



Annual Report & Accounts 2023



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2023 Highlights

£116M
 GROSS MORTGAGE LENDING


£479M
 TOTAL SAVINGS BALANCES


£4.5M
 UNDERLYING PROFIT BEFORE TAX

£4.3M
 PROFIT BEFORE TAX

2.46%
 NET INTEREST MARGIN

1.59%
 MANAGEMENT EXPENSES RATIO

23.8%
 LIQUID ASSETS RATIO

25.5%
 TIER 1 CAPITAL RATIO



Chair's welcome

Welcome to our 2023 Annual Report & Accounts. I am pleased to report the Society has once again delivered a very strong set of results, despite external economic challenges, by focusing on delivering competitive products and excellent customer service. I hope the Report & Accounts provide you with an insightful update on our activities during the year as well as outlining our plans for the future.

A year in review

The economic environment in 2023 was challenging with inflation levels remaining high and the Bank of England raising Base Rate five times in response, all of which has resulted in increasing pressure on the cost of living. Despite this, the Society was able to deliver record levels of new lending and strong retail savings inflows whilst also delivering excellent underlying profitability that will be used to help support the Society's future growth and development.

Importantly, 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 to you, our members, throughout the year. On behalf of the Board, I would like to offer them all our heartfelt thanks.

Board changes

After 32 years with the Society, Richard Newton decided that he wished to take on fresh challenges elsewhere. During his 10 year tenure as Chief Executive, the Society grew by over 60%, and we pioneered new products and services such as being the first building society to launch a mobile app with the ability to open, view, and manage savings accounts on the go, and the first to launch a Retirement Interest Only mortgage. He leaves us as a strong, resilient, regional building society. On behalf of the Board I would like to thank Richard

for his service to the Society and wish him every success for the future.

It was with great pleasure the Board were able to appoint an internal candidate to replace Richard, with Adam Evetts, previously our Risk & Compliance Director, taking on the role of Chief Executive from 1 January 2024.

Adam will now lead the Society into the next exciting phase of its development, ensuring we continue to focus on creating value for our members, developing our people and playing an important role in our local community.

Outlook

Although the economic outlook and market dynamics for the year ahead are uncertain, the Society is financially strong and well positioned to continue the positive progress of recent years. In a highly competitive environment for mortgages and savings in 2024, we believe we can successfully grow and serve our customers. Our Corporate Plan reflects this alongside a continued investment in people, processes and technology to ensure the Society has a long-term sustainable, successful and secure future.

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 2024 and beyond.

Jeremy Cross
Chair of the Board
6 March 2024

Chief Executive Officer's review

Welcome to my first Chief Executive's review. I'm incredibly proud to have taken on the role of Chief Executive from Richard Newton. I want to thank Richard for his contribution to the Society during his 32-year career, leaving us financially strong and ready for our next phase of growth. Having worked closely with Richard for the last 4 years I share his passion for the role that building societies have in providing products and services at a fair price and supporting our local community. I'm looking forward to developing these areas further and seeing the Society grow from strength-to-strength as a strong regional building society.



2023 - A year in review

2023 was a challenging year for many, with the economic uncertainty and cost of living pressures felt in 2022 continuing throughout the year. The Bank of England increased Base Rate five times during the year as they tried to reduce inflation from 10.5% at the end of 2022. The housing market slowed with house prices at one point 5% lower than those seen in 2022¹ and mortgage transactions across the market falling to levels not seen since 2011.

Higher mortgage rates put pressure on borrowers, with an estimated 1.4m borrowers coming to the end of their fixed rate deal during 2023². Concerns around the potential payment shock for these borrowers resulted in the industry, the FCA and Government coming together in June to create the Mortgage Charter, which contains a range of measures to help borrowers through these challenging times. I'm proud that the Society is a signatory to the Charter.

In the savings market, interest rate rises were welcome news for savers, helped further by the implementation of the first phase of the FCA's Consumer Duty in July and the publication of the Cash Savings Market Review which shone a light on the very low rates many savers were receiving on cash held in easy access accounts with the larger banks. Your Society has continued to reward its savers with rates significantly above the market average throughout the year.

The year ended in a better position, with inflation reducing to 4%, house prices down by only 1.8%¹ over the year and optimism that Base Rate will start to reduce in 2024.

¹ Source: Nationwide Building Society

² Source: Office for National Statistics

Financial performance

Against this backdrop we have continued to focus on the things we do well, offering a range of competitive mortgage and savings products, delivering great customer service and supporting our local community. As a result, the Society has had another very successful year and delivered a strong financial performance.

2023 saw the Society deliver gross mortgage lending of £115.5m (2022: £108.2m), our highest ever year, with the mortgage book growing by 11.3% to £468.5m (2022: £421.0m), an incredible achievement given the market conditions. We achieved this by offering a broad range of competitive mortgage products whilst also focusing on streamlining our underwriting policies and practices to ensure we could arrive at lending decisions quickly - something we know is important to customers. We also re-entered the Shared Ownership market, helping borrowers get onto the property ladder in a cost effective way.

With Base Rate continuing to rise we have again been measured in our approach to increasing our Standard Variable Mortgage Rate ("SVR") during the year, being very conscious of the impact of higher payments on members with variable rate mortgages, whilst also being very conscious of the need to increase savings rates. While Base Rate has risen by 5% since 2022 we were able to lessen the impact on borrowers by restricting the resultant increase in our SVR to 3.65%.

Despite mortgage rates rising and the cost of living pressures continuing we saw only a modest increase in the number of borrowers falling behind on their mortgage payment, with borrowers two or more months in arrears at 0.6% (2022: 0.5%). The Society will always work with members who

Chief Executive Officer's review (continued)

are struggling to pay their mortgage, whether in arrears or not. During 2023 we signed up to the Mortgage Charter, a joint government and industry initiative to help provide some short-term flexibility to borrowers unable to meet their monthly mortgage payments. Using the Charter and our existing forbearance tools we have been able to provide support to many customers, helping to keep them in their home.

For borrowers looking for support or worried about their ability to pay their mortgage, further details around the help provided by the Mortgage Charter can be found on our website, or you can call us on 0121 557 2551 to speak to someone directly about the support we can provide.

Savings members have benefitted from significant increases to our interest rates offered this year, as we continue to strive to give good value to members. It is pleasing to report that our approach resulted in the Society attracting £51m (2022: £33m) in new savings balances from both existing and new members. This increase in savings balances will support future mortgage lending activity.

Underlying profit before taxation increased to £4.5m (2022: £3.8m). This performance was driven by both growth in mortgage balances and by Base Rate rises. In the current year, the rise in Base Rate resulted in higher mortgage rates and interest receivable on liquid assets, whilst savers benefited from higher interest rates on their deposit accounts. Profit before taxation, including accounting adjustments for derivatives, was £4.3m (2022: £4.8m). These adjustments will unwind over future years. As a mutual organisation our profitability is used to reinforce our strong capital position and to support future investment, rather than paying shareholders.

Community activity

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

During the year total charitable donations amounted to £47,705. This included a donation of over £15,000 to our Charitable Foundation ("Foundation"), and £9,000 to the 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 West Midlands with the principle purpose of raising educational standards, increasing health provision, and supporting the hospice movement.

Once again in 2023 Society colleagues adopted MAA as their charity partner. In addition to the amount donated by the Society, colleague fundraising activity resulted in a further donation of £7,753.

During the year we increased our support to the Black Country Food Bank, reflecting the vital support they provide to the most vulnerable people in our heartland with a donation of £12,000, and we have pledged a further £12,000 in 2024. We also introduced foodbank donation points into all of our branches as well as encouraging our colleagues to volunteer at their warehouse in Brierley Hill.

Colleagues also supported Santa's Black Country Toy Appeal, donating toys and other gifts. The charity offers support to children struggling due to the loss of a parent, parents losing their job, or losing their home.

We continued our long-standing partnership with Wolves FC and supported their 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.

Our people

Our success during 2023 would not have been possible without the support and commitment of all of our colleagues. During the year we welcomed 14 new employees, growing our headcount to 110 people and supporting job creation in our local area.

