Market Harborough
BUILDING SOCIETY

Annual report and accounts

2023

together we *thrive!*

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CHAIR'S WELCOME

I'm delighted to introduce to you the Annual Report and Accounts for 2023, my first as Chair of the Society.

Last year was another year of turbulence and challenge for our members and colleagues alike. However, our purpose of helping those with complex needs secure a mortgage, offering a safe place for our members' savings, and supporting those most in need in our communities remains as relevant today as it was when the Society was established more than150 years ago.

I'm pleased to report that this clear focus, combined with the tremendous efforts of our colleagues, led to the Society delivering a very strong performance for all its stakeholders.

Though the Society achieved an exceptionally strong financial performance in 2023, maximising profit is not in itself an objective. Our aim over the long term is to optimise the delivery of benefits to members and the communities they live in, whilst generating sufficient profit to keep the Society secure, maintain our capacity to grow the business and invest for the future. You can read about how we've supported our members, colleagues and communities to thrive in Iain Kirkpatrick's CEO's Highlights.

OUR BOARD & LEADERSHIP

I was delighted to join the Board as Chair in October last year and would like to thank my fellow Board members, the Executive team and all of our colleagues for their very warm welcome. I'm excited to join one of the fastest growing Societies and I'm very much looking forward to what's to come during the next phase of our journey.

I'd like to take this opportunity to thank Michael Thomas for his commitment to the Society since joining the Board in 2013 and serving as the Society's Chair since 2020. Michael has done an excellent job in stewarding the Society through the worst of the Covid-19 pandemic and we have emerged as still one of the most well capitalised building societies in the UK. I'd also like to thank him for agreeing to stay on as Chair for a short period in order to provide me with a transition period - so thank you Michael, we wish you well on future endeavours.

We have taken the decision this year to have all of our Directors stand for re-election. This brings us in line with many of our building society peers and I encourage you to read about the Directors who would all welcome your support so they can continue to represent your interests on the Society's Board.

As a Board we continue to provide oversight of the Society's strategy and plans, which have had to adapt in the light of a changing economic landscape. The Board gave its full support to the review of the Society's strategic blueprint, led by Iain Kirkpatrick, which he will share more details of in his CEO's highlights.

LOOKING AHEAD

Ongoing pressures on household budgets caused by persistently high levels of inflation and the current interest rate environment, as well as much stronger competition in the mortgage and savings markets will all be factors for us to contend with in 2024.

In recent years the Society has demonstrated its financial strength and resilience, and whilst there are signs the economic environment will continue to be challenging, we face into these challenges with the backing of a strong financial position, dedicated colleagues and a clear purpose and direction of travel for the future.

We will continue to prudently and responsibly support our members through these challenging times, whilst continuing to invest for the future.

THANK YOU

I would like to thank our colleagues and congratulate them on what they have achieved throughout the last 12 months. Through their support of members, intermediary partners, local communities, as well as each other, they have contributed to what has been a very successful year for the Society.

Finally and most importantly I would like to offer my thanks to you, our members, for your ongoing loyalty and support throughout 2023 and beyond.

Lesley Titcomb Chair (22/03/2024)

CHIEF EXECUTIVE OFFICER'S HIGHLIGHTS

Iain Kirkpatrick

2023 marked my first full year at the Society and I couldn't be prouder of all we have achieved.

Last year saw further volatility in the economy and political turmoil both at home and globally. The cost of living crisis extended into another year, the impact of higher interest rates to combat rapidly advancing inflation continued to make mortgages more expensive, and instability in the US financial system in the early part of the year reverberated around the world. Despite these concerns we have managed the business carefully to be in an even better position to help our members and our communities continue to deal with the uncertainty we all face. We've delivered an excellent business performance, with records broken and milestones achieved.

As always, central to our success have been our members and colleagues and I would like to offer them my sincere thanks for their continued support and commitment. We will remain focused on supporting our members to ensure the Society remains successful and sustainable for the long term.

A RELEVANT & SUSTAINABLE SOCIETY

Early in 2023 we made a conscious decision to reduce our mortgage lending in the standard residential markets where competition was fierce, and to double down on our focus to help borrowers with more complex needs.

INCREASE MORTGAGE BOOK BY JUST UNDER £100m

This enabled us to surpass the previous year's lending, growing our mortgage book by just under £100m. As a result we have also seen another year of strong growth for our short term bridging solutions and holiday let mortgages.

As a mutual we are acutely aware of our commitment to our borrowers, particularly when times are tough. We were able to protect borrowers by increasing our standard variable rate by just 1.1%. We've also continued to work with those borrowers at risk of financial difficulty by offering them tailored support and guidance as needed. I'm pleased to say that overall, arrears did not move significantly in 2023 and no repossessions were made.

After a decade of low interest rates our savers continued to benefit from rising rates through 2023. By continuing to offer a competitive savings product range we saw record inflows of £129m into the Society, significantly exceeding the previous record set the year before of £92m. Our fixed rate savings and notice products were particularly popular with savers, appealing to new and existing savers alike, and we attracted 4,500 new savers during the year. We have rewarded our existing savers as much as we can and in 2023 we increased the average rate paid to savers by 1.17%.

Our ability to attract new savers was helped by ongoing investment in our online functionality and capability, and this remains a key focus for us to ensure our services are simple and quicker to use. Whilst online savings have played a large part in our savings growth, branch accounts continue to be popular, accounting for almost a third of new account openings in the year. We know our members value access to face to face support, especially for more complex queries, and we remain committed to our branches.

OUR PROFIT BEFORE TAX £4.3m

We were delighted to report that our profit before tax was £4.3m. This is slightly lower than in 2022 as we sought to balance the needs of savers and borrowers, increasing the average interest rate paid to savers by more than the increase in our standard variable mortgage rate.

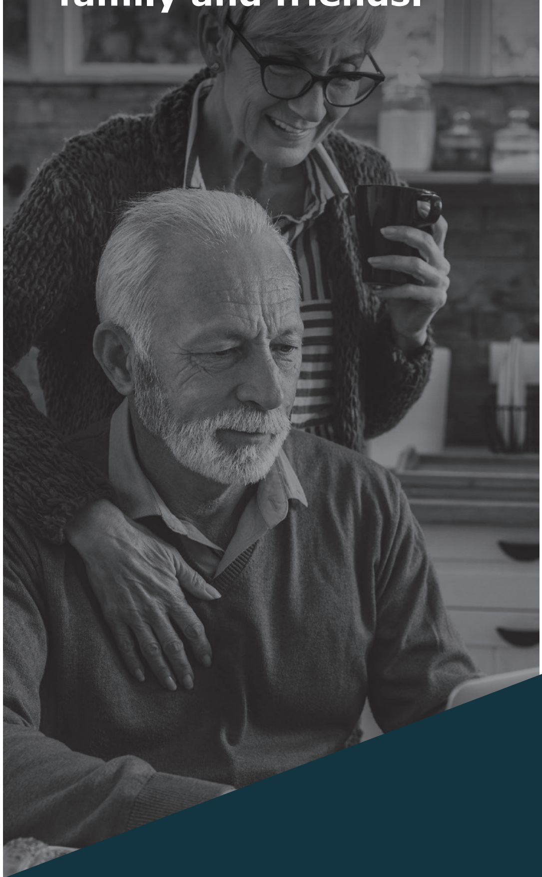
"Our fixed rate savings and notice products were particularly popular with savers, appealing to new and existing savers alike, and we attracted 4,500 new savers during the year."

SUPPORTING OUR CUSTOMERS, COLLEAGUES & COMMUNITIES TO THRIVE

We welcomed new regulation in the form of the Consumer Duty in 2023. Colleagues from across the Society have invested a significant amount of time reviewing and improving our communications, products and services, processes, and the way we measure and collect feedback on the customer experience, so that we not only meet the regulations but go beyond them in our treatment of our members. The newly introduced Customer Forum will ensure we continue to put members and their needs at the heart of everything we do.

Our savings customer satisfaction scores continue to be excellent and more than 80% of members would recommend us to family and friends. Mortgage intermediaries play a critical role in the successful delivery of our lending business and we were proud to receive a Feefo Platinum Trusted Service Award earlier this year, an independent seal of excellence which recognises businesses that consistently deliver a world-class customer experience.

"Our savings customer satisfaction scores continue to be excellent and more than 80% of members would recommend us to family and friends."



WE ARE COMMITED TO INVESTMENT IN TRAINING

We know that great service comes from skilled and committed colleagues and our most recent engagement survey confirms our people are proud to work for MHBS and would recommend the Society as a great place to work. We are committed to investment in training, development and succession planning so that we attract and retain the best people and allow them to fulfil their true potential.

In 2024 our colleagues will move to a new head office building where they will benefit from a state of the art, modern work space designed to encourage collaborative team working, whilst also supporting their health and wellbeing

We will be upgrading the office space with sustainability at the heart, re-purposing as much of what is already on site as possible in order to minimise wastage. All the works will be undertaken by local contractors, with the key project team all based within 15 miles of Market Harborough. The new building also offers us the ability to share the benefits with local community groups, clubs and societies by making space available to them to host meetings or other events. Whilst we are moving head office, our Welland House branch will remain in the Square in Market Harborough serving members as it does today.

Supporting our communities and the local causes our members care about is key to our identity as a mutual. In 2023 we continued to build on our Thrive! Agenda – our commitment to supporting our communities to thrive.

together we
thrive!

We continued our enthusiastic support for our local causes including donations of £100,000 to ensure people in our communities did not go hungry or lonely in the run up to Christmas, giving £15,000 to a local housing charity in collaboration with two other local societies, and directing £50,000 to our Charitable Foundation so they could continue their great work funding smaller programmes in our communities. We supported our Charity of the Year, Cransley Hospice Trust, via donations on behalf of every person who voted for them at the Annual General Meeting, by making a contribution from the easy access 'Save and Support' account, as well donating money raised from fundraising events.

Our colleagues gave over 1,500 hours of their time volunteering with worthwhile causes including food banks, local litter picks, community centres, schools and sports clubs. We were also proud sponsors of the 2023 Voluntary Action Leicestershire Awards to recognise the work of volunteers, charities and community groups, and to forge more meaningful and far-reaching connections with more local causes we can support and partner with.

