779	490,993
Net Liquidity gap	(156,105)	(79,744)	(24,027)	(21,095)	325,592	(44,621)	-

26. Financial instruments (continued)

The following is an analysis of gross cash flows payable under financial liabilities.

31 December 2022	On demand	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Financial liabilities and reserves					
Shares	**199,447**	**113,572**	**74,581**	**30,501**	**418,101**
Amounts owed to credit institutions	**-**	**1,013**	**13,148**	**59,985**	**74,146**
Amounts owed to other customers	**2,117**	**1,016**	**1,022**	**-**	**4,155**
Derivative financial instruments	**-**	**622**	**2,928**	**4,881**	**8,431**
Total financial liabilities	**201,564**	**116,223**	**91,679**	**95,367**	**504,833**

31 December 2021	On demand	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	Total
	£'000	£'000	£'000	£'000	£'000
Financial liabilities and reserves					
Shares	249,561	80,286	27,972	22,528	380,347
Amounts owed to credit institutions	-	-	4,227	55,482	59,709
Amounts owed to other customers	1,845	1,003	905	2,030	5,783
Derivative financial instruments	-	177	774	1,230	2,181
Total financial liabilities	251,406	81,466	33,878	81,270	448,020

The analysis of gross contractual cash flows differs from the analysis of residual maturity due to the inclusion of interest accrued at current rates, for the average period until maturity on the amounts outstanding at the Statement of Financial Position date. The derivative financial instrument cash flows include the payable leg of all interest rate swap derivatives held by the Society at the Statement of Financial Position date.

26. Financial instruments (continued)

Market risk

Market risk is the risk of changes to the Society's financial condition caused by market interest rates. The Society is exposed to market risk in the form of changes (or potential changes) in the general level of interest rates, changes in the relationship between short and long-term interest rates and divergence of interest rates for different balance sheet elements (basis risk).

The Society has adopted the 'Matched' approach to interest rate risk, as defined by the PRA. Societies adopting the Matched approach should have a balance sheet where assets and liabilities are entirely in sterling and use hedging contracts (or internal matching of assets and liabilities with similar interest rate and maturity features) to neutralise the risk arising from loans or funding other than at administered rates, on a tranche by tranche, product by product basis. By implication, societies adopting this approach should not be taking an interest rate view for the purposes of determining a hedging strategy.

The management of interest rate risk is monitored by assessing the sensitivity of the Society's financial assets and liabilities to a 2% parallel movement in interest rates along with other non-parallel movements in interest rates. The results are reported to ALCO and the Board monthly. In addition, management review interest rate basis risk which is also reported to ALCO and the Board monthly. Both sets of results are measured against the risk appetite for market risk which is currently set at a maximum level of capital.

The table below summarises the Society's sensitivity to an increase or decrease in interest rates, after allowing for hedged items, assuming a parallel movement of 2% in yield curves and a constant financial position:

	2022	2021
	£000	£000
Net interest income sensitivity		
Parallel increase of 2%	**(513)**	(654)
Parallel decrease of 2%	**611**	771

All financial assets and liabilities are presented on a gross basis in the Statement of Financial Position. The Society does not have any financial assets or liabilities that are offset with the net amount presented in the Statement of Financial Position as FRS 102 Section 11.38A requires both an enforceable right to set off and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously. Neither of these conditions are met by the Society.

The Society has Credit Support Annexes (CSA) for its derivative instruments which typically provides for the exchange of collateral on a daily basis to mitigate net mark to market credit exposure. At 31 December 2022 £10,972,000 of collateral had been deposited by counterparties with the Society for derivative contracts (2021: £1,218,000).

The Society is not exposed to foreign currency risk.

27. Guarantees and financial commitments

	2022	2021
	£'000	£'000
a) Capital commitments		
Capital expenditure contracted for but not provided for in the accounts	**-**	-
b) Total of future operating lease commitments at the year end		
Not later than one year	**25**	25
Later than one year and not later than five years	**42**	67

Notes to the accounts (continued)

28. Related Party Transactions

During the year ended 31 December 2022 there were no related party transactions (2021: £nil), except for those set out in Note 7.