We want all of our colleagues to feel the Society is a welcoming and inclusive place to work. To support this, 2023 saw us focus on delivering a series of diversity and inclusion events to promote understanding and awareness around a range of topics including Diwali, Ramadan, Black History Month, International Women's Day, Mental Health Awareness Week and Pride Month.

We also reviewed our benefits package, making sure our colleagues are provided with the right benefits to support both their mental and physical wellbeing. As a result, we made changes in a number of areas including holiday entitlement, maternity and paternity pay, healthcare support, volunteering and pension arrangements.

I believe we are already seeing the benefits of our investment in our people with our colleague 12-month turnover rate now below 4%. We will continue to focus on making the Society an even better place to work in 2024.

Outlook for 2024

We remain focused at delivering our principle 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.

2024 will see us embarking on a number of significant projects to develop and deliver new products and further improve our services, simplifying customer journeys and expanding the way customers can interact with us. We will also look at ways of engaging more deeply with our community, as well as continuing to develop our people.

I am hopeful economic conditions will stabilise in 2024, allowing us to deliver another year of growth, albeit it may be challenging to match the growth levels seen in 2023 given the expected level of competition in the mortgage and retail savings markets. However, we are financially strong and well positioned to respond to any economic uncertainty or increase in competition, and we will continue to take opportunities as they arise.

Thank you for your continued support.

Adam Evetts
Chief Executive Officer
6 March 2024



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 and reflecting the requirements of the recently introduced Consumer Duty regulations, whilst ensuring 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 2023, we were able to significantly increase our average savings rates from 2.13% in December 2022 to 4.13% in December 2023, and our savers benefitted from the Society paying 1.32% above market average rates¹ in 2023.

To diversify our funding, we are a participant of the Bank of England's Sterling Monetary Framework, and to a limited extent attract funding 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 we can offer mortgages to more complex, credit-worthy, borrowers that larger providers may decline.

We offer products across a range of underserved segments of the mortgage market to ensure 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.

In 2023, we supported borrowers to purchase or remortgage homes including:

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

Unfortunately, some mortgage customers will experience financial difficulty at times. The Society is a signatory to the Mortgage Charter which sets out a range of standards to adopt when helping customers experiencing financial difficulties. Our approach is to support customers wherever we can, using additional forbearance measures appropriate to their circumstances.

Managing liquidity

We maintain a prudent level of liquidity to ensure 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 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.

¹Bank of England Database

Cost management

Operating efficiently is an important focus for us to ensure we are able to generate sufficient profit to maintain a strong financial position. Costs reflect our operation across four local branches, serving our savings customers, sourcing and administering mortgages, and ensuring we remain compliant within the regulatory environment we operate within.

A high proportion of our costs relate to our colleagues, who we aim to pay fairly to ensure we attract and retain talent. We continue to invest in improving processes, so we are well placed to provide great service to customers now and in the future, and to remain operationally resilient should unexpected events arise.

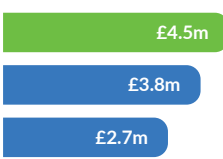


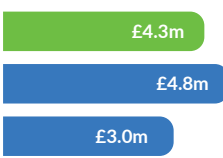


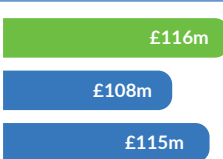


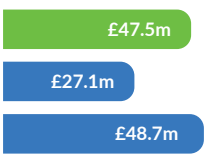


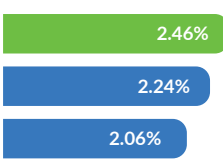


Investment will continue in 2024, including ongoing improvements to our mortgage and savings processes and capability, cyber security, and in colleague development.

Ensuring sustainable capital









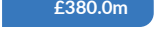






Our capital reserve has been generated since our inception in 1901, and is entirely from historic profits. As a regional mutual this is realistically the only source of capital available. It is used to ensure we are financially strong, both currently and into the future, and is necessary to support future 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.	2023  2022  2021 	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 uncertain economy at the end of 2023.
Profit before tax	As reported in the Income Statement, this is a measure of capital generation in the year, to support future Society growth.	2023  2022  2021 	In contrast to underlying profit growth, profit before tax reduced as a result of accounting for £189,000 fair value losses on derivatives (2022: gain £1,032,000); these losses/gains will unwind in future years.
Gross mortgage lending	The value of mortgages lent to our customers during the year.	2023  2022  2021 	The Society continued to support new borrowing at a level above its historic market share and achieved a new record for the Society in 2023.
Net mortgage lending	The annual increase in the total mortgage book, excluding fair value adjustments, and impairments.	2023  2022  2021 	Net lending grew strongly in 2023, reflecting higher gross mortgage lending, and improved retention from our existing customers, a proportion of whom are choosing to temporarily stay on standard variable rates whilst they consider alternate products.
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.	2023  2022  2021 	The Society has sought to offer competitive mortgage and savings rates throughout the year; mortgage rates increased significantly in the first half and started to reduce in the second half of the year, as a result of increases in Base Rate, and the markets expectation of the extent of future rate rises/reductions. Funding costs rose significantly in the year, reflecting five Base Rate increases, which ended the year at 5.25%. 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").	2023  25.5% 2022  26.8% 2021  26.6%	Strong profitability in the year strengthened the Society's capital base, which was offset by the increase in 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 shares and borrowings.	2023  23.8% 2022  23.7% 2021  21.5%	The Society adopted a prudent approach to liquidity in the year, maintaining levels significantly above regulatory minimums, to support lending growth, and to build capacity to repay TFSME ¹ loans. £5m of TFSME ¹ funding was repaid in 2023.
Savings balances	Shares and deposits held by members.	2023  £479.2m 2022  £416.0m 2021  £380.0m	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.	2023  0.36% 2022  0.32% 2021  0.28%	The year has been challenging for many of our customers; by the end of the year, cost of living pressures appear to be slowing, and house prices show some signs of stabilisation following a 6% reduction from their peak in August 2022. Together with wider economic uncertainty, these pressures resulted in a higher estimate of impairments. At the end of 2023 there were no mortgages 12 months or more in arrears (2022: none).
Management expense ratio	The aggregate of administrative expenses, depreciation and amortisation, as a percentage of mean total assets.	2023  1.59% 2022  1.48% 2021  1.53%	Costs increased in the year including additional investment in people (with average headcount rising from 97 to 105) and in our systems. This investment supports future mortgage and savings growth, and customer service levels. This was offset by 12% 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 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 the 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 customers only assume a debt 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 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 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 is a key focus for the Society to ensure 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 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.

In response to the implementation of the first phase of the FCA's Consumer Duty, the Society has strengthened its conduct risk control framework, including the introduction of fair value assessments for all new products, enhancing customer facing literature where required and increasing the scope of monitoring.

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 2023 we continued to develop our approach to identifying, monitoring and managing climate related risks. 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. It is supported in this by the ERC, RCRC, and the Director of Risk and Compliance who is the Senior Management function holder with responsibility for 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.

We have a Climate Change Risk Policy which sets out the approach to managing climate related risks, which 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 our 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	<ul style="list-style-type: none"> 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 (e.g. minimum Energy Performance Certificates ("EPCs")). 	Medium
	Physical	<ul style="list-style-type: none"> Declining property values due to increase in severe weather events, e.g. flooding; Increase in insurance costs leading to increase in uninsured properties or creating trapped borrowers. 	Long
Operational Risk	Transition	<ul style="list-style-type: none"> Re-evaluation of third party relationships due to their carbon footprint; Increase in costs base (e.g. corporate insurance, energy); Reputational damage as a result of not proactively promoting environmental credentials. 	Medium
	Physical	<ul style="list-style-type: none"> Physical damage to Society offices/branches and/or loss of services/systems due to increased number of severe weather events. 	Long
Conduct Risk	Transition	<ul style="list-style-type: none"> Potential increase in advice risks from assumed advice given in relation to green products. 	Medium
Liquidity and Funding Risk	Transition	<ul style="list-style-type: none"> Market participants seeking to deal only with firms with strong environmental credentials. 	Medium
	Physical	<ul style="list-style-type: none"> Increased risk of market disruption/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 the Society failing to adopt green policies and practices. 	Medium - Long
Strategic Risk	Transition	<ul style="list-style-type: none"> Increase in reputational risk as a result of the poor environmental credentials; Increase in costs as a result of reducing Society's carbon footprint. 	Medium
	Physical	<ul style="list-style-type: none"> Loss of income as a result of disruption caused by severe weather event; Deterioration of balance sheet asset quality as a result of physical impacts. 	Long

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 2023 we continued our work with ClimatePartner, a leading solutions provider for climate action, to understand the emissions from our operations and to calculate our carbon footprint. We will then offset these emissions, through accredited projects in the UK and around the world.