£15,000 DONATION TO A LOCAL HOUSING CHARITY

£50,000 TO OUR CHARITABLE FOUNDATION

1500 HOURS VOLUNTEERING

INVESTING £2m IN HOUSING FOR FAMILIES IN NEED

With your support in 2022 we set a target to invest £2m over 2 years to provide housing for local people in need. I'm pleased to say we purchased a further 4 new properties in Market Harborough in 2023 to provide homes for families in need. We completed on the purchase in December and the homes will be allocated on an affordable rent basis to those most in need in our community in the coming months.

I'm pleased to say we continue to have the full commitment of the Board to continue to invest in good causes and groups in our communities in a sustainable way.

A PURPOSE WORTH FIGHTING FOR

Towards the end of last year the Executive team and I reflected on our purpose as a Society. The world isn't just changing; since we were founded back in 1870 it has transformed, and so our purpose has evolved too. We have developed a new strategic blueprint which we will use to focus our energy, drive decision making, and underpin our culture. It sets out our purpose, our priorities and the behaviours we need to build for the future.

OUR NEW PURPOSE IS: **FIGHTING TOGETHER FOR OUR CUSTOMERS AND COMMUNITIES TO THRIVE.**

This is our roadmap to a better society, with a real focus on creating lasting change. It shows our intention and commitment to support our members, our colleagues and our communities to thrive, to live the full and positive lives they deserve.

What's in it for our customers? We'll continue to invest in providing new ways to save, new mortgage products, and in the service we provide. We want to be there for our customers when you really need us.

What's in for our communities? We'll continue to invest in our communities with a particular focus on helping people to have a place to call home, whilst also helping them towards greater financial wellbeing. Our colleagues will continue to support local charities through volunteering, we'll extend our financial education programmes, and we'll continue to reduce our impact on the environment.

What's in it for colleagues? We're striving to become an employer of choice in our region, who champions diversity and embraces everyone. With our continued commitment to modern, flexible ways of working, we'll create the kind of workplace where we all have everything we need to do our best and be our best. It's a bold ambition and we've made some great progress over the last year across a range of new initiatives – but it's just the beginning of what we think we can do by connecting members, communities and colleagues for the greater good.

Outlook: facing challenges together As a mutual we always keep the needs of our members and their communities at the heart of our business. Our strong performance during 2023 means we are in a very good financial position to face into what could be a turbulent economic headwind. We will continue to support our members through the ongoing cost of living challenges whilst also balancing the various needs of our savers and borrowers. As always I am grateful to you our members and each one of our dedicated colleagues for your continued trust and confidence in our Society. We look forward to the coming years with a renewed sense of focus guided by a clear and impactful purpose.

Iain Kirkpatrick, Chief Executive (22/03/24)

Corporate Governance Report

The Board is responsible for the governance of the Society on behalf of the members. The Board is committed to best practice in corporate governance. A revised Corporate Governance Code was issued in 2018 by the Financial Reporting Council (FRC), which came into effect for all reporting periods starting on or after 1 January 2019. Although not directly applicable to mutual organisations, the Group has regard to the principles of the 2018 UK Corporate Governance Code (CGC) as they apply to a building society. How the Society believes it meets those principles are listed below. On 22 January 2024, the FRC issued a revised UK CGC effective from 1 January 2024, apart from the updated provision on the monitoring and review of risk management and internal control framework, which are effective from 1 January 2026. The Codes are on www.frc.org.uk.

BOARD LEADERSHIP AND COMPANY PURPOSE

A. A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.

The Board's role is to focus on strategic decisions within a framework of prudent and effective controls, which enable risk to be assessed and managed. The Board has a general duty to take decisions objectively in the interests of the Society and to ensure that the Society operates within its Rules and Memorandum, regulations and guidance issued by relevant regulatory authorities and all relevant legislation. In addition, it ensures that appropriate systems of control, human resources and risk management are in place to safeguard Members' interests.

The Board typically meets six times a year and holds further meetings as and when required. The Board met on six occasions during 2023 to attend to normal governance matters. At least once a year, the non-executive directors meet without the executive directors present.

A schedule of retained powers and those delegated by the Board is maintained. The day to day running of the Society is delegated to members of the senior management team and management committees.

Senior Independent Director, Jonathan Fox, whose role is to attend to any matters requiring to be dealt with independently from the Chair and Chief Executive, has been with the Society since 2015.

To ensure the long-term sustainable success of the Society the Board approves the corporate plan, which includes appropriate funding plans, sets limits on delegated expenditure, and monitors the risk profile of the organisation and its capital position. The Board also has responsibility for the overall structure of the organisation, including the appointment and dismissal of directors. The Board approves major business developments as well as changes in key risk policies.

The Board looks to identify and manage any conflicts of interest which may arise through a declarations of interest schedule which is maintained by the Chief Risk Officer. Directors are required to seek the consent of the Board in advance of accepting any external directorship appointment. Should a conflict of interest arise a Director will recuse himself/herself from the matter to be considered by the Board.

B. The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.

As a mutual financial institution, the Society has maintained the core values of a building society, providing value-based products to enable Members' savings to fund home ownership. The Society's ethos is to place Members at the heart of strategic and tactical decision-making processes. Commitment to our Members is manifested in the culture of the Society which, in turn is underpinned by strong corporate governance.

The Board believes in having a continuous focus on culture and values and ensures that the tone they set is reflected in the actions and behaviours of staff. Culture is monitored by the Board through the review of a culture dashboard which seeks to capture the Society's cultural aspirations, how the Society influences these cultural aspirations, how the Society measures its success in achieving these cultural aspirations and how the behaviours and beliefs of the Society underpin performance. The Society has also developed a behavioural toolkit for staff to embed the values of the Society in all staff behaviour.

C. The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.

The Society's governance structure is underpinned by five Board Committees, covering the areas of Audit and Compliance, Risk, Assets and Liabilities, Nominations and Remuneration. The Terms of Reference for each of the Board Committees can be found on the Society's website; www.mhbs.co.uk. Each business area reports progress against the Society's objectives and key risks to the relevant committee, and this is subsequently reported to the Board. The management information presented at each committee includes a dashboard of key performance and risk indicators which are aligned to the Board's risk appetite.

The Board committees are described in more detail below:

Audit and Compliance Committee

The Audit and Compliance Committee meets at least four times a year and is chaired by Andrew Merrick, its other members being Zoe Shapiro, David Stunell and Nala Worsfold. All members of the Committee have experience that is relevant to the role, with at least one member being required to have recent and relevant financial experience. All are non-executive directors.

Corporate Governance Report (continued)

BOARD LEADERSHIP AND COMPANY PURPOSE (CONTINUED)

The main function of the Committee is to assist the Board in fulfilling its oversight responsibilities. It deals with matters relating to internal and external audit, accounting policies and procedures, and compliance with regulatory requirements. For further information regarding the work and activities of the Committee and how it discharged its responsibilities refer to the Audit and Compliance Committee Report.

Risk Committee

The Risk Committee meets at least four times each year. The Committee is chaired by Zoe Shapiro; other members being Lindsay Forster, Jonathan Fox, Andrew Merrick, Nala Worsfold and Michael Thomas (until 30 September 2023); all of whom are non-executive directors. It is responsible for identifying and monitoring risks to the Society's strategy, operations and performance. Its key responsibilities are:

- Development and monitoring of the Risk Framework;
- Monitoring risks to the Society and agreeing the key risks;
- Monitoring credit risk in the lending book;
- Monitoring capital adequacy;
- Monitoring operational risk including cyber risk and conduct risk; and
- Development and monitoring of stress tests.

Assets and Liabilities Committee

The Assets and Liabilities Committee (ALCO) meets at least four times each year and is responsible for the management and composition of the Society's balance sheet, monitoring the Society's exposure to interest rate variations and monitoring compliance with the Society's liquidity and funding, counterparty and interest rate risk management policies. It recommends, as appropriate, changes to these policies. The Committee is chaired by David Stunell and members included: Nicholas Fielden, Michelle Pledger, Iain Kirkpatrick, Michael Thomas (up to 30th September 2023), and Nala Worsfold. All are directors of the Society, with the exception of Michelle Pledger, and three are non-executive directors.

Nominations Committee

The Nominations Committee is chaired by Lesley Titcomb (previously Michael Thomas until 30 September 2023), its other members being Jonathan Fox and Zoe Shapiro. The Committee meets at least annually to review succession planning, and also, whenever a Director vacancy is expected, to make recommendations for appointments to the Board. Board succession planning ensures that the correct mix of skills is represented on the Board and its Committees. The Board is mindful of the need for diversity, including gender, race and ethnicity. In 2016 the Board agreed a target of at least one third of the Board to be made up of the under-represented gender, whilst recruiting the best candidate for the role.

In sourcing suitable candidates for consideration, the Committee uses one or more of the following methods:

- Open advertising;
- The services of a search and selection agency; and
- Advertising to the Society's membership.

The appointment of Directors is based on objective skills based criteria as well as the ability to meet the requirements of the PRA's approved person's regime and the assurance that candidates can commit the time required to fulfil the role effectively.

Further information about the Committee, including its responsibilities and activities, can be found in the Nominations Committee Report.

Remuneration Committee

The Committee meets at least twice each year and is responsible for determining the remuneration of the Chair, executive directors and other senior managers, and for making recommendations to the Board on remuneration for staff and non-executive directors. It consists of at least two non-executive directors, its current membership is: Jonathan Fox (Chair), Lindsay Forster and David Stunell. The remuneration policies for executive and non-executive directors are set out in the Directors' Remuneration Report.

Corporate Governance Report (continued)

BOARD LEADERSHIP AND COMPANY PURPOSE (CONTINUED)

D. In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.

The Society's members are all customers of the Society and engagement with them is undertaken in various ways, including face-to-face at the annual general meeting and via social media, regular communications and mainstream media.

The Society remains keen to learn its members' views so that it can continually improve. It provides a number of ways and opportunities to give their feedback. A dedicated email address (asktheboard@mhbs.co.uk) is promoted on the Society's website, inviting members to engage with the Board. Each enquiry receives a response and questions and answers are shared on the Society's website. The Society surveys a selection of its members on a regular basis through its customer satisfaction survey to provide input into the services and products it offers, the results of which are shared in Board meetings. Members of the Board continue to visit branches to engage with Society colleagues and meet with members as part of their role. The Society also encourages its members to attend its annual general meeting where they are able to ask questions and voice their opinions.