Directors and connected persons hold savings balances with the Society; all accounts have the same terms and conditions as available to customers of the Society. The savings balances are not detailed in the register due to their sensitive nature. The aggregate amount of all savings balances at 31 December 2022 was £31,251 (2021: £21,857).

29. Country By Country Reporting

Article 89 of the Capital Requirements Directive IV requires credit institutions and investments firms in the EU to disclose annually, specifying by Member State in which it has an establishment, the following information for the year: name, nature of activities, geographical location, turnover, number of employees, profit before tax, corporation tax paid and public subsidies received.

The principal activities of the Society is the provision of residential mortgages and retail savings products. Tipton & Coseley Building Society operates only in the United Kingdom.

Average employee numbers are disclosed in Note 6. Turnover is £12,712,000 (2021: £9,708,000), Profit before tax is £4,811,000, (2021: £3,027,000), and corporation tax paid was £650,000 (2021: £268,000). Turnover consists of net interest income, net fees and commissions received or paid and other income.

No public subsidies were received by the Society.

Basis of preparation

The Country by Country information for the year ended 31 December 2022 has been prepared on the following basis:

The number of employees has been calculated as the average number of full and part-time employees, on a monthly basis, as disclosed in note 6.

Turnover represents total net income as disclosed in the Income Statement. Total net income comprises net interest income, fees and commissions receivable and payable and other income.

Pre-tax profit or loss represents the Society profit or loss before tax, as reported in the Income Statement.

Corporation tax paid represents the cash amount of corporation tax paid during the year, as disclosed in the Statement of Cash Flow.

No public subsidies were received during the year, however the Society was a participant of the Term Funding Scheme with additional incentives for SMEs in the year. Borrowings from the scheme are shown in note 18.

Statement of Directors' responsibilities in relation to the Country by Country Reporting (CBCR) Information

The Directors of the Society are responsible for preparing the CBCR Information for the year ended 31 December 2022 in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013. In preparing the CBCR Information, the Directors are responsible for:

- interpreting the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013;
- determining the acceptability of the basis of preparation set out above to the CBCR information;
- making judgements and estimates that are reasonable and prudent; and
- establishing such internal control as the Directors determine is necessary to enable the preparation of CBCR Information that is free from material misstatement, whether due to fraud or error.

30. Subsequent Events

At the date of signing these financial statements, the Directors do not consider that there have been any events since the end of the financial year that have a significant effect on the financial position of the Society.

Annual Business Statement

1. Statutory percentages

	2022 %	Statutory limit %
Lending limit		
Proportion of business assets not in the form of loans fully secured on residential property	**0.95**	25
Funding limit		
Proportion of shares and borrowings not in the form of shares held by individuals	**15.04**	50

The percentages are calculated in accordance with, and the statutory limits are those prescribed by, sections 6 and 7 of the Building Societies Act 1986 and are based on the Statement of Financial Position.

Business assets are the total assets of the Society as shown in the Statement of Financial Position plus impairment for losses on loans and advances (note 13), less property, plant and equipment, intangible assets and liquid assets.

Loans fully secured on residential property are the amount of principal owing by borrowers and interest accrued not yet payable.

Total 'shares and borrowings' are the aggregate of 'shares', 'amounts owed to credit institutions' and 'amounts owed to other customers' in the Statement of Financial Position. Shares held by individuals are set out in note 17.

2. Other percentages

	2022 %	2021 %
As a percentage of shares and borrowings:		
Gross capital	**9.85**	9.96
Free capital	**9.74**	9.78
Liquid assets	**23.73**	21.50
As a percentage of mean total assets:		
Profit after taxation	**0.75**	0.55
Management expenses	**1.48**	1.53

The above percentages have been calculated from the accounts.

'Shares and borrowings' are the aggregate of 'shares', 'amounts owed to credit institutions' and 'amounts owed to other customers' in the Statement of Financial Position.

'Gross capital' are the reserves as shown in the Statement of Financial Position.