With approximately 17%² of the UK's carbon emissions coming from homes, we recognise 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.

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

²Department for Energy Security & Net Zero, 2022 UK Greenhouse Gas Emissions, Provisional Figures (March 2023).

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 by 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

	Risk weighted exposure based on most pessimistic scenario					
	Flooding		Coastal erosion		Subsidence	
	31/12/23	31/12/22	31/12/23	31/12/22	31/12/23	31/12/22
Properties expected to be impacted at least every 10-years by 2060	0.5%	0.5%	0.0%	0.0%	0.5%	0.5%
Properties not expected to be impacted at least every 10-years by 2060	97.2%	96.4%	97.7%	96.9%	97.2%	96.4%
Properties where data is not available ¹	2.3% (2022 – 3.1%)					

¹ Mortgages advanced during 2023 after external analysis undertaken.

We monitor the 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 improvement were made.

Current EPC rating	Owner occupied % by number		Buy-to-Let % by number		Total % by number	
	31/12/23	31/12/22	31/12/23	31/12/22	31/12/23	31/12/22
A-C	27.8%	25.8%	42.3%	38.4%	30.7%	27.7%
D-E	66.1%	67.7%	53.2%	54.1%	63.5%	65.7%
F-G	3.8%	4.1%	0.9%	0.7%	3.2%	3.5%
Unknown ²	2.3%	2.4%	3.6%	6.8%	2.6%	3.1%

Potential EPC rating	Owner occupied % by number		Buy-to-Let % by number		Total % by number	
	31/12/23	31/12/22	31/12/23	31/12/22	31/12/23	31/12/22
A-C	90.6%	90.5%	92.4%	89.0%	91.0%	90.2%
D-E	6.7%	6.8%	3.8%	3.9%	6.1%	6.4%
F-G	0.3%	0.3%	0.2%	0.2%	0.3%	0.3%
Unknown ²	2.4%	2.4%	3.6%	6.9%	2.6%	3.1%

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 2023 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 2024

Board of Directors

as at 31 December 2023

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, LHV UK and H&T plc. 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 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, Moat House and LGPS Central. She is a member of the Audit and Remuneration Committees.



Jill Bentley Non-Executive Director

Jill was appointed to the Board in 2022. 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



Adam Evetts Chief Executive

Adam joined the Society in 2020 and was appointed to the Board in 2022, taking on the role of Chief Executive from January 2024. He has worked within the building society sector for over 28 years, with 23 years working within risk and compliance roles. He holds an MBA from Leicester University. He 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.



Richard Newton Chief Executive (Resigned 31 December 2023)

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 was a member of the Nominations Committee.

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 2023

Annual General Meeting ("AGM")

Nearly 2,400 members cast their vote in total, representing a turnout of c.12%.

Changes to the Board in 2023

In March, Richard Newton (Chief Executive) notified the Board of his intention to step down after 10 years in the role and over 32 years total service to the Society, this took effect on 31 December 2023.

Through regularly considering succession planning, the Board were unanimous in concluding that Adam Evetts, the Society's Risk & Compliance Director, should succeed Richard. The Board considered Adam will be able to successfully lead the Society as it continues to evolve to meet the changing needs of existing and new members. In coming to this decision, the Board commissioned an external assessment of Adam's skills and attributes, and had regard for his significant expertise and experience both within the building society sector and in all areas of risk management, his strong commercial instinct, and his ability to develop, lead and manage teams successfully.

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.

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 Society 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. This is achieved through review and approval of the Corporate Plan and monitoring culture through Board and sub-Committee management information, reviewing measures such as complaints, number of risk events, and feedback from customers, regulators and colleagues.

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

The Board must approve the 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

At 31 December 2023 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.

Corporate Governance Report (continued)

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 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. The other members of the Board, facilitated by the Senior Independent Director, annually review the experience, commitment and capability of the Chair, 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 nor any other Director had any material conflicts of interest which would have impacted the effective discharge of their responsibilities during the year.

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 each Director had sufficient time to discharge their duties at the Society, and they did not hold more than the prescribed number of Directorships under Article 91 of the CRD 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 key skills required and the approach to recruitment.

This may include using external recruiters to ensure a broad and diverse pool of candidates are 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 receive certain items at every meeting such as the minutes of the previous meeting, a schedule of outstanding actions, an update from the Chief Executive on strategic developments and current business performance, the Finance Director 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 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 ToR.

The Chair, Senior Independent Director, and Chief Executive, have specific regulatory responsibilities associated with the roles.

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 the 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 in 2023 comprised Jeremy Cross (Chair), Richard Newton (Chief Executive), Adam Evetts (Risk & Compliance Director), Keith Rolfe, (Vice-Chair of the Board, Senior Independent Director and a contact point for employees and members), and Jill Bentley, (Non-Executive Director). 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 comprised 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 2023 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 the 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 ("SLT") to discuss matters relating to governance of the Society and its performance in general.

Colleagues

Colleagues 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 SLT to better understand their views on key matters. Where required, action plans are developed to improve any weaknesses identified.

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, overseeing the completion of ongoing due diligence checks, to ensure they remain the right partner for the Society.

Corporate Governance Report (continued)

Whistleblowing

The Senior Independent Director is the Society's Whistleblowing Champion, and all colleagues are aware of how to raise concerns with them, 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 Internal Audit function and the integrity of financial statements. The Audit Committee Report on pages 21 to 22 provides further information.

The Strategic Review on pages 10 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 2024

Board and Committee Attendance Record

Director	Board	Audit	Remuneration	Nominations	Risk & Compliance
J Y Bentley	13 (13)	4 (4)	-	3 (3)	6 (6)
J D Cross	13 (13)	-	-	3 (3)	-
A J Evetts	13 (13)	-	-	3 (3)	-
M Hrycyk	12 (13)	4 (4)	3 (3)	-	6 (6)
B M Moore	12 (13)	3 (4)	2 (3)	-	-
R J Newton (<i>resigned 31 December 2023</i>)	12 (13)	-	-	3 (3)	-
K A Rolfe	13 (13)	-	-	3 (3)	6 (6)
A J Shand	13 (13)	-	-	-	-
S J Veitch	10 (13)	4 (4)	2 (3)	-	6 (6)

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 Director of Risk & Compliance, 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 2023 were:

- Mortgage Impairment Provision – review and challenge of the assumptions and judgements used to determine the mortgage impairment provision;
- Revenue recognition – review and challenge 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 2023 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 2023 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 2023 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.

Audit Committee Report (continued)

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 2023 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 auditor objectivity and independence is safeguarded.

The Committee carries out an annual appraisal of the external auditor to ensure 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 2024

Report of the Remuneration Committee

Introduction

The Society's success is built on having brilliant people working for it. 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.

2023 Remuneration review

Competition within the financial services industry for high-calibre individuals remained intense during 2023 despite the economic outlook.

The development and delivery of our People Plan helps us ensure we can attract and retain the right people by creating a vibrant workplace that encourages colleagues to thrive. 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. 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 use the Living Wage Foundation's real Living Wage as the benchmark for our minimum hourly rate of pay.

Role of the Remuneration Committee

The 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 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 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, including that for new appointments, 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 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.

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 of information from external sources including comparable building society data.

Report of the Remuneration Committee (continued)

- **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 wellbeing 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.