As part of the documentation issued ahead of the annual general meeting of members, the Society produces a members' magazine called 'Your Society' which provides news about the Society as well as information on its products and services. In addition the Society also provides a copy of its summary financial statement which provides a condensed version of information contained within the Annual Report and Accounts.

The Board believes that the annual general meeting and other communications with its members provides the opportunity for members to give feedback to the Society on any aspect of its activities.

Workforce engagement is facilitated by the executive team who hold regular staff briefings (both online and face-to-face) and at least once a year an all colleague meeting where the Society's strategic direction and objectives are communicated to colleagues. Additionally, a colleague represented engagement team seek feedback from employees and communicates this to the executive team and Senior Independent Director.

The Society is actively engaged with local communities and in 2023 supported local community good causes with donations of more than £50,000. Society employees are encouraged to volunteer with local organisations.

We have a transparent and open relationship with our regulators and have regular dialogue with them, both directly, and through our industry bodies. We monitor regulatory publications both from the regulators and wider stakeholder groups and act as required.

E. The board should ensure workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.

The Board engages with the Society's colleagues through employee surveys and non-executive director visits to Branches and Departments. A colleague engagement team has also been established to facilitate employee discussion, in the absence of management, on matters of importance to them and these may be escalated to the Society's Senior Management Team for consideration. The Society's Senior Independent Director is also available for colleagues to raise matters that may need to be considered independently from the Chair or Chief Executive and to whom whistleblowing reports may be made in accordance with the Society's 'Speak Up' policy. The Society's Senior Independent Director formally meets with the staff engagement team and reports back to the Board, or follows up issues raised in confidence, as appropriate.

The Board believes that these mechanisms fulfil the spirit of the Code in relation to colleague engagement.

The Board ensures that the Society invests in and rewards its workforce through ongoing training, both internally and externally, benchmarks all salaries annually and offers a range of benefits. Incentive schemes are also in place to reward high performing individuals.

DIVISION OF RESPONSIBILITIES

F. The chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information.

The Chair sets the direction of the Board and promotes a culture of openness and debate by facilitating the effective contribution of non-executive directors and maintaining constructive relations between executive and non-executive directors. The Chair also ensures that the directors receive accurate, timely and clear information. This information is provided by executive directors and senior management, who are available to the Board to provide clarification and amplification where necessary. One of the independent non-executive directors is appointed as the Senior Independent Director, to provide a sounding board for the Chair and to serve as an intermediary for the other directors as necessary.

The Society's Chair, Lesley Titcomb, was appointed in October 2023 following a rigorous selection exercise. The Senior Independent Director has responsibility for leading the appraisal of the Chair's performance.

G. The board should include an appropriate combination of executive and non-executive (and, in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the board's decision making. There should be a clear division of responsibilities between the leadership of the board and the executive leadership of the company's business.

Corporate Governance Report (continued)

DIVISION OF RESPONSIBILITIES (CONTINUED)

During the year the Board consisted of seven non-executive directors and three executive directors. The size and composition of the Board is kept under review to ensure an appropriate balance of skills and experience for the requirements of the business. The Chair conducts a thorough review of all non-executive directors to assess their independence and their contribution to the Board. The Chair confirms that all non-executive directors continue to be effective and independent in character and collectively bring to the Society a wide range of valuable expertise. In addition, all non-executive directors are free of any relationships or circumstances that might materially interfere with their judgement.

The 'Strengthening Accountability in Banking: a regulatory framework for individuals' regime, effective from 7 March 2016, introduced a responsibilities framework where specific Senior Management Functions and Prescribed Responsibilities are allocated to individuals. The Board is content that the allocation of Senior Management Functions and Prescribed Responsibilities between the Directors and Senior Management is appropriate and meets the requirements of the regime.

The offices of Chair and Chief Executive are distinct with the Chair responsible for leading the Board and the Chief Executive responsible for managing the Society's business within the strategic framework set by the Board.

Throughout the year the Board determined that all the non-executive directors remained independent. The Board is content that any conflicts of interest which may arise can be appropriately managed. Following an assessment led by the Senior Independent Director, the Chair is also confirmed as being effective and independent in character and judgement. The assessment of independence takes account of the period of time that the Chair has served on the Board.

H. Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.

Directors are informed of the time commitment in their letter of appointment. The Nominations Committee evaluates the ability of Directors to commit the time required for their role prior to appointment. The formal appraisal process carried out by the Chair each year also assesses whether Directors have demonstrated this ability during the year. The attendance record during the year of Directors at Board and Committee meetings is set out on page 13.

The non-executive directors are responsible for bringing independent judgement to the monitoring of performance and resources and for developing, scrutinising and providing effective challenge to the Board's discussions on strategic proposals, whilst supporting executive management. Their role requires an understanding of the risks in the business and the provision of leadership within a framework of prudent and effective risk management controls. The non-executive directors meet without the executives present on a regular basis.

The Board has two strategy days during which the Board's strategic debates throughout the year are consolidated in order to develop the strategic plans. Following these sessions, the executive directors produce a three-year corporate plan which the Board scrutinise and approve, offering constructive challenge to ensure the Society has a robust and sustainable strategy for the long-term interests of the Society and its members.

I. The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.

The Chair ensures that the Board receives sufficient information to enable it to discharge its responsibilities. The Board has access to the Board-approved policies, Board manual, Committee packs, minutes and other relevant information. The Society continuously improves management information to assist the Board and its Committees in discharging their terms of reference, and each committee annually reviews its effectiveness, including the quality and sufficiency of this information. All Directors have access to the advice of the Society Secretary and, if necessary, are able to take independent professional advice at the expense of the Society.

On appointment, the Society requires non-executive directors to attend in-house induction training which includes sessions on Liquidity Risk, Capital Risk, Credit and Interest Rate Risk and Conduct Risk. There are also sessions to support non-executive director knowledge and development, e.g. IT Infrastructure and Security, if required. Additionally, new directors are expected to attend relevant training provided by the Building Societies Association, which covers building society business, Directors' responsibilities and the regulatory environment. Presentations to the Board by senior management and external courses provide opportunities for non-executive directors to update their skills and knowledge base. The Chair ensures that non-executive directors continually update their skills and knowledge to fulfil their role on the Board and any committees. Training and development needs are identified and individual director performance and effectiveness is evaluated as part of the annual appraisal of the Board. These needs are usually met by internal briefings and via attendance at industry seminars and conferences.

The Chair conducts assessments of all directors individually, reviewing their performance, contribution and commitment to the role. The Chair is able to confirm that the performance of all Board members continues to be effective and all members are committed to providing sufficient time for Board and Committee meetings and any other necessary duties. Following a formal appraisal of the Chair led by the Senior Independent Director, the Board can confirm that the performance of the Chair is effective and that he/she devotes sufficient time for Board and Committee meetings and any other necessary duties. The position of Chair was held by Michael Thomas until 30 September 2023, when Lesley Titcomb was appointed by the Board as his successor.

Corporate Governance Report (continued)

COMPOSITION, SUCCESSION AND EVALUATION

J. Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for board and senior management. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.

The Nominations Committee leads the process for Board appointments and makes recommendations to the Board. The Committee comprises the Chair and at least one further non-executive director. The Committee evaluates the plans for orderly succession aimed at ensuring an appropriate balance of skills, diversity and experience on the Board. In light of this evaluation, the process for making an appointment starts with a description of the role and capabilities for a particular appointment being prepared. The Nominations Committee has a rigorous procedure for the appointment of new non-executive directors to the Board. This procedure ensures appointments to the Board are based on merit and normally includes the use of independent recruitment consultants. Most recently the Society has engaged the services of Odgers Berndtson and Warren Partners which have no other connection with the Society.

The terms and conditions of appointment of non-executive directors may be obtained by writing to the Society Secretary at the Society's Head Office.

K. The board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed.

The Board currently comprises the Chair, six independent non-executive directors and three executive directors, who together provide a balance of skills and experience appropriate for the requirements of the business. Committee membership is reviewed annually to ensure there is appropriate expertise in each Committee to discharge its terms of reference.

The Society complies with the PRA and FCA (the Regulators) Strengthening Accountability in Banking Regime and all Directors are required to be either; registered with the Regulators as Approved Persons in order to fulfil their Senior Management Function(s) and Prescribed Responsibilities as Directors, or have been Notified to the Regulators as holding the position of non-executive director. In addition all Directors must meet the tests of fitness and propriety laid down by the Regulator. They are also subject to election by Members at the annual general meeting following their appointment.

The Chair is appointed to the position annually by the Board from among the existing non-executive directors. This practice is supported by the Regulators.

Non-executive directors will not usually serve more than nine years. The Code also recommends that a Chair should not remain in post beyond nine years from the date of their first appointment to the Board. Although, it does recognise that to facilitate effective succession planning this period can be extended for a limited time, particularly in those cases where the Chair was an existing non-executive director on appointment. The Society's Chair for the majority of 2023, Michael Thomas, had served on the Society's board for more than nine years following his appointment as non-executive director in July 2013 and as Chair in July 2020. In 2022 the Board agreed to extend his tenure for a limited time to allow effective succession and he was succeeded by Lesley Titcomb, who became the Society's Chair on the 1st October 2023. All other non-executive directors have served less than nine years.

L. Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.

The Board and each Committee reviewed its own effectiveness in 2023 by means of a self-assessment questionnaire. The results of the Board Committee assessments are in turn reviewed by the Board. The Board is mindful of the Code requirement for FTSE 350 companies to conduct an external evaluation every three years and whilst this requirement would not apply to the Society, the Board considers annually whether such an evaluation would be beneficial and will be undertaking one during 2024. As part of the internal audit service provided by Deloitte, their representative attends at least one Board meeting and one of each Audit, Risk, Assets & Liabilities Committee meetings annually. Deloitte provide feedback on the performance of the Board and Committees.

The Audit and Compliance Committee considers the adequacy of internal controls. It also reviews both internal and external audit reports, assesses the effectiveness of the internal and external auditors and agrees the annual internal audit plan. The Committee also has responsibility for ensuring effective whistleblowing arrangements are in place, which enables any concerns to be raised by employees in confidence.

Corporate Governance Report (continued)

AUDIT, RISK AND INTERNAL CONTROL

M. The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.

The membership of the Society's Audit and Compliance Committee comprises not less than three non-executive directors with at least one member of the ALCO, one member of the Risk Committee and one member who must have recent and relevant financial experience. The Board is satisfied that at least one member of the Committee has recent and relevant financial experience and that the Committee as a whole has competence relevant to the sector within which the Society operates.