'Free capital' is gross capital plus collective impairment for losses on loans and advances (note 13) less property, plant and equipment and intangible assets in the Statement of Financial Position.

'Mean total assets' are calculated by halving the aggregate of total assets at the beginning and end of the financial year.

'Liquid assets' are the total of cash in hand and balances with the Bank of England and loans and advances to credit institutions.

'Management expenses' are the aggregate of administrative expenses, depreciation and amortisation taken from the Income Statement.

Annual Business Statement (continued)

3. Information relating to Directors as at 31 December 2022

Directors

Name and Age	Appointment date	Occupation	Other directorships
J Y Bentley (Age: 53)	4 November 2022	Non-Executive Director	None
J D Cross (Age: 55)	28 April 2022	Non-Executive Director	Harrogate & District NHS Trust The Grammar School at Leeds GSAL Transport Ltd The Forget Me Not Children's Hospice Ltd Roseville Court Management Ltd
A J Evetts (Age: 53)	1 September 2022	Building Society Risk & Compliance Director	None
M Hrycyk (Age:66)	20 November 2017	Non-Executive Director	Rooftop Housing Group Ltd Rooftop Housing Association Ltd Business Chemistry Ltd
B M Moore (Age:60)	1 February 2020	Non-Executive Director	Benenden Healthcare University of Essex Campus Services Ltd
R J Newton (Age:52)	1 July 2011	Building Society Chief Executive	Roseville Court Management Ltd
K A Rolfe (Age:61)	1 June 2015	Non-Executive Director	None
A J Shand (Age:54)	14 June 2021	Building Society Finance Director	None
S J Veitch (Age:49)	28 June 2018	Non-Executive Director	Roundwood Park School Academy Trust Perenna Bank PLC LHV UK Ltd Settle Group

Documents may be served on the above named Directors at 70 Owen Street, Tipton, West Midlands DY4 8HG. We do not accept service of documents by email.

Details of the Directors' service contracts are shown in the Report of the Remuneration Committee on page 24.

Glossary

Set out below are the definitions of the terms used within the Annual Report and Accounts to assist the reader and to facilitate comparison with other financial institutions:

Arrears	A customer is in arrears when they are behind in meeting their contractual obligations with the result that an outstanding loan payment is overdue. The value of the arrears is the value of any payments that have been missed.
Basel III	The Basel Committee on Banking Supervision issued the Basel III rules text in December 2010, which presents the details of strengthened global regulatory standards on bank capital adequacy and liquidity. Basel III became effective from 1 January 2015 through CRD IV.
Buy to let loans	Buy to let loans are those loans which are offered to customers buying residential property specifically to let out.
Contractual maturity	The date at which a loan or financial instrument expires, at which point all outstanding principal and interest has been paid.
Credit risk	This is the risk that a customer or counterparty fails to meet their contractual obligations.
Capital Requirements Directive (CRD IV)	CRD IV is the European legislation which came into force from 1 January 2015 to implement Basel III. It has revised the capital requirements framework and introduced liquidity requirements, which regulators use when supervising firms.
Debt securities	Assets representing certificates of indebtedness of credit institutions, public bodies or other undertakings excluding those issued by central banks.
Deferred tax asset	Corporation tax recoverable (or payable) in future periods resulting from timing differences, between the accounting value of assets and liabilities and the tax base of those assets and liabilities.
Derivative financial instruments	A derivative financial instrument is a contract between two parties whose value is based on an underlying price or index rate it is linked to, such as interest rates or exchange rates of stock market indices. The Society uses derivative financial instruments to hedge its exposure to interest rates.
Effective interest rate method (EIR)	The method used to measure the carrying value of a financial asset or liability and to allocate associated interest income or expense over the relevant period. The calculation includes all fees and penalties paid and received between parties which are integral to the contract.
Financial Services Compensation Scheme	The UK's compensation fund of last resort for customers of authorised financial services firms. The FSCS may pay compensation to customers if a firm is unable, or likely to be unable, to pay claims against it, usually because it has stopped trading or has been declared in default. The FSCS is funded by the financial services industry. Every firm authorised by the FCA is obliged to pay an annual levy, which goes towards its running costs and compensation payments.
Forbearance strategies	Strategies to support borrowers in financial difficulty, such as agreeing a temporary reduction in the monthly payment, extending mortgage terms and a conversion to an interest-only basis. The aim of forbearance strategies is to avoid repossession.
Free capital	The aggregate of gross capital and provisions for collective impairment losses on loans and advances to customers less property, plant and equipment and intangible assets.
Funding limit	Measures the proportion of shares and borrowings (excluding the fair value adjustment for hedged risk) not in the form of shares held by individuals. The calculation of the funding limit is explained in the Annual Business Statement.
General reserves	The accumulation of the Society's historic and current year profit.
Gross capital	The aggregate of general reserves, and available for sale reserves.