The scheme 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 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. The Non-Executive Directors of the Board have sole discretion on awards made under the 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 Chair 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
Alastair Shand	05/05/21	6 months	6 months
Adam Evetts	09/11/23	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 2024

Directors' remuneration

Non-executive Directors (audited)	2023	2022
	Total fees	Total fees
	£'000	£'000
C D J Almond (resigned 26 May 2022)	-	13
J Y Bentley (appointed 4 November 2022)	33	5
J D Cross (appointed 28 April 2022)	47	36
A J Higgins (retired 27 April 2022)	-	15
M Hrycyk	33	32
B M Moore	33	32
K A Rolfe	38	38
S J Veitch	38	38
Total	222	209

Executive Directors (audited)	Salary	Performance related pay	Benefits	Sub-total	Pension contributions	Total
	£'000	£'000	£'000	£'000	£'000	£'000
2023						
R J Newton	182	36	11	229	36	265
A J Evetts	140	28	8	176	24	200
A J Shand	154	31	9	194	29	223
	476	95	28	599	89	688

Executive Directors (audited)	Salary	Performance related pay	Benefits	Sub-total	Pension contributions	Total
	£'000	£'000	£'000	£'000	£'000	£'000
2022						
R J Newton	175	35	11	221	26	247
A J Evetts (appointed 1 September 2022)	45	9	3	57	7	64
A J Shand	149	30	9	188	19	207
	369	74	23	466	52	518

In March 2023, R J Newton notified the Board of his intention to step down from the role of Chief Executive, this took effect on 31 December 2023. Contractual arrangements agreed with Mr Newton, to ensure an orderly and successful transition to his successor, included extending his notice period by 6-months, and will result in payments totalling £106,000 being made to Mr Newton during 2024. All Executive Directors are eligible to be members of the Society's defined contribution pension scheme. During 2022, A J Shand elected with agreement from the Society, to take a proportion of pension contributions as salary.

Directors' Report

The Board is pleased to present its annual report and accounts and annual business statement for the year ended 31 December 2023.

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 14 at 31 December 2023 (2022: 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 2023, their roles and membership of Board committees are detailed on pages 15 to 16.

The following Director also served on the Board during the year:

- R J Newton (resigned 31 December 2023)

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 2024

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 2023 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 2023 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 financial statements, 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 including retenders and reappointments is 5 years, covering the years ending 31 December 2019 to 31 December 2023. 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:

- Testing the Director's assessment of going concern and supporting financial forecasts through review of key ratios such as Profitability, net assets, capital and liquidity for significant deterioration, which could indicate issues related to going concern;
- Reviewing the Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Adequacy Assessment Process (ILAAP) and regulatory capital and liquidity requirements;
- Challenging the appropriateness of the Directors' assumptions and judgements made in their base forecast and stress-tested forecasts, including reverse stress test scenarios. 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; and
- 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

		2023	2022
Key audit matters	Revenue Recognition - application of EIR method	✓	✓
	Impairment on Loans and Advances	✓	✓
Materiality	£514,000 (2022: £482,000) based on 1% (2022: 1%) of Net Assets.		

An overview of the scope of our audit

Our audit approach was developed by obtaining an understanding of the Society and the overall control environment. Based on this understanding, we assessed those aspects of the Society’s transactions and balances which were most likely to give risk to a material misstatement.

Climate change

Our work on the assessment of potential impacts of climate-related risks on the Society’s operations and financial statements included:

- Enquiries and challenge of management to understand the actions they have taken to identify climate-related risks and their potential impacts on the financial statements and adequately disclose climate-related risks within the annual report;
- Our own qualitative risk assessment taking into consideration the sector in which the Society’s operates and how climate change affects this particular sector; and
- Review of the minutes of Board and Audit Committee meeting and other papers related to climate change and performed a risk assessment as to how the impact of the Society’s commitment as set out in the annual report may affect the financial statements and our audit.

We challenged the extent to which climate-related considerations, including the expected cash flows from the initiatives and commitments have been reflected, where appropriate, in the Directors’ going concern assessment and in management’s judgements and estimates in relation to the loan loss provision.

We also assessed the consistency of managements disclosures included as ‘Other Information’ on pages 13 to 14 with the financial statements and with our knowledge obtained from the audit.

Based on our risk assessment procedures, we did not identify there to be any Key Audit Matters materially impacted by climate-related risks.

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

<p>Revenue Recognition - application of EIR method</p> <p>The Society’s associated accounting policies are disclosed in Note 1 with detail about judgements in applying accounting policies and critical accounting estimates in Note 1.13.</p>	<p>The Society’s mortgage interest income is recognised using an effective interest rate (“EIR”) method in accordance with the requirements of the applicable accounting standards.</p> <p>This method involves adjusting fee and interest income to ensure it complies with the EIR method. The models used to achieve this are often complex and reliant on the completeness and accuracy of input data.</p> <p>Significant management judgement is required to determine the expected cash flows for the Society’s loans and advances in applying the EIR method. The key assumptions in applying the EIR method are the directly attributable fees and costs, and the expected behavioural life and redemption profiles of the mortgages due to the impact on timing and quantum of expected future cash flows.</p>	<p>As part of our audit procedures over Revenue in application of the EIR method, we performed the following:</p> <p>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.</p> <p>Through the inspection of contractual terms in testing the total fees and commissions and a qualitative assessment of fees assessed as integral to the loans, we considered the appropriateness of fees and costs included or excluded from the effective interest rate estimates, including early redemption charges.</p> <p>With the use of data analytics, we performed a recalculation of all gross mortgage contractual interest income to determine the accuracy and completeness.</p> <p>Checked that management have followed the approval process of the key judgements made through inspecting board minutes.</p>
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Independent Auditor's Report (continued)

Key audit matters

How the scope of our audit addressed the key audit matter

	<p>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.</p> <p>We consider that bias in key assumptions applied could result in the material misstatement of revenue. Revenue recognition as it pertains to the application of the EIR method was therefore considered to be a significant risk area and a Key audit matter.</p>	<p>Tested the completeness of the fees which are being spread in the EIR model through critically assessing whether management included the appropriate free cash flows within the calculation of the effective interest rate.</p> <p>We have challenged managements behavioural life assumptions in the current year, we assessed the reasonableness of these assumptions through consideration of the historical experience of loan behavioural lives based on customer behaviour, product type, market factors, recent performance and external data where applicable.</p> <p>Assessed the sensitivity of managements current assumption considering different profiles of behavioural life evidenced by actual customer behaviour.</p> <p>Reviewed the relevant interest income and effective interest rate disclosures made by management for compliance with accounting standards and agreed the disclosures to supporting evidence.</p> <p>Key observations:</p> <p>Based on the procedures performed, we have not identified any indicators to suggest that the recognition of mortgage interest income, including EIR, was inappropriate.</p>
<p>Impairment on loans and advances</p> <p>The Society's accounting policies are detailed in Note 1 with detail about judgements in applying accounting policies and critical accounting estimates in Note 1.13.</p> <p>As disclosed in Note 13, the Society has recognised £1.7m of impairment provisions at the year-end.</p> <p>This comprises a specific provision of £0.2m (2022: £0.04m) and a collective provision of £1.5m (2022: £1.0m)</p>	<p>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.</p> <p>(i) A specific provision is calculated for individual loans where there is an observable loss event.</p> <p>(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.</p>	<p>As part of our audit procedures over Impairment on loans and advances we performed the following:</p> <p>Assessed the specific and collective impairment methodology in accordance with the applicable accounting framework.</p> <p>Evaluated the completeness and accuracy of data and key assumption inputs feeding into the collective and specific provision calculations through reconciliation to underlying records.</p> <p>Assessed that management's stated loan provisioning assumption inputs have been consistently applied to the specific provision and collective provision model calculations.</p> <p>Profiled the loan population and tested a sample of loans, including performing loans for impairment indicators, 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.</p>

Key audit matters

How the scope of our audit addressed the key audit matter

	<p>The specific provision is sensitive to key judgements and assumptions in respect to the underlying value of collateral held and the expected loss associated with the lender.</p> <p>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.</p> <p>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.</p> <p><i>For these reasons we considered this to be a key audit matter.</i></p>	<p>Assessed the collective impairment provision for sensitivity to changes in key inputs to identify areas requiring additional focus.</p> <p>For the specific and collective impairment provision, 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 and probability of default. These were challenged with reference to historic Society's experience, the reasonableness of external data points used, and the level of the overall collective impairment provision to comparable peer organisations and the broader lending market.</p> <p>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.</p> <p>Key observation:</p> <p>We have not identified any indicators to suggest that the provision for loans and advances to customers is unreasonably estimated in consideration of the key assumptions and judgements made or that the related disclosures are not appropriate.</p>
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Independent Auditor's Report (continued)

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 financial statements as a whole and performance materiality as follows:

	2023 £	2022 £
Materiality	£514,000	£482,000
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	£386,000	£361,000
Basis for determining performance materiality	75% of materiality	
Rational for the percentage applied for performance materiality	In determining performance materiality, we considered factors such as our assessment of the Society's overall control environment, and expected total value of known and likely misstatements, based on past experience.	