The Audit and Compliance Committee meets four times a year. In addition to non-executive directors, the meetings are also attended by representatives from the Society's internal and external auditors, its executive directors and other members of senior management by invitation as appropriate. At least annually, external auditors meet with the Committee Chair and with the Committee in the absence of any executive directors.

Minutes of the Audit and Compliance Committee's meetings are distributed to all Board members and the Chair of the Committee reports to the Board at each regular meeting of the Board following a meeting of the Committee.

The Internal Audit function is outsourced to Deloitte LLP under specific terms of reference and provides independent and objective assurance that these processes are adequate and applied effectively. A copy of the Internal Audit Charter is available to members from the Society's Secretary upon request and from the Society's website www.mhbs.co.uk.

The external auditors may provide non-audit services on a consultancy basis to the Society. The extent and cost of the work is reported to the Audit and Compliance Committee for approval in advance of any such engagement. The Revised Ethical Standard 2016 introduced restrictions around the provision of non-audit services, including tax services. The Society has ensured compliance with these regulations. The Society is of the opinion that auditor objectivity and independence is not challenged by provision of services allowable under the Revised Ethical Standard.

N. The board should present a fair, balanced and understandable assessment of the company's position and prospects.

The Board believes that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the necessary information for Members to assess performance, strategy and the business model of the Society. The responsibilities of the Directors in relation to the preparation of the Society's accounts are contained in the Statement of Directors' Responsibilities on page 30. The Audit and Compliance Committee Report describes the main areas of accounting judgement exercised.

O. The Board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.

There is an established risk management framework which identifies, evaluates and manages significant risks faced by the Society. The Board has ultimate responsibility for ensuring the effectiveness of the Society's systems of risk management and internal control and, following robust assessments of the principal risks by the Risk Committee, it is satisfied that the Society's systems are effective and meet the requirements of the Code.

The responsibility for implementing, operating and monitoring systems of risk management and internal control has been delegated by the Board to senior management. The Audit and Compliance Committee and the Risk Committee, on behalf of the Board, are responsible for reviewing the adequacy of these processes. The system of internal control is designed to allow the Society to achieve its strategic objectives within a managed risk profile. However, no system of internal control can completely eradicate risk. As such, the internal control system can only provide reasonable and not absolute assurance against material misstatement or loss.

REMUNERATION

The remuneration policies for executive and non-executive directors are set out in the Directors' Remuneration Report. These policies explain the Society's application of the Code Principles.

SUBSIDIARY COMPANY

The Society has one subsidiary company, Market Harborough Mortgages Ltd, which is managed by a separate Board of Directors comprising Lesley Titcomb (Chair), Iain Kirkpatrick and Nicholas Fielden. The Company became dormant on 1 January 2016.

Corporate Governance Report (continued)

CONSTRUCTIVE USE OF THE ANNUAL GENERAL MEETING

Each year notice of the annual general meeting is given to all members who are eligible to vote. Members are sent voting forms and are encouraged to vote online, by post, or by person or proxy at the annual general meeting.

All postal and proxy votes are counted using independent scrutineers.

All members of the Board are present at the annual general meeting each year (unless, exceptionally, their absence is unavoidable) and the Chairs of the Assets and Liabilities Committee, Audit and Compliance, Nominations, Risk and Remuneration Committees are therefore available to answer questions.

The Notice of the annual general meeting and related papers are sent at least 21 days before the meeting in accordance with the Building Societies Act 1986.

During 2021 and 2022, AGM meetings were held virtually, owing to a desire to protect the health and well-being of members during the height of the coronavirus pandemic. However, the event returned to being in-person in 2023.

DIRECTORS' ATTENDANCE RECORD

Attendance at Board and Committee meetings during the year was as follows:

Board Member	Board	Audit & Compliance	Risk	Assets & Liabilities	Nominations	Remuneration
Lesley Titcomb (Chair)	1 (1) (Ch)			-		
Michael Thomas (Chair)	6 (6)	1*	3 (4)	4 (4)	3 (3) Ch	-
Andrew Merrick (Vice Chair)	5 (6)	5 (5) Ch	4 (4)	-	-	-
Jonathan Fox (SID)	6 (6)	-	4 (4)	-	3 (3)	4 (4) Ch
Lindsay Forster	6 (6)	-	4 (4)	-	-	2 (4)
Zoe Shapiro	4 (6)	3 (5)	4 (4) Ch	-	3 (3)	-
David Stunell	6 (6)	4 (5)	1*	4 (4) Ch	-	4 (4)
Nala Worsfold	6 (6)	5 (5)	3 (4)	4 (4)	-	-
Nicholas Fielden	6 (6)	5*	3*	4 (4)	-	-
Iain Kirkpatrick	6 (6)	5*	3*	4 (4)	3*	3*
Anniemarie Cossar	6 (6)	3*	3*	2*	-	-

Ch - denotes Chair at 31 December 2023.

( ) = number of meetings eligible to attend. Attendance by invitation is marked with *
[1] Lesley Titcomb succeeded Michael Thomas from 1 October 2023.

Proceedings of all Committees are formally minuted and minutes are subsequently considered by the full Board.

All of the Committees carried out self-evaluation exercises during the year, which were reviewed by the full Board. The Board also carried out its own self-evaluation.

On behalf of the Board of Directors,

Lesley Titcomb

Chair

22 March 2024

Nominations Committee Report

This report explains how the Society applies the principles of the UK Corporate Governance Code July 2018 (the Code) relating to the operation of the Nominations Committee. The report details how the Committee discharged its responsibilities in line with the provisions of the July 2018 version of the Financial Reporting Council's guidance on 'Composition, Succession and Evaluation'.

NOMINATIONS COMMITTEE

The Nominations Committee is responsible for making recommendations to the Board for the appointment of Directors, ensuring that plans are in place for orderly succession to both the Board and senior management positions, and overseeing the development of a diverse pipeline for succession.

The Nominations Committee were involved in the appointment of its current chair, Lesley Titcomb, who replaced the retiring chair Michael Thomas in October 2023, other members during 2023 comprised Jonathan Fox and Zoe Shapiro.

FREQUENCY

The Committee meets at least annually to review succession planning and also, whenever a Director vacancy is expected, to make recommendations for appointments to the Board. One of the main aims of the Board succession planning is to ensure that the correct mix of skills is represented on the Board and its Committees.

DIVERSITY AND INCLUSION (DIVERSITY PIPELINE)

The Society continues to pursue a strategy of creating an inclusive environment where all colleagues can contribute and succeed. The Board believes investing in this culture is fundamental in ensuring it achieves its objectives.

The Nominations Committee has reviewed the diversity of the Board, senior management and Society colleagues, and has set targets in order to improve or maintain diversity in line with the expanded definition within the Code. The Board is also mindful of the Walker Report on diversity. The Nominations Committee has set targets for gender and ethnicity and monitors diversity of age, gender, disability, ethnicity and education & social background within the whole workforce.

In 2016 the Board agreed an ongoing target of at least one third of the Board to be made up of the under-represented gender, whilst recruiting the best candidate for the role. In order to ensure a gender diverse pipeline for senior management roles, diversity of direct reports to senior management is also monitored.

The Committee has reviewed the gender diversity of the Board, Senior Management and colleagues and has implemented targets and or monitoring to improve all types of diversity, not just gender. In 2019 the Board agreed a target for the ethnicity of the whole workforce (including Board and senior management) to be at least representative of the local area; within normal commuting distance. Should an under-representation be identified, the Nominations Committee considers which policies are to be put in place to increase diversity of that characteristic. These policies can include directions to recruitment agencies to seek certain diversity characteristics or diversity specified shortlisting.

GENDER DIVERSITY

31 December 2023	**Male**	**Female**	**Total**	**% Female**
Board of Directors	5	5	10	50%
Executive Management	3	4	7	57%
Executive Management Direct Reports	10	9	19	47%
All Society Colleagues	48	101	149	68%

Nominations Committee Report (continued)

GENDER DIVERSITY (continued)

31 December 2022	Male	Female	Total	% Female
Board of Directors	6	3	9	33%
Executive Management	3	3	6	50%
Executive Management Direct Reports	4	13	17	76%
All Society Colleagues	38	87	125	70%

ETHNIC DIVERSITY

All Employees	White British	Other Ethnicity	Total	% Other
31 December 2023	122	23	145*	16%
31 December 2022	99	14	113	12%

*Total number of employees as at 31/12/2023 was 149 ('no data' for missing 4).

The most recent comparative data from the local community is from the 2021 Population Census. For Market Harborough, the census reported 9.0% (3.7% in 2011) of the population were from an ethnic minority. The Society's customer-base is national and the 2021 census for England and Wales reported that 26.0% (20.0% in 2011) of respondents stated their ethnicity as Non-White British. The Society believes its ethnic mix is in line with the Market Harborough area.

SUCCESSION PLANNING

The Nominations Committee has reviewed the Board's succession plan, establishing the desired skills and experience for the overall composition of the Board. It regularly reviews the skills matrix for the Board identifying any existing or potential skill gaps. The Committee has ensured that there are plans in place for orderly succession for appointments to the Board and to Senior Management, so as to maintain an appropriate balance of skills and experience within the Society and on the Board, and to ensure progressive refreshing of the Board.

The Nominations Committee takes into account:

- Non-executive director succession timeline, including anticipated retirement dates;
- Continued independence of each non-executive director;
- Impact of future changes on Board committee membership; and
- The Society's Diversity and Equality Policy and the importance of maintaining a diverse Board.

The Nominations Committee ensures that each non-executive director is independent whilst serving as a director and all directors are subject to re-election annually. It also monitors that the Chair and all non-executive directors do not remain in post beyond nine years from the date of their first election to the Board, however limited extensions can be granted if the Board agree to allow for a transition period, as was the case with Michael Thomas and Lesley Titcomb in 2023.

The Nominations Committee ensures that there are regular evaluations of the performance of the Board, its Committees, the Chair and individual Directors. The outcomes of these evaluations and the identification of the strengths and weaknesses have supported the desirable attributes of a diverse pipeline of candidates. These are acted upon at each recruitment.

In sourcing suitable candidates for consideration, the Committee uses one or more of the following methods:

- Open advertising;
- The services of a search and selection agency; and
- Advertising to the Society's membership.