Glossary (continued)

Impaired loans	Loans where there is objective evidence that an impairment event has occurred, meaning that the Society does not expect to collect all the contractual cash flows or expect to collect them later than they are contractually due.
Individually/collectively assessed impairment	Individual assessments are made of all mortgage loans where objective evidence indicates losses are likely or the property is in possession. A collective impairment provision is made against the remaining group of loans and advances where objective evidence indicates that it is likely that losses may be realised.
Interest rate risk	The risk of loss due to a change in market interest rates. Interest rate risk can have an impact on Society's mortgages and savings products.
Internal Capital Adequacy Assessment Process (ICAAP)	The Society's own assessment, as part of Basel III requirements, of the levels of capital that it needs to hold in respect of its regulatory capital requirements for risks it faces under a business as usual scenario including stress events.
Internal Liquidity Adequacy Assessment Process (ILAAP)	The Society's own assessment, as part of CRD IV requirements of the levels of liquidity that it needs to hold in respect of its regulatory requirements for risks it faces under a business as usual scenario including stress events.
Lending limit	Measures the proportion of business assets not in the form of loans fully secured on residential property.
Liquid assets	Total of cash in hand, loans and advances to credit institutions, and debt securities.
Liquidity risk	Liquidity risk is the risk that the Society is unable to meet its financial obligations as they fall due or can only secure them at excessive cost. This risk arises from timing mismatches of cash inflows and outflows.
Loan to value (LTV)	LTV expresses the amount of a mortgage as a percentage of the value of the property.
Loans past due	Loans are past due when a loan payment has not been made as of its due date.
Management expenses	The aggregate of administrative expenses, depreciation and amortisation. The management expense ratio is management expenses expressed as a percentage of mean total assets.
Mean total assets	Represents the amount produced by halving the aggregate of total assets at the beginning and end of the financial year.
Member	A person who has a share investment or a mortgage loan with the Society.
Net interest income	The difference between interest receivable on assets and similar income and interest paid on liabilities and similar charges.
Operational risk	The risk of loss arising from inadequate or failed internal processes, people and systems, or from external events.
Prudential Regulation Authority (PRA)	The statutory body responsible for the prudential supervision of banks, building societies, insurers and small number of significant investment firms in the UK from the 1 April 2013. The PRA is a subsidiary of the Bank of England.
Residential loans	Loans that are loaned to individuals rather than institutions. Residential mortgage lending is secured against residential property.
Risk appetite	The articulation of the level of risk that the Society is willing to accept (or not accept) in order to safeguard the interests of the Society's members whilst also achieving business objectives.
Risk weighted assets	A regulatory measure which adjusts the value of assets as recorded in the statement of financial position to reflect the relative level of risk. This measure is used in calculating regulatory capital requirements.
Shares	Funds deposited by a person in a retail savings account with the Society. Such funds are recorded as liabilities for the Society.
Shares and borrowings	The aggregate of shares, amounts owed to credit institutions and amounts owed to other customers.
Tier 1 Capital	Tier 1 capital consists of internally generated capital from retained profits less intangible assets and other regulatory deductions.
Tier 1 ratio	Tier 1 capital as a percentage of Risk Weighted Assets (RWA's)

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