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £18,000 (2022: £9,600). 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 and Accounts 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.

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.

<p>Annual Business Statement and Directors' Report</p>	<p>In our opinion, based on the work undertaken in the course of the audit:</p> <ul style="list-style-type: none"> • 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. <p>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.</p>
<p>Matters on which we are required to report by exception</p>	<p>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:</p> <ul style="list-style-type: none"> • 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 2023 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 Directors' responsibilities statement, 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:

Non-compliance with laws and regulations

Based on:

- Our understanding of the Society and the industry in which it operates;
- Discussion with management and those charged with governance ; and
- Obtaining and understanding of the Society's policies and procedures regarding compliance with laws and regulations;

Independent Auditor's Report (continued)

we considered the significant laws and regulations to be the Building Societies Act 1986, pension legislation and tax legislation.

The Society is also subject to laws and regulations where the consequence of non-compliance could have a material effect on the amount or disclosures in the financial statements, for example through the imposition of fines or litigations. We identified such laws and regulations to be requirements of the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA).

Our procedures in respect of the above included:

- Review of minutes of meeting of those charged with governance for any instances of non-compliance with laws and regulations;
- Review of legal correspondence and correspondence with regulatory authorities for any instances of non-compliance with laws and regulations; and
- Review of financial statement disclosures and agreeing to supporting documentation.

Irregularities including fraud

We assessed the susceptibility of the financial statements to material misstatement, including fraud. Our risk assessment procedures included:

- Enquiry with management and those charged with governance regarding any known or suspected instances of fraud;
- Obtaining an understanding of the Society's policies and procedures relating to:
 - o Detecting and responding to the risks of fraud; and
 - o Internal controls established to mitigate risks related to fraud.
- Review of minutes of meeting of those charged with governance for any known or suspected instances of fraud;
- Discussion amongst the engagement team as to how and where fraud might occur in the financial statements;
- Performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud; and
- Considering remuneration incentive schemes and performance targets and the related financial statement areas impacted by these.

Based on our risk assessment, we considered the areas most susceptible to fraud to be management override of controls and in relation to accounting estimates such as the EIR and loan loss provisioning.

Our procedures in respect of the above included:

- Testing a sample of journal entries throughout the year, which met a defined risk criteria, by agreeing to supporting documentation; and
- Assessing significant estimates made by management for bias (refer to the key audit matters section for procedures performed).

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members who were all deemed to have appropriate competence and capabilities 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.

Stefan Beyers

(Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor
55 Baker Street,
London,
W1U 7EW
6 March 2024

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



Financial Statements

Income Statement

for the year ended 31 December 2023

	Notes	2023 £'000	2022 £'000
Interest receivable and similar income	2	31,740	16,975
Interest payable and similar charges	3	(17,665)	(5,410)
Net interest income		14,075	11,565
Fees and commissions receivable		576	948
Fees and commissions payable		(677)	(834)
Net gains and losses from derivative financial instruments	4	(189)	1,033
Total net income		13,785	12,712
Administrative expenses	5	(8,909)	(7,497)
Depreciation and amortisation	14,15	(187)	(150)
Impairment charge on loans and advances	13	(351)	(254)
Provisions for liabilities	22	-	-
Profit Before Tax		4,338	4,811
Tax expense	8	(1,055)	(937)
Profit for the financial year	24	3,283	3,874

Profit for the financial year arises from continuing operations. Total comprehensive income is the same as the profit for the 2023 and 2022 financial years and is attributable to the members of the Society.

The notes on pages 40 to 73 form part of these accounts.

Statement of Financial Position

as at 31 December 2023

	Notes	2023 £'000	2022 £'000
Assets			
Cash and cash equivalents			
Cash in hand and balances with Bank of England	9	124,834	110,433
Loans and advances to credit institutions	10	5,465	5,651
Derivative financial instruments	11	5,616	11,456
Loans and advances to customers	12	464,249	409,545
Intangible fixed assets	14	169	129
Tangible fixed assets	15	1,675	1,702
Prepayments and accrued income		1,534	1,196
Total Assets		603,542	540,112
Liabilities			
Shares	17	479,581	415,657
Amounts owed to credit institutions	18	61,778	69,425
Amounts owed to other customers	19	7,020	4,135
Derivative financial instruments	11	1,735	625
Current tax liabilities	20	362	557
Deferred tax liabilities	16	169	50
Accruals and deferred income	21	1,420	1,469
Provisions for liabilities	22	16	16
Total Liabilities		552,081	491,934
Reserves	24	51,461	48,178
General reserves			
Total Liabilities and Equity (Members' Capital)		603,542	540,112

The notes on pages 40 to 73 form part of these accounts.

These accounts were approved by the Board of Directors on 6 March 2024 and signed on its behalf:

Jeremy Cross	Chair
Adam Evetts	Chief Executive
Alastair Shand	Finance Director

Statement of Changes in Members' Interests

for the year ended 31 December 2023

	Notes	General Reserves £'000	Total £'000
2023			
Balance as at 1 January 2023		48,178	48,178
Profit for the year		3,283	3,283
Balance as at 31 December 2023	24	51,461	51,461
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

The notes on pages 40 to 73 form part of these accounts.

Statement of Cash Flows

for the year ended 31 December 2023

	2023	2022
Notes	£'000	£'000
Cash flows from operating activities		
Profit before tax	4,338	4,811
Depreciation and amortisation	187	159
(Profit) on disposal of tangible assets	(7)	(9)
Increase in Provisions for bad and doubtful debts	351	254
Loans and advances written off net of recoveries	-	(2)
Total cashflow from operating activities	4,869	5,213
Changes in operating assets and liabilities		
(Increase) in prepayments and accrued income	(338)	(656)
Increase in accruals and deferred income	2,464	1,320
Net (increase) in loans and advances to customers	(55,055)	(18,960)
Net increase/(decrease) in amounts owed to credit institutions	(8,070)	9,754
Net increase/(decrease) in amounts owed to other customers	2,808	(1,628)
Net increase in shares	61,911	35,095
Movement in derivative financial instruments	6,950	(8,827)
Taxation paid	(1,131)	(650)
Net cash inflow from operating activities	14,408	20,661
Cash flows from investing activities		
Purchase of tangible and intangible assets	(207)	(279)
Disposal of tangible and intangible assets	14	25
Net cash (outflow) from investing activities	(193)	(254)
Net increase in cash	14,215	20,407
Cash and cash equivalents at start of year	116,084	95,677
Cash and cash equivalents at end of year	25	116,084

In line with FRS102, interest received was £31,369,000 (2022: £16,479,000) and interest paid was £15,136,000 (2022: £4,465,000).

The notes on pages 40 to 73 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 36.

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 advances

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.

Notes to the accounts (continued)

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 2023.

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 Society recognises the expected cost of bonus payments only when: (a) the entity has a present legal or constructive obligation to make such payments as a result of past events (this means that the entity has no realistic alternative but to make the payments); and (b) a reliable estimate of the obligation can be made.

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 £504,000. A 5% decrease in the estimated fall in house prices would reduce the impairment provision by £390,000.

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 £206,000 (2022: £25,000) with an EIR liability included in the Statement of Financial Position of £51,000 (2022: £155,000 asset). 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 are in line with initial product term, 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.

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.