The appointment of Directors is based on objective skills based criteria as well as the ability to meet the requirements of the PRA's approved person's regime and the assurance that candidates can commit the time required to fulfil the role effectively.

Nominations Committee Report (continued)

BOARD EVALUATION

The Nominations Committee ensures that there are regular evaluations of the performance of the Board, its Committees, the Chair and individual Directors. During 2023 these were carried out via self-evaluation. The Chair has acted on the results of the evaluations by recognising the strengths and addressing any weaknesses of the Board.

The Board considers annually whether to undertake an independent effectiveness review by a professional third party. Such a review will be undertaken during 2024.

Each year the performance of the Board and its Committees is observed by Deloitte in its capacity as internal auditor to the Society. Deloitte comment on the performance in its Annual Conclusion provided under the Audit Charter. The Board considers this feedback and acts upon the comments made.

On behalf of the Board of Directors,

Lesley Titcomb

Chair of Nominations Committee

22 March 2024

Audit and Compliance Committee Report

This report explains how the Society applies the principles of the UK Corporate Governance Code relating to the operation of the Audit and Compliance Committee and the system of internal control. The report details how the Committee discharged its responsibilities in line with the provisions of the Financial Reporting Council's 'Guidance on Audit and Compliance Committees'. In particular it details the significant issues reviewed and concluded on including the Committee's assessment of those areas on which accounting judgement was exercised.

The Audit and Compliance Committee met five times for scheduled meetings during 2023 and in addition met with the external and internal auditors without the executive directors present. The Committee also considers matters arising during intervening periods, typically by email correspondence.

FINANCIAL AND BUSINESS REPORTING

The Code prescribes that the Board should present a fair, balanced and understandable assessment of the company's position and prospects.

The Directors are responsible for preparing the Annual Report and Accounts. At the request of the Board, the Committee considered whether the 2023 Report and Accounts are fair, balanced and understandable and whether it provided the necessary information for members and other stakeholders to assess the Society's position and performance, business model and strategy. In order to do this, the Committee considered the accounting policies adopted by the Society, the presentation and disclosure of financial information and, in particular, the key judgements made by management.

In evaluating this year's financial reporting process, the Committee focussed on critical estimates, judgments and material policies. It reviewed the reports at an early stage, providing comment and challenge as part of a robust verification process.

The Committee also paid particular attention during the year to the following matters which are important by virtue of their potential impact on the Society's results, particularly because they involve a high level of complexity, judgement or estimation by management:

Current economic impacts

The Committee considered the risks to the Society's business and resources from the cost of living crisis, high inflation, and various conflicts around the world. Modelling of various economic downturns has been carried out to predict the potential impact on loan losses and provisioning. Operational impacts have also been considered such as the availability of skilled colleagues and the impact on suppliers with global connections. The Committee noted that the surplus / deficit arising from the defined benefit retirement scheme had been and would continue to be impacted by economic conditions and changes in security values and interest rates. The Society considered that it was well placed to cope with the potential risks arising from current economic challenges. More details can be found in the Principal risks and uncertainties on page 24.

Provisioning for loan impairment

The Committee monitored loan impairment provisions by considering key assumptions contained in the Society's provisioning model and the relevant disclosure in the Report and Accounts. In particular, the Committee examined and challenged the assumptions adopted and the impact of the low level of impairment data, and has satisfied itself with the level of impairment provisions made for the mortgage portfolio. During 2021 the Society introduced scenario testing for climate related risks such as flooding and energy performance for housing. This was further enhanced during 2022. More information about these assumptions can be found in note 28 to the accounts.

Effective Interest Rate

Interest income on the Society's mortgages is measured under the effective interest method. This method includes an estimation of mortgage product lives which is based on historic customer behaviour and management's judgement. The Committee has examined the approach taken including the revised mortgage product lives, and has satisfied itself that the estimates and accounting treatment are appropriate.

Retirement Benefit Liabilities

The Society operates one defined benefit pension scheme. This was closed to future accrual in 2005, however the Society remains responsible for making good the liabilities under the scheme. The scheme is revalued under the requirements of IAS 19 each year and the movements in the deficit/surplus are reflected in the Group's accounts. The current surplus is £0.5m (2022: £0.4m surplus). The Committee has considered the valuation assumptions used by the Actuary and satisfied itself that these assumptions are appropriate. The Society holds capital to cover fluctuations.

Audit and Compliance Committee Report (continued)

EXTERNAL AUDIT

The Committee considered matters raised during the statutory external audit, through discussion with senior management of the business and the external auditor, and concluded that there were no adjustments required that were material to the financial statements.

In light of its enquiries above, the Committee is satisfied that, taken as a whole, the 2023 Annual Report and Accounts is fair, balanced and understandable and provides a clear presentation of the Society's position and prospects.

Audit and Compliance Committee and Auditor

The Code prescribes that the Board should establish formal and transparent arrangements for considering how they should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the Society's auditors.

The Audit and Compliance Committee is responsible for providing oversight of the external audit process by monitoring the relationship with the external auditor, agreeing its remuneration and terms of engagement, and making recommendations to the Board on the appointment, re-appointment or removal of the external auditor as appropriate. As part of the external audit process, BDO LLP highlight any material control weaknesses that come to its attention. The Committee considers annually the external auditor's independence and effectiveness in light of the guidance issued by The Institute of Chartered Accountants in England & Wales (ICAEW) and the Financial Reporting Council (FRC).

As a result of its considerations, the Committee ensures that the policy to provide non-audit services is appropriately applied. During 2023 BDO LLP did not provide any non-audit services. In order to retain independence and objectivity, the Society's policy is to tender for audit services on a regular basis. External audit was put out to tender in 2019. Presentations from three audit firms were received by a panel consisting of executive and non-executive directors. As a result of the tender, BDO LLP were recommended by the Audit and Compliance Committee and appointed by the Board. BDO LLP has acted as external auditor for five years. Further to consideration by the Committee, BDO LLP are recommended as external auditor to the Society at the 2024 annual general meeting. The Committee considers this appointment on an annual basis.

INTERNAL CONTROLS

The Society recognises the importance of good systems of internal control in the achievement of its objectives and the safeguarding of its assets. Good internal controls also facilitate the effectiveness and efficiency of operations, help to ensure the reliability of internal and external reporting and assist in compliance with applicable laws and regulations.

Management is responsible for designing an appropriate internal control framework whereas the Audit and Compliance Committee is responsible for ensuring that the Board receives appropriate assurance over the effective operation as well as design of this framework. Consistent with these responsibilities, the Committee undertook the following activities during 2023 to satisfy itself over the robustness of the internal control framework:

- Compliance

  The Society's Compliance function provides second line assurance on activities across the Society. The outputs of Compliance activities are reported to the Committee, together with progress updates on management's implementation of the findings. During the year the Committee approved the Annual Assurance Plan which documents how the Compliance function remains independent of the areas it reviews.

- Internal Audit

  The Society's Internal Audit function provides independent assurance to the Board, via the Audit and Compliance Committee, on the effectiveness of the internal control framework. The information received and considered by the Committee during 2023 provided assurance that there were no material breaches of control and that the Society maintained an adequate internal control framework that met the principles of the UK Corporate Governance Code. The Audit and Compliance Committee is also responsible for agreeing the annual budget of Internal Audit and for approving its annual risk based plan of work. Internal Audit provides the Committee with reports on its findings and recommendations as well as updates on the progress made by management in addressing these findings, including verification that actions have been accurately reported as complete.

The Committee is satisfied that, throughout 2023, Internal Audit had an appropriate level of resource to deliver its plan of work and that it discharged its responsibilities effectively. Internal audit was last put out to tender in October 2014, further to which Deloitte LLP was appointed internal auditor. The Committee considers annually whether to retender for internal audit services. The internal audit partner responsible for the Society changed at the end of 2021. This is in line with internal audit best practice and there were no issues.

Andrew Merrick

Chair of the Audit and Compliance Committee

22 March 2024

Remuneration Report

This report explains how the Society has applied the principles of the UK Corporate Governance Code July 2018 (the Code) relating to the operation of the Remuneration Committee in 2023. The report details how the Committee discharged its responsibilities in line with the provision of the July 2018 version of the Financial Reporting Council's 'Remuneration' principles.

This report sets out the Board's policy on the remuneration of Directors. The Society has adopted high standards of corporate governance and this includes the provision to its members of full details of Directors' remuneration. Members will be asked to vote at the Annual General Meeting on an advisory resolution on the Board's policy on the remuneration of Directors.

The Society had a successful year in 2023 despite the challenging economic conditions with stubbornly high inflation keeping the cost of living crisis firmly in view and volatility stemming from where interest rates were heading. The Society delivered post-tax profits of £3.3m. In addition, the Society's strong capital position was preserved and good progress was made against strategic objectives. The Remuneration Committee has taken these factors into account when considering the appropriateness of remuneration at the Society.

REMUNERATION COMMITTEE

The Remuneration Committee is responsible for determining the remuneration of the Chair and the remuneration and other benefits of the executive directors and Senior Managers, and makes recommendations to the Board concerning the remuneration of non-executive directors and other staff. The Committee has reviewed colleague remuneration and the alignment of incentives and rewards with culture, taking these into account when setting the policy for executive director remuneration.

The Committee's terms of reference were last reviewed and updated in November 2023 and they are available on the Society's website. The Committee meets at least twice each year.

The Committee consists of at least two independent non-executive directors. In 2023 the members were: Jonathan Fox (Chair), Lindsay Forster and David Stunell. The Committee is chaired by an independent non-executive director who is not the Chair of the Board. The Committee's Chair had served more than 12 months on the Committee prior to appointment as Chair of the Remuneration Committee.

The Society's Chief Executive and Chief Engagement Officer comment upon proposals and provide information, as and when required, and attend meetings at the Committee's request.

In making its decisions and recommendations, the Committee takes into account all relevant factors, including a review of comparative benefit packages from similar financial organisations and the internal consistency between roles and recognition. The Committee seeks independent professional advice on Director and Senior Executive pay on a periodic basis.

The Committee supports linking reward to performance. In doing so, it pays close attention to the performance of the Society and the risks to which it is exposed, external market conditions, and its overall responsibility to members within a framework of good corporate governance. Levels of remuneration for the Chair and all non-executive directors reflect the time commitment and responsibilities of their roles and do not contain any elements of performance related pay.

COLLEAGUE AND STAKEHOLDER ENGAGEMENT

The Senior Independent Director ('SID') has been appointed as the principal contact for colleague engagement. The SID meets with colleague representatives twice each year and reports back to the Board on each occasion. There is a mechanism to provide for feedback to be made in confidence, as appropriate. Following discussions with colleagues, salary sacrifice for pension contributions were made available to all members of staff. The pension scheme was aligned for all employees, including Executives. Feedback on the enhanced pension provisions was reported as very positive.

During the year, the Committee considered the incentive schemes available to Executives, senior leaders and other employees. The Committee reviewed the internal consistency of the various schemes and steps were taken to more closely align them.

The Society's Remuneration Policy applies to all employees and all incentive schemes are aligned to the Society's strategic objectives, which are shared with colleagues.

The Remuneration Report is provided to the Society's membership for annual consideration and approval at the Annual General Meeting. At the 2023 Annual General Meeting, 89% of votes were cast in favour of the Report. No adverse comments were received from members in regards to the Report or Executive pay.

Remuneration Report (continued)

POLICY AIMS AND OBJECTIVES

The Committee's decision-making processes take into account:

- The need to recruit, retain and motivate staff with appropriate skills and experience to make an effective contribution to the Society's strategy and operations, and so to act in the long-term interests of the Society's members;
- The link between individual awards, the delivery of strategy and the long-term performance of the Society being clearly defined. There is no reward for poor performance;
- The Society's incentive schemes driving behaviours consistent with the Society's purpose, values and strategy;
- The need for a clear and uncomplicated link between performance and remuneration;
- The Society's remuneration arrangements being transparent and promoting effective engagement with stakeholders and colleagues;
- The range of possible values of rewards to individual Directors and any other limits or discretions being identified and explained;
- The levels of remuneration, as a reference, for similar jobs within the UK financial services sector;
- The need for pay arrangements not to directly or indirectly expose the Society to inappropriate risk;
- The structure of remuneration, avoiding complexity and that the rationale and operation are easy to understand;
- The PRA Rulebook;
- The application of provisions of the FCA's Remuneration Code for dual regulated firms (PRA and FCA regulated); and
- The provisions of the UK Corporate Governance Code insofar as they relate to Building Societies.

During 2022 the Committee considered these policy aims and objectives ensuring that Executive remuneration policy and practices reflected: clarity, simplicity, risk, predictability, proportionality and alignment to the Society's culture. For example the Committee ensured that the design of Executive incentive scheme was clearly defined and communicated, rewards were capped and proportionate and Executives were required to demonstrate how they had promoted values aligned with the desired culture of the Society.

No payments under incentive schemes are guaranteed and all schemes are non-contractual. The Society's Remuneration Committee uses its discretion to override formulaic outcomes. The Committee considers the outcome of the incentive schemes on an annual basis, adjusting incentive payments as it sees fit.

Policies and incentive schemes are reviewed on an annual basis and revised as appropriate. The remuneration policies in place during 2023 were reviewed by the Committee and were considered to be effective. In 2023 objectives were set to support the development of the members of the wider leadership team.

CONFLICTS OF INTEREST

The Society seeks to ensure that its remuneration decisions do not encourage conflicts of interest. The Remuneration Committee is aware of the potential for such conflicts when considering remuneration for Directors, and seeks external professional advice where appropriate. The Committee will also consider the potential for a conflict of interest when determining or recommending the remuneration structure for staff involved in control functions.

CONTRACTUAL ARRANGEMENTS

The Society will not enter into an employment contract which would compensate any individual for failing to perform their duties satisfactorily. Contractual notice periods do not exceed one year, and any contractual entitlement to a termination payment will not exceed twelve months' salary and benefits. This also applies to executive directors. Bonus schemes for executive directors and other senior managers make provision for cancellation or deferment of payments in the event of determination of wrong doing. Directors' terms of appointment are robust in reducing compensation to reflect departing Directors' obligations to mitigate loss.

Remuneration Report (continued)

STATUTORY CONSIDERATIONS

The Society ensures that its remuneration decisions are in line with statutory requirements, for example, in relation to equal pay and non-discrimination and ensure compliance with regulatory requirements such as the Remuneration Code.

The Society has established provisions that enable the Society to recover and/or withhold sums or awards and specifies the circumstances in which it would be appropriate to do so.

EXECUTIVE DIRECTORS

For executive directors the Society seeks to establish an appropriate balance between the fixed and variable elements of remuneration. The Committee has been mandated by the Board to ensure that fixed remuneration is in line with the market rate for executive directors in similar positions at comparable financial organisations. Performance appraisals of the executive directors are carried out at least annually to assess their success in meeting individual and corporate objectives.

The Committee has been mandated by the Board to reward exceptional performance through incentive schemes. Awards under the incentive schemes reflect the outcomes of appraisals.

The main components of the executive directors' remuneration are:

- Base salary and core benefits; and
- Variable remuneration incentive scheme.

Base salaries take into account the content and responsibilities of the job, salary levels in comparable organisations and individual performance in the role. The Chief Executive is appraised annually by the Chair, and the Chief Executive carries out a performance assessment of the other executive directors.

Pension Benefits

The Society contributes to a defined contribution scheme for eligible staff, including executive directors, who may elect to receive this contribution as a pension allowance. Only basic salary is pensionable. The pension contribution rates for executive directors are aligned with those available to colleagues. Pension consequences and associated costs of basic salary increases, particularly for directors close to retirement, are carefully considered when compared with colleague arrangements.

Other Benefits

The Society provides other taxable benefits to executive directors, namely private medical insurance.

VARIABLE REMUNERATION

In considering the targets for incentive schemes, the Remuneration Committee has regard to the goals set by the Board in the Society's three-year Corporate Plan.

The Society seeks to ensure that its remuneration decisions are in line with its business strategy and long term objectives, and consistent with the Society's current financial condition and future prospects. Incentive schemes take into account the need to retain a strong balance sheet, and variable remuneration amounts will not be paid unless they are sustainable within the Society's situation as a whole. No payments under incentive schemes are guaranteed and all schemes are non-contractual. None of the incentive payments are pensionable.

Annual Incentive Scheme

Annual incentives are paid in cash on the achievement of key targets which will be of benefit to the Society and its members, and also take into account individual performance. The structure of the scheme is approved by the Remuneration Committee at the beginning of each financial year. The rewards for 2023 were dependent on the Society meeting its business performance targets and the personal performance of the individual (including a component relating to culture). The scheme was subject to a cap of 18% of base salary (excluding allowances).

Long Term Incentive Scheme

Historically long term incentive schemes were set annually, based on performance over a three year period as measured against pre-determined business objectives. The structure of each new three-year scheme was approved by the Remuneration Committee at the commencement of the period to which it relates. No long term incentive schemes have been set since 2021. This final long term incentive scheme matured in 2023. The maturing scheme targeted the delivery of strategic objectives, organisational health (including stakeholder satisfaction) and measures relating to credit risk. The scheme was capped at 7% of base salary (excluding allowances).

Remuneration Report (continued)

EXECUTIVE DIRECTORS’ REMUNERATION

The emoluments below represent audited information.

2023 **All figures £**	**Base Salary**	**Other payments, Benefits & Allowances**	**Performance pay annual incentive scheme**	**Performance pay long-term incentive scheme**	**Retention Bonus**	**Pension Contribution**	**Total**
Iain Kirkpatrick	232,100	**24,055**	55,735	-	-	-	**311,890**
Nicholas Fielden	176,409	**4,763**	26,347	14,605	89,025	17,983	**329,132**
Annemarie Cossar	126,600	**1,028**	18,972	10,284	-	12,660	**169,544**
Total	**535,109**	**29,846**	**101,054**	**24,889**	**89,025**	**30,643**	**810,566**

2022 **All figures £**	**Base Salary**	**Benefits & Allowances**	**Performance pay annual incentive scheme**	**Performance pay long-term incentive scheme**	**Retention Bonus**	**Pension Contribution**	**Total**
Mark Robinson[1]	161,743	**14,032**	33,003	37,257	55,000	15,535	**316,570**
Nicholas Fielden	157,023	**5,128**	24,069	14,727	-	15,702	**216,649**
Iain Kirkpatrick[2]	63,462	**6,416**	55,000	-	-	-	**124,878**
Total	**382,227**	**25,576**	**112,072**	**51,984**	**55,000**	**31,237**	**658,096**

[1] Remuneration amount covers 10 months

[2] Remuneration amount covers 3.5 months

The benefits and allowances received by Executive Directors relate to private medical insurance, the provision of a car allowance and pension allowance in lieu of contribution since only base salaries are pensionable. Mark Robinson gave notice in 2021 of his intention to retire in 2022 and the Board agreed to make a non-pensionable payment of £55,000 to him in return for extending his notice period by six months. He retired in September 2022 and received this payment. In addition, and in order to help provide a smooth transition for the incoming Chief Executive, Nicholas Fielden (Chief Finance Officer) received a payment of 50% of salary after he stayed in post for twelve months after the appointment of the new Chief Executive.

NON-EXECUTIVE DIRECTORS

The Board aims to ensure that fees are in line with the amount paid to non-executive directors in similar positions at comparable financial organisations. The Remuneration Committee makes recommendations to the full Board in respect of any changes to the remuneration of non-executive directors. As is conventional, additional fees are paid to the Chairs of certain Board Committees, in recognition of the additional workload and responsibility.

Non-executive directors’ remuneration does not include any bonus payments, pension or other benefits. Non-executive directors do not have service contracts providing for notice periods which exceed three months; neither do they have any contractual entitlement to termination payments. Their effectiveness is appraised annually by the Chair, and the Board as a whole, under the leadership of the Senior Independent Director, assesses the Chair’s performance.

Remuneration Report (continued)

NON-EXECUTIVE DIRECTORS' REMUNERATION

Directors' fees All figures £	2023	2022
Lesley Titcomb	12,100	
Michael Thomas	40,183	45,487
Lindsay Forster	28,433	25,333
Jonathan Fox	34,638	32,667
Andrew Merrick	34,638	32,667
Zoe Shapiro	30,650	28,825
David Stunell	30,650	28,825
Nala Worsfold	28,558	26,833
Total	**239,850**	**220,638**

Fees include amounts paid to the Chairs of the Assets & Liabilities Committee, Audit & Compliance Committee, Risk Committee and Remuneration Committee, to the Consumer Duty Champion and to the Chair of the associated Pension and Life Assurance Scheme.