1.14 Capital

The Society's policy is to maintain a strong capital base to maintain Member, creditor and market confidence and to sustain future development of the business. The formal ICAAP process assists the Society with its management of capital. The Board monitors the Society's capital position to assess whether adequate capital is held to mitigate the risks it faces in the course of its business activities. The Society's actual and expected capital position is reviewed against stated risk appetite which aims to maintain capital at a specific level above its Total Capital Requirement (TCR).

The Board manages the Society's capital and risk exposures to maintain capital in line with regulatory requirements, which includes monitoring of:

Lending decisions

The Society maintains a comprehensive set of sectoral limits on an overall and 12-month rolling basis to manage credit risk appetite. Individual property valuations are monitored against House Price Index (HPI) data and updated quarterly.

Concentration risk

The design of lending products takes into account the overall mix of the loan portfolio to manage exposure to risks arising from the property market and other markets the Society is active in.

Counterparty risk

Wholesale lending is only carried out with approved counterparties in line with the Society's lending criteria and is subject to a range of limits that reflect the risk appetite of the Society.

Stress tests are used as part of the process of managing capital requirements.

The Society's capital requirements are set and monitored by the Prudential Regulation Authority (PRA). During 2023, the Society has continued to comply with the EU Capital Requirements Regulation and Directive (Basel III) as amended by the PRA. Further details of the Society's approach to Risk Management are given in the Strategic Review under Principal Risks and Uncertainties.

Regulatory capital is analysed into two tiers:

Tier 1 capital

which is comprised of retained earnings, less net book value of intangible assets held.

Tier 2 capital

which includes collective provisions.

The level of capital is matched against risk-weighted assets which are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets.

There were no reported breaches of capital requirements during the year. There have been no material changes in the Society's management of capital during the year.

Notes to the accounts (continued)

2. Interest receivable and similar income

	2023	2022
	£'000	£'000
On loans fully secured on residential property	19,348	13,845
On other loans	121	106
On liquid assets	5,472	1,605
On derivative hedging of financial assets	6,799	1,419
At 31 December	31,740	16,975

3. Interest payable and similar charges

	2023	2022
	£'000	£'000
On shares held by individuals	13,891	4,303
On deposits and other borrowings	3,355	1,015
On derivative hedging of financial liabilities	419	92
At 31 December	17,665	5,410

4. Net gains and losses from derivative financial instruments

	2023	2022
	£'000	£'000
Derivatives in designated fair value hedge relationships	(6,655)	8,563
Adjustments to hedged items in fair value hedge accounting relationships	6,761	(7,794)
Derivatives not in designated fair value hedge relationships	(295)	264
At 31 December	(189)	1,033

The net loss from derivative financial instruments of £189,000 (2022: £1,033,000 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

	2023	2022
	£'000	£'000
Staff costs		
Wages and salaries	4,094	3,554
Social security costs	444	393
Other pension costs	357	242
	4,895	4,189
Operating lease rentals	25	25
Other administrative costs	3,989	3,283
At 31 December	8,909	7,497
Other administrative costs include:		
Remuneration of Auditor (excluding VAT):		
Audit of these financial statements	207	165
For other assurance services	-	1

6. Employees

	2023	2022
	Number	Number
The average number of persons employed during the year was:		
Full time	75	68
Part time	30	29
	105	97
The average number of persons employed during the year was:		
Head office	74	65
Branch offices	31	32
	105	97

The average number of employees on a full time equivalent basis was 94 (2022: 87) 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 £910,000 for 2023 (2022: £727,000) 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 (2022: 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 2023 was £34,470 (2022: £31,251).

8. Taxation	2023	2022
	£'000	£'000
UK corporation tax at 23.52% (2022: 19%)	987	907
(Over) provision in previous year	(51)	-
Total current tax	936	907
Deferred tax (note 16)	119	30
Total tax expense	1,055	937

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

	2023	2022
	£'000	£'000
Profit before taxation	4,338	4,811
Expected tax at 23.52% (2022: 19%)	1,019	914
Effects of:		
Adjustment to tax charge on deferred tax	53	(1)
Changes in tax rate	4	7
Fixed asset differences	26	16
Expenses not deductible for tax purposes	4	-
Adjustment for prior years	(51)	1
Tax expense for the year	1,055	937

Current tax has been provided at the rate of 23.52%. The Society has reflected the increase in the main rate of corporation tax from 19% to 25% as from April 2023.

The deferred tax asset at 31 December 2023 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

	2023	2022
	£'000	£'000
Cash in hand	462	574
Bank of England Reserve Account	124,372	109,859
Included in cash and cash equivalents (note 25)	124,834	110,433

10. Loans and advances to credit institutions

	2023	2022
	£'000	£'000
Repayable on demand	5,465	5,651
At 31 December	5,465	5,651

11. Derivative financial instruments

	2023		2022	
	Assets	Liabilities	Assets	Liabilities
	£'000	£'000	£'000	£'000
Derivatives designated as fair value hedges				
Unmatched derivatives	73	(76)	305	(13)
Derivatives designated in hedging relationships	5,543	(1,659)	11,151	(612)
Total recognised derivative assets/(liabilities)	5,616	(1,735)	11,456	(625)

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.

Notes to the accounts (continued)

12. Loans and advances to customers

	2023	2022
	£'000	£'000
Loans fully secured on residential property	467,317	419,543
Other loans – loans fully secured on land	1,148	1,421
	468,465	420,964
Provision for impairment losses on loans and advances (note 13)	(1,701)	(1,350)
Fair value adjustment for hedged risk	(2,515)	(10,069)
At 31 December	464,249	409,545

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:

	2023	2022
	£'000	£'000
In not more than three months	2,821	3,457
In more than three months but not more than one year	6,641	6,734
In more than one year but not more than five years	51,063	44,882
In more than five years	405,425	355,822
	465,950	410,895
Provision for impairment losses on loans and advances (note 13)	(1,701)	(1,350)
At 31 December	464,249	409,545

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

Loans and advances totalling £146,839,000 (2022: £135,100,000) have been pledged as collateral with the Bank of England to provide access to contingent liquidity and secured funding (within the Sterling Monetary Framework), including the Term Funding Scheme with additional incentives for SMEs ("TFSME") and Indexed Long-Term Repo (ILTR).

Notes to the accounts (continued)

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 2023	40	-	40
Amounts written off	-	-	-
Charge for the year	175	-	175
At 31 December 2023	215	-	215
Collective provision			
At 1 January 2023	1,301	9	1,310
Amounts written off	-	-	-
Charge for the year	176	-	176
At 31 December 2023	1,477	9	1,486
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
The charge to the income statement comprises:			
Net charge for the year above			(351)
Amounts written off			-
Charge to the income statement in 2023			(351)
Charge to the income statement in 2022			(254)

Notes to the accounts (continued)

14. Intangible fixed assets

	Purchased Software
	£'000
2023	
Cost	
At 1 January 2023	1,181
Additions	161
Disposal	(223)
At 31 December 2023	1,119
Amortisation	
At 1 January 2023	1,052
Charge for the year	121
On disposal	(223)
At 31 December 2023	950
Net Book Value	
At 31 December 2023	169
2022	
Cost	
At 1 January 2022	1,174
Additions	7
Disposals	-
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

Purchased Software

Items disposed of during the year were decommissioned assets; these assets have been fully depreciated in prior periods and do not have a financial impact on the net book value of the assets owned by the business.

Notes to the accounts (continued)

15. Tangible fixed assets

	Freehold Land & Buildings	Short Leasehold	Equipment, Fixtures, Fittings and Vehicles	Total
	£'000	£'000	£'000	£'000
2023				
Cost				
At 1 January 2023	1,566	101	1,660	3,327
Additions	-	-	46	46
Disposal	-	-	(322)	(322)
At 31 December 2023	1,566	101	1,384	3,051
Depreciation				
At 1 January 2023	267	83	1,275	1,625
Charge for the year	15	7	44	66
On disposal	-	-	(315)	(315)
At 31 December 2023	282	90	1,004	1,376
Net Book Value				
At 31 December 2023	1,284	11	380	1,675
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

Land and buildings

The net book value of freehold land and buildings occupied for own use at 31 December 2023 was £1,212,000 (2022: £1,227,000). Land and buildings include investment properties held at fair value at 31 December 2023 of £72,000 (2022: £72,000); no gains or losses have been recognised in 2023 (2022: nil).