Jonathan Fox

Chair of Remuneration Committee

22 March 2024

Directors' Report

Your Directors have pleasure in presenting their Annual Report for the year ended 31 December 2023.

BUSINESS OBJECTIVES

Your Society's principal business objectives are the provision of secured lending on residential property, savings products for private individuals and small businesses. The Society operates solely in the UK and all of its operations are based in the UK. Our products are promoted nationally via mortgage brokers, the internet and by phone, and in Leicestershire and Northamptonshire via our branches. We seek to develop by offering the combined advantages of value-for-money and innovation in our products and by delivering a first-class personalised service to members.

BUSINESS REVIEW

A review of the Society's business performance during 2023 is included in the Chair's Statement and the Chief Executive's Highlights. These reports include information about donations to charity (page 5) and mortgage arrears (page 3). No political donations were made during the year (2022: nil).

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Society operates in a business environment that contains financial risks. To mitigate these risks, the Board has implemented a clearly defined risk management framework that comprises the following features:

- a risk focused governance structure;
- a risk appetite statement, risk policy statements and risk limits;
- risk identification, monitoring and reporting processes; and
- an effective internal control framework.

The financial instruments used by the Group to mitigate certain risks, particularly interest rate risk, are set out in Note 0 of the accounts.

The Board has established Committees to assist in the implementation and monitoring of risk management across the Society, including the Audit & Compliance Committee, the Risk Committee, the Assets and Liabilities Committee (ALCO), the Remuneration Committee and the Nominations Committee. Details of the role and responsibilities of each Committee are set out in the Corporate Governance Report.

The key policies that the Society has implemented to manage the risks that it faces include a Risk Appetite Statement, Lending Policies, a Conduct Risk Policy and Financial Risk Management Policies (Liquidity and Funding Policy, Interest Rate Risk in the Banking Book Policy and Counterparty Policy). These are reviewed, amended and approved by the Board on a regular basis.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks to which the Group is exposed, along with the risk management objectives and policies are set out below:

Business risk and margin compression: the risk of loss or reduction in profitability due to failure to achieve business objectives. The Society's Corporate Plan, approved by the Board, sets out the key objectives and how key risks to achieving those objectives will be managed. The Society manages this risk by ensuring that a diverse range of products and services are in place, the setting of detailed plans and the monitoring of actual performance against these plans by the Board. Key business risks include:

- **Competitive mortgage and retail savings markets**. There is a risk that increased competition reduces mortgage yields and increases the cost paid for retail savings. The Directors continue to closely monitor the economic environment, the mortgage and savings markets, the balance sheet composition of the Group and product pricing to ensure that the Society's product mix remains appropriate and that net interest margin remains in line with the Corporate Plan;
- **Increasing management expenses**. Operating costs are likely to increase in the short-term as investment is made in services to improve growth prospects and deliver operating efficiencies. There is a risk that costs continue to increase over and above the growth in interest margin; and
- **Interest rate risk**. This is the risk of reductions in net interest margin arising from unfavourable movements in interest rates due to mismatches between the dates on which interest receivable on assets and interest payable on liabilities are reset to market rates or from the re-pricing of assets and liabilities according to different interest bases. This risk is managed within approved limits set by the Board within the Financial Risk Management Policies using a combination of on and off balance sheet financial instruments and is monitored by ALCO. During 2023 the ALCO also considered the risks associated with funding availability and increasing market rates.

  Further to the monitoring by ALCO, the Board manages this risk via the corporate plan, budgets and forecasts. Details of the Society's interest rate sensitivity and the use of derivatives for hedging purposes are set out in Note 0 of the accounts.

Directors’ Report (continued)

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

- **Climate change.** The Risk Committee has assessed all risks in the Society’s risk register in light of the risks arising from climate change and considered emerging risks to the Society’s business model. The Committee considered both physical and transitional risks relating to its business and lending security. Stress testing of the mortgage book was enhanced to include the assessment of flood risk and poor Energy Performance Certification. Capital is provided for this risk via the capital adequacy process. During 2021 the Board approved a new environmental policy and in 2022 progressed its journey to carbon neutrality. Initial actions will be to assess the Society’s current carbon footprint. As well as introducing measures to reduce direct carbon emissions from the Society’s own operations, it considers the emissions related to its mortgage lending.

Whilst the Board considers the strategic issues on an ongoing basis and maintains overall responsibility for monitoring and mitigating against these risks, the Board has delegated the responsibility of monitoring these risks to the Risk Committee in the first instance. As a result, the risks arising from climate change are embedded into the Risk Management Framework and managed on an ongoing basis.

Operational risk: the risk of loss arising from inadequate or failed internal processes, the actions of people, the Society’s IT systems, regulatory compliance, fraud and financial crime. The Society maintains policies and procedures for all key internal processes. The Risk and Compliance function is responsible for monitoring operational risk and ensuring that appropriate actions are taken to strengthen internal controls implemented across the business to manage operational risk.

The Society recognises that the risks to our customers and processes from cybercrime. In response, the Society carried out several cyber related projects and employs dedicated resource to significantly enhance its resilience and combat risks from cybercrime. Since 2018 the Society has been awarded annually the Cyber Essentials Plus standard of assurance, a government backed cyber security certification scheme, endorsing the cyber security standards it employs across all areas of the business. The Society continues to maintain a sustained focus in this area.

Pension obligation risk: the risk of a reduction in profit resulting from the Society, being the funder of last resort, having to make significant contributions to the Society’s defined benefit pension scheme. Since 2005, the Society has embarked upon a programme of measures to reduce its pension scheme liabilities for the benefit of pension scheme members and the long-term interests of Society members. Details of the Group’s pension scheme including the cost to the Society for the year and the updated scheme valuation (IAS 19) at 31 December 2023 are set out in Note 0 and Note 22 of the accounts.

Credit risk: the risk that losses may arise as a result of failure by borrowers or market counterparties to meet their obligations to repay. Credit risk arises primarily from mortgage loans to customers and from investments of liquid assets as part of the Society’s treasury operations.

A component of credit risk is concentration risk, which arises where there is a concentration of exposures within the same category, whether it is geographical location, product type, industry sector or counterparty type.

Credit risk is managed through adherence to Board-approved Lending and Treasury Policy Statements, which set out limits that are reviewed in light of changes in economic conditions and in the Society’s objectives. The ALCO monitors the Society’s exposure to treasury counterparties on the Board’s behalf. The performance of the mortgage book is monitored by the Board.

The Society is almost exclusively a residential mortgage lender and is exposed only to the UK market. The Society has only a modest exposure to commercial and buy-to-let mortgages and has not undertaken sub-prime lending. Exposures are monitored regularly by the Board to ensure that policy limits are not exceeded. In addition to the capital provided under Pillar 1, capital is provided under Pillar 2b to cover mortgage losses that may arise in an economic downturn.

Conduct risk: the risk of loss arising through interaction with the customer throughout the product lifecycle that causes some form of consumer detriment. The Conduct Risk Policy sets out the values that staff are expected to demonstrate in all their dealings with consumers and the detailed metrics that are monitored that may indicate consumer detriment to ensure that appropriate and timely action can be taken. This includes the identification and appropriate treatment of vulnerable customers. As with Operational risk, the Risk and Compliance function is responsible for monitoring conduct risk, ensuring there are adequate controls implemented and that these are effective in managing conduct risk and delivering good customer outcomes. The Risk and Compliance functions report directly to the Risk Committee and Board in relation to customer outcomes. The Risk Committee acknowledged the FCA’s final rules and guidance on Consumer Duty published in 2022 and oversaw a programme of actions to ensure timely implementation, including the appointment of a non-executive director as Consumer Duty Champion.

Liquidity risk: the risk that the Society does not have sufficient financial resources to meet its obligations as they fall due, or can secure them only at an excessive cost. It arises from the maturity mismatch of the Society’s assets and liabilities. The Society’s policy is to maintain liquid assets at all times which are adequate, both as to amount and quality, to ensure that there is no significant risk that its obligations cannot be met as they fall due. That applies to both business-as-usual and stressed scenarios, to smooth out the effect of maturity mismatches between assets and liabilities, and to maintain the highest level of public confidence in the Society. The Financial Risk Management Policies detail liquidity risk limits set by the Board and these are reviewed daily by the Society’s Finance & Treasury departments. They are also monitored every month in Management ALCO meetings and quarterly in the ALCO. Management ALCO consists of the executive members of the ALCO.

Directors' Report (continued)

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

Concentration risk: the risk of loss due to either a large individual or connected exposure, or significant exposures to groups of counterparties who could be affected by common factors, including geographical location, product type, industry sector or counterparty type. The Board has set limits for the geographical concentration of mortgage assets and the maximum value of exposures to single or connected mortgage borrowers and treasury counterparties and these are monitored by the Board and ALCO.

BOARD RISK FRAMEWORK

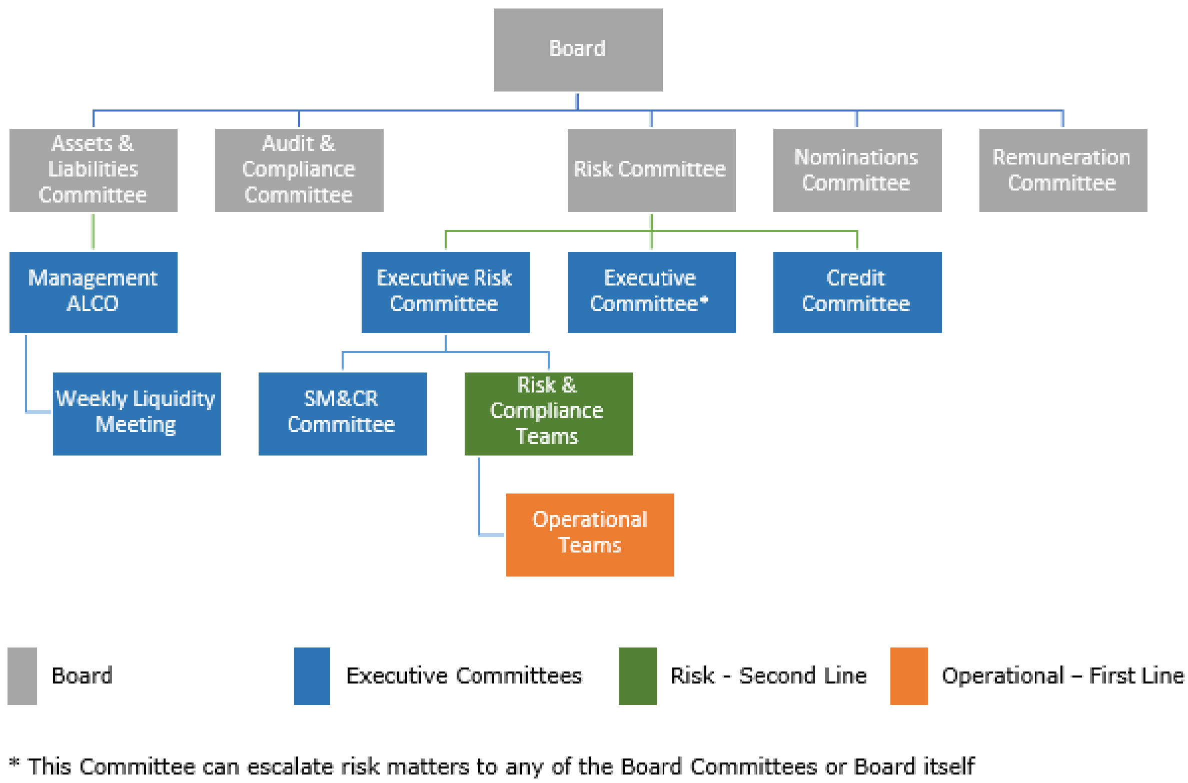
The risk management framework is designed to safely deliver the Corporate Plan in line with the Board's risk appetite. The Board is responsible for ratification of all policies. All of the senior management are involved in the development of risk management policies and their subsequent monitoring as part of their core roles.