Equipment, Fixtures, Fittings and Vehicles

Items disposed of during the year were decommissioned assets; these assets have been fully depreciated in prior periods and do not have a financial impact on the net book value of the assets owned by the business.

Notes to the accounts (continued)

16. Deferred tax liability

	2023	2022
	£'000	£'000
At 1 January	(50)	(20)
Increase in liability for the year (note 8)	(119)	(30)
At 31 December	(169)	(50)
Tax effect of timing differences due to:		
FRS102 transitional adjustments	(7)	(8)
Accelerated capital allowances	(193)	(103)
Collective loss provision	31	61
	(169)	(50)

The deferred tax liability at 31 December 2023 has been calculated based on the prevailing tax rate when the timing differences are expected to reverse.

17. Shares

	2023	2022
	£'000	£'000
Held by individuals	479,169	416,038
Other shares	6	6
Fair value adjustment for hedged risk	406	(387)
At 31 December	479,581	415,657

Shares are repayable from the date of the Statement of Financial Position in the ordinary course of business as follows:

Accrued interest	3,017	1,004
Repayable on demand	276,967	259,413
In not more than three months	83,226	77,467
In more than three months but not more than one year	79,893	54,370
In more than one year but not more than five years	36,072	23,790
Fair value adjustment for hedged risk	406	(387)
At 31 December	479,581	415,657

Notes to the accounts (continued)

18. Amounts owed to credit institutions

	2023	2022
	£'000	£'000
Amounts owed to credit institutions are repayable at the reporting date in the ordinary course of business as follows:		
Accrued interest	876	453
In not more than three months	10,902	1,000
In more than three months less than one year	10,000	12,972
In more than one year but not more than five years	40,000	55,000
At 31 December	61,778	69,425

Amounts owed to credit institutions include £55,000,000 (2022: £55,000,000) of secured funding within the Sterling Monetary Framework, including £50,000,000 (2022: £55,000,000) under the Term Funding Scheme with additional incentives for SMEs (TFSME) and £5,000,000 (2022: £nil) under Indexed Long-Term Repo (ILTR), secured against certain loans and advances to customers.

At 31 December 2023, £4,902,000 (2022: £10,972,000) had been received from credit counterparties as collateral against derivative contracts.

19. Amounts owed to other customers

	2023	2022
	£'000	£'000
Amounts owed to other customers are repayable at the reporting date in the ordinary course of business as follows:		
Accrued Interest	96	19
Repayable on demand	1,589	2,116
In not more than three months	835	1,000
In more than three months less than one year	4,500	1,000
In more than one year but not more than five years	-	-
At 31 December	7,020	4,135

Notes to the accounts (continued)

20. Current tax liabilities

	2023	2022
	£'000	£'000
Falling due within one year		
Corporation tax	362	557
At 31 December	362	557
Corporation tax		
As at 1 January	557	300
Current year corporation tax charge (note 8)	936	907
Payments made in year	(1,131)	(650)
At 31 December	362	557

21. Accruals and deferred income

	2023	2022
	£'000	£'000
Accruals	1,420	1,469
At 31 December	1,420	1,469

22. Provision for liabilities

	2023	2022
	Total	Total
	£'000	£'000
At 1 January	16	16
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 2023/24 scheme year, which runs from April 2023 to March 2024. 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 £357,000 (2022: £242,000). There were no outstanding or prepaid contributions at either the beginning or end of the year.

Notes to the accounts (continued)

24. General reserves

	2023	2022
	£'000	£'000
At 1 January	48,178	44,304
Profit for the financial year	3,283	3,874
At 31 December	51,461	48,178

25. Cash and cash equivalents

	Notes	2023	2022
		£'000	£'000
Cash in hand and balances with the Bank of England	9	124,834	110,433
Loans and advances to credit institutions repayable on demand	10	5,465	5,651
At 31 December		130,299	116,084

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 2023 and 31 December 2022 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

Notes to the accounts (continued)

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 2023	Held at amortised cost		Held at fair value		Total £'000
	Loans and receivables	Financial assets and liabilities at amortised cost	Derivatives designated as fair value hedges	Unmatched derivatives	
	£'000	£'000	£'000	£'000	
Financial assets					
Cash in hand & balances with Bank of England	-	124,834	-	-	124,834
Loans and advances to credit institutions	-	5,465	-	-	5,465
Derivative financial instruments	-	-	5,543	73	5,616
Loans and advances to customers	464,249	-	-	-	464,249
Total financial assets	464,249	130,299	5,543	73	600,164
Non-financial assets	-	3,378	-	-	3,378
Total assets	464,249	133,677	5,543	73	603,542
Financial liabilities					
Shares	-	479,581	-	-	479,581
Amounts owed to credit institutions	-	61,778	-	-	61,778
Amounts owed to other customers	-	7,020	-	-	7,020
Derivative financial instruments	-	-	1,659	76	1,735
Accruals and deferred income	-	1,420	-	-	1,420
Total financial liabilities	-	549,799	1,659	76	551,534
Non-financial liabilities	-	547	-	-	547
Total liabilities	-	550,346	1,659	76	552,081

Notes to the accounts (continued)

26. Financial instruments (continued)

Carrying values by category 31 December 2022	Held at amortised cost		Held at fair value		Total £'000
	Loans and receivables	Financial assets and liabilities at amortised cost	Derivatives designated as fair value hedges	Unmatched derivatives	
	£'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

There have been no reclassifications during either year.

Notes to the accounts (continued)

26. Financial instruments (continued)

Fair values of financial assets and liabilities

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 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

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 2023					
Financial assets					
Derivative financial instruments					
Interest rate swaps	11	-	5,616	-	5,616
		-	5,616	-	5,616
Financial Liabilities					
Derivative financial instruments					
Interest rate swaps	11	-	1,735	-	1,735
		-	1,735	-	1,735
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

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.

Notes to the accounts (continued)

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:

	2023	2022
	£'000	£'000
Credit Risk Exposure		
Cash in hand and balances with Bank of England	124,834	110,433
Loans and advances to credit institutions	5,465	5,651
Derivative financial instruments	5,616	11,456
Loans and advances to customers	464,249	409,545
Total Statement of Financial Position exposure	600,164	537,085
Off Statement of Financial Position Exposure – mortgage commitments	18,453	32,954
Total	618,617	570,039

Notes to the accounts (continued)

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:

	2023	2023	2022	2022
	£'000	%	£'000	%
Industry sector				
Banks	5,465	4.19	5,651	4.87
Central Bank	124,834	95.81	110,433	95.13
Total	130,299	100.00	116,084	100.00

	2023	AA	A	Other
	£'000	%	%	%
Geographic region				
United Kingdom	130,299	95.81	4.19	-

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

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

The derivative financial instruments are analysed in the table below:

	2023	AA	A	Other
	£'000	%	%	%
Geographic region				
United Kingdom	318,100	56.5	43.5	-

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

There are no impairment charges against any of the Society's treasury assets at 31 December 2023 (2022: £nil).

Notes to the accounts (continued)

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 Underwriting 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 62.

Loans and advances to customers are predominantly made up of £467.3m retail loans fully secured against UK residential property, which is split between primarily residential loans and buy-to-let loans. The remaining £1.1m 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	2023	2022
	%	%
East Anglia	3.53	3.45
East Midlands	5.62	5.59
Greater London	29.34	24.33
North	1.37	1.55
North West	4.99	5.31
South East	12.43	11.23
South West	10.04	9.85
Wales	2.04	2.40
West Midlands	26.48	32.00
Yorkshire and Humberside	4.16	4.29
	100.00	100.00

Notes to the accounts (continued)

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 weighted average LTV of mortgage loans is 57.80% (2022: 56.20%). 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 £96,053,000 are covered by mortgage indemnity guarantees which covers 10.38% of the outstanding credit exposure (2022: £166,189,000, 13.74%).

Further LTV information on the mortgage portfolio is shown below:

	2023	2022
	%	%
LTV analysis		
>0% - 50%	34.83	35.76
>50% - 60%	15.75	16.39
>60% - 70%	19.79	21.53
>70% - 80%	14.90	15.99
>80% - 90%	9.70	8.27
>90% +	5.03	2.06
	100.00	100.00
Weighted average loan to value of mortgage loans	57.80	56.20

Notes to the accounts (continued)

26. Financial instruments (continued)

The table below provides information on loans by payment due status and allowance for impairment:

	2023	2023	2022	2022
	£'000	%	£'000	%
Arrears analysis				
Not impaired:				
Neither past due or impaired	459,223	98.03	410,416	97.50
Past due up to 3 months but not impaired	7,229	1.54	9,369	2.22
Past due over 3 months but not impaired	553	0.12	732	0.17
Impaired:				
Not past due	-	-	-	-
Past due up to 3 months	754	0.16	95	0.02
Past due 3 to 6 months	-	-	352	0.09
Past due 6 to 12 months	706	0.15	-	-
Past due over 12 months	-	-	-	-
Possessions	-	-	-	-
	468,465	100.00	420,964	100.00
Allowance for Impairment				
Individual	(215)		(40)	
Collective	(1,486)		(1,310)	
	(1,701)		(1,350)	
Loans and advances to customers (net of impairment)	466,764		419,614	
	Indexed	Unindexed	Indexed	Unindexed
	£'000	£'000	£'000	£'000
Value of Collateral held:				
Neither past due or impaired	989,834	876,870	918,145	752,121
Past due but not impaired	19,994	15,566	22,834	16,915
Impaired	1,975	1,653	662	515
	1,011,803	894,089	941,641	769,551

Notes to the accounts (continued)

26. Financial instruments (continued)

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 2023 is £7,782,000 (2022: £10,101,000) against an outstanding debt of £7,782,000 (2022: £10,101,000). In addition, the value of collateral held against 'Impaired' assets at 31 December 2023 is £1,460,000 (2022: £447,000) against outstanding debt of £1,460,000 (2022: £447,000).

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.

In addition, the Society is a signatory to the Mortgage Charter, whereby customers are able to self-identify concerns about their ability to make mortgage payments, and are granted for up to 6 months an interest only concession.

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:

	2023	2022
	Number	Number
Type of Forbearance		
Interest only concessions at year end	10	7
Mortgage Charter concessions at year end	31	-
Total	41	7

In total £11,793,000 (2022: £764,000) of loans are subject to a forbearance arrangement. Individual impairment provisions of £34,000 (2022: £nil) are held in respect of these loans. In addition, a collective provision of £1,486,000 (2022: £1,308,000) 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 23.76% compared to 23.73% for 2022.

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 2023

	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	124,834	-	-	-	-	-	124,834
Loans and advances to credit institutions	5,465	-	-	-	-	-	5,465
Total liquid assets	130,299	-	-	-	-	-	130,299
Derivative financial instruments	-	75	1,462	4,079	-	-	5,616
Loans and advances to customers	-	2,821	6,641	51,063	405,425	(1,701)	464,249
Other assets	-	-	-	-	-	3,378	3,378
	130,299	2,896	8,103	55,142	405,425	1,677	603,542
Financial liabilities and reserves							
Shares	280,390	83,226	79,893	36,072	-	-	479,581
Amounts owed to credit institutions	5,778	6,000	10,000	40,000	-	-	61,778
Amounts owed to other customers	1,685	835	4,500	-	-	-	7,020
Derivative financial instruments	-	29	16	1,657	33	-	1,735
Other liabilities	-	-	-	-	-	1,967	1,967
Reserves	-	-	-	-	-	51,461	51,461
	287,853	90,090	94,409	77,729	33	53,428	603,542
Net Liquidity gap	(157,554)	(87,194)	(86,306)	(22,587)	405,392	(51,751)	-

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)	-

Notes to the accounts (continued)

26. Financial instruments (continued)

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

31 December 2023	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	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Financial liabilities and reserves						
Shares	279,983	83,312	82,288	39,544	-	485,127
Amounts owed to credit institutions	4,930	6,166	10,611	43,943	-	65,650
Amounts owed to other customers	1,685	835	4,775	-	-	7,295
Derivative financial instruments	-	1,355	5,927	8,892	12	16,186
Total financial liabilities	286,598	91,668	103,601	92,379	12	574,258

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	Total
	£'000	£'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

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.

Notes to the accounts (continued)

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:

	2023	2022
	£'000	£'000
Net interest income sensitivity		
Parallel increase of 2%	(524)	(513)
Parallel decrease of 2%	619	611

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 2023 £4,902,000 of collateral had been deposited by counterparties with the Society for derivative contracts (2022: £10,972,000).

The Society is not exposed to foreign currency risk.

27. Guarantees and financial commitments

	2023	2022
	£'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	17	42

Notes to the accounts (continued)

28. Related Party Transactions

During the year ended 31 December 2023 there were no related party transactions (2022: £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 2023 was £34,470 (2022: £31,251).

29. Country By Country Reporting

The Capital Requirements (Country-by-Country Reporting) Regulations 2013 introduced reporting obligations for institutions within the scope of the European Union's Capital Requirements Directive (CRD IV). 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 £13,785,000 (2022: £12,712,000), Profit before tax is £4,338,000, (2022: £4,811,000), and corporation tax paid was £1,131,000 (2022: £650,000). 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 2023 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 2023 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

	2023	Statutory limit
	%	%
Lending limit		
Proportion of business assets not in the form of loans fully secured on residential property	1.22	25
Funding limit		
Proportion of shares and borrowings not in the form of shares held by individuals	12.55	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

	2023	2022
	%	%
As a percentage of shares and borrowings:		
Gross capital	9.38	9.85
Free capital	9.32	9.74
Liquid assets	23.76	23.73
As a percentage of mean total assets:		
Profit after taxation	0.57	0.75
Management expenses	1.59	1.48

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. Capital

	2023	2022
	£'000	£'000
Tier 1 Capital		
General Reserves	51,461	48,178
Less: Intangible Assets	(169)	(129)
Total Tier 1 Capital	51,292	48,049
Tier 2 Capital		
Collective Provision	1,486	1,310
Total Tier 2 Capital	1,486	1,310
Total Regulatory Capital	52,778	49,359

Annual Business Statement (continued)

4. Information relating to Directors as at 31 December 2023

Directors

Name and Age	Appointment date	Occupation	Other directorships
J Y Bentley (Age: 54)	4 November 2022	Non-Executive Director	None
J D Cross (Age: 56)	28 April 2022	Non-Executive Director	Harrogate & District NHS Trust Harrogate Healthcare Facilities Management The Forget Me Not Children's Hospice Ltd The Grammar School at Leeds GSAL Transport Ltd Kirkby Overblow Educational Trust Roseville Court Management Ltd
A J Evetts (Age: 54)	1 September 2022	Building Society Risk & Compliance Director	Roseville Court Management Ltd
M Hrycyk (Age:67)	20 November 2017	Non-Executive Director	Rooftop Housing Association Ltd HMG Birmingham City Council Commissioner
B M Moore (Age:61)	1 February 2020	Non-Executive Director	Benenden Healthcare LGPS Central Moat Housing
R J Newton (Age:53)	1 July 2011	Building Society Chief Executive	None
K A Rolfe (Age:62)	1 June 2015	Non-Executive Director	None
A J Shand (Age:55)	14 June 2021	Building Society Finance Director	None
S J Veitch (Age:50)	28 June 2018	Non-Executive Director	Roundwood Park Trust Ltd Perenna Bank Ltd LHV UK Bank Ltd Settle Group H&T PLC

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 (FSCS)	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.
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.

Glossary (continued)

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.
Mortgage Charter	The Mortgage Charter is a code introduced by HM Treasury in response to the recent economic challenges. Those lenders which are signed up to the Mortgage Charter have agreed that any of their customers who are worried about their mortgage repayments can contact them for help and guidance, without any impact on their credit file.
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)



We monitor and record phone calls for your security and training purposes.

Tipton & Coseley Building Society are authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. The Society's Firm Reference Number is 159601. The Society is a member of the Building Societies Association.

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