The Society operates a 'three lines of defence' model that is appropriate to a business of its scale and complexity.

The approach is applied to all of the key business risks, such that for each of them there is a specific Board committee responsible for setting policies to manage that risk in accordance with the overall risk appetite, financial risk management objectives and policies.

The Group's objective is to minimise the impact of financial and other risks upon its performance. An explanation of the financial risks and the controls in place to manage them (including the use of derivatives) is given in notes 0 to 0 to the annual accounts.

The Society's risk governance structure is detailed below:



The third line of defence is the Society's Internal Audit function. The third line of defence provides independent assurance to the Board and senior management on the adequacy of the design and operational effectiveness of internal control systems and measures across the business.

Directors' Report (continued)

KEY PERFORMANCE AND OTHER INDICATORS

The following performance indicators provide an overview, in tabular form, of the Group's progress.

	2023 Group	2022 Group	2021 Group
Total assets	£722m	£647m	£541m
New mortgage lending	£198m	£182m	£132m
Growth in mortgage assets	20.0%	13.9%	2.4%
Net increase / (decrease) in retail deposits	£77m	£92m	(£30m)
Liquidity to funding ratio	17.2%	23.6%	20.4%
Management expenses as a percentage of mean total assets	1.8%	1.8%	1.6%
Cost to income ratio	71.8%	68.7%	64.7%
Pre-tax profit	£4.3m	£4.5m	£5.0m
Post-tax profit	£3.3m	£3.6m	£4.0m
Profit as a percentage of mean total assets	0.5%	0.6%	0.8%
Net interest receivable as a percentage of mean total assets	5.5%	3.5%	3.0%
Gross capital as a percentage of shares and borrowings	8.6%	9.2%	10.1%
Free capital as a percentage of shares and borrowings	7.9%	8.9%	9.9%

For a definition of terms see the Annual Business Statement on page 93.

NON-FINANCIAL INDICATORS

Our savings customer satisfaction scores continue to be excellent and more than 80% of members would recommend us to family and friends (2022: 88%). Mortgage intermediaries play a critical role in the successful delivery of our lending business and we were proud to receive a Feefo Platinum Trusted Service Award earlier this year, an independent seal of excellence which recognises businesses that consistently deliver a world-class customer experience.

Internally, in March 2023 90% (December 2021: 92%) of employees responded to a satisfaction survey; 90% (2021: 84%) of respondents agreed that they enjoyed their job while 91% of respondents were proud to work for MHBS and would recommend it as a great place to work. The next employee engagement survey will be carried out in early 2024. During 2023 the Society continued to support the development of its staff; three employees celebrated the achievement of attaining qualifications in three different professional subjects.

PROPERTY PLANT AND EQUIPMENT

Freehold premises owned by the Group are shown in the accounts at cost less depreciation. Market valuations are performed every three years by an external valuation expert. The latest valuation reports show that the market value of these assets is not dissimilar from the carrying amount in the financial statements.

In 2023, the Society added four more properties to the three it purchased in Leicestershire in 2022 as part of its Social Housing initiative. These properties have been leased out at zero rent to a local Social Housing Association to provide accommodation for local families in need. An impairment charge was recognised in the Income Statement in relation to these properties.

Directors’ Report (continued)

DIRECTORS

As at 31 December 2023 the Board comprised seven non-executive directors and three executive directors. The Board meets at least six times a year with the addition of two strategy sessions. Board Committees meet at intervening times. Any additional meetings are held as required.

The Society considers all non-executive directors to be independent. The directors holding office during the year were:

Non-Executive Directors	Executive Directors
Lesley Titcomb: Chair (from 1 October 2023)	Iain Kirkpatrick: Chief Executive
Michael Thomas: Chair (until 30 September 2023)	Nicholas Fielden: Chief Finance Officer
Lindsay Forster	Anniemarie Cossar: Chief Customer Officer (from 9 February 2023)
Jonathan Fox	
Andrew Merrick	
Zoe Shapiro	
David Stunell	
Nala Worsfold	

The Society maintains liability cover for the Directors as permitted by the Building Societies Act 1986.

Directors’ interests are reported in Note 33 to the accounts.

GOING CONCERN

The UK Corporate Governance Code requires a longer term viability statement. The Code requires the Directors to explain how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate. The Directors should state whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, drawing attention to any qualifications or assumptions as necessary.

The Directors have assessed the viability of the Group over a three year period taking into account the business strategy and the principal risks as set out above. The Directors have a reasonable expectation that the business can continue in operation and meet its liabilities as they fall due over the three year period of their assessment. The Directors have determined that a three year period of assessment is an appropriate period over which to provide its viability statement. The three year period is considered to be most appropriate as it is the longest period over which the Board considers that it can form a reasonable view of the likely macroeconomic environment and associated key drivers of business performance.

As part of the annual Group Internal Capital and Internal Liquidity Adequacy Assessment Process (ICAAP and ILAAP), the Group stresses its capital and liquidity plans respectively, under “severe but plausible” stress test scenarios, in line with PRA requirements. The Board has the responsibility for ensuring that the Society remains solvent; has adequate capital and liquidity over the planning horizon. The ongoing monitoring of capital adequacy is delegated to the Risk Committee and liquidity adequacy is monitored by the ALCO.

Brexit, Covid-19 and more recently the ‘cost of living’ crisis and high inflation have caused significant disruption to the UK economy and the markets within which the Society operates. The Group recognises that inflation and higher prices may well impact house prices. However, the Society remains confident that its high quality balance sheet, robust capital ratios and careful approach to managing risk and costs will continue to underpin its financial strength and place it in a strong position to continue to grow.

The ICAAP ensures that the plan projections for capital requirements and capital generation are resilient to stresses should the environment deteriorate beyond the levels currently envisaged in the Corporate Plan. A capital buffer is held to ensure the Group can deal with any erosion in its capital and still meet its capital requirements at all times. The Society’s ICAAP uses the Bank of England’s stress testing scenarios and has found its capital position to be robust enough to withstand the suggested stressed scenarios.

Directors' Report (continued)

GOING CONCERN (CONTINUED)

The ILAAP test ensures that the Group holds sufficient liquid assets to meet its liquidity needs not only under normal circumstances but if the Group were to enter into a period of stress.

During 2023 the Society reviewed its stress scenarios to ensure they reflected the latest forecasts on the potential economic stress, including those arising from competition, uncertainty and technology changes, which may be forthcoming.

In making this long-term viability statement the Board has taken into account its current position and performed a robust assessment of the principal risks and uncertainties that would threaten the business model, future performance, solvency or liquidity of the Group. These risks are described in the principal risks and uncertainties section above. The Group's Risk Management Framework and governance structure in place to deal with these risks are described above.

After considering the Group's capital and liquidity positions, the Board has a reasonable expectation that the Group will continue in operation and meet its liabilities as they fall due over the next three years.

OTHER MATTERS

Corporate and Social Responsibility

Your Society seeks to act responsibly in all its activities and has considered its operational impact on the economic, social and physical environment. Its policy on the Modern Slavery Act is available on our website: www.mhbs.co.uk as is its commitment to the UK Money Markets Code.

Capital Adequacy

The Society meets the requirements of the Capital Requirements Directive (CRD) which requires the Society to assess the adequacy of its capital through an Internal Capital Adequacy Assessment Process (ICAAP). Through the application of the ICAAP the Board is satisfied that the Society holds a level of capital more than sufficient to satisfy both the CRD's Pillar 1 minimum capital requirements and to cover those risks that the Board has identified under Pillar 2. The Pillar 3 disclosures required under the CRD are available from the Society's Secretary, or on our website: www.mhbs.co.uk.

Supplier Payment Policy

It is the Society's policy to agree the terms of payment with suppliers in advance and to make payment within the agreed terms of credit once the supplier has performed in accordance with the terms of the contract. The number of creditor days was 6 at 31 December 2023 (31 December 2023: 6).

Post Balance Sheet Events

There were no post balance sheet events to report.

Auditor

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

The Auditor, BDO LLP, has indicated their willingness to continue as external auditors to the Society and therefore a resolution for their election will be put to the Annual General Meeting in 2024.

On behalf of the Board of Directors,

Lesley Titcomb

Chair

22 March 2024

Statement of Directors’ Responsibilities

DIRECTORS’ RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT, THE ANNUAL BUSINESS STATEMENT, THE DIRECTORS’ REPORT AND THE ANNUAL ACCOUNTS

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

The Building Societies Act 1986 (“the Act”) requires the Directors to prepare Group and Society annual accounts for each financial year. Under that law they have elected to prepare the group and society annual accounts in accordance with UK adopted international accounting standards; and have been prepared in accordance with the requirements of the Building Societies Act 1986 and in accordance with the Building Societies (Accounts and Related Provisions) Regulations 1998.

The Group and Society annual accounts are required by law to be prepared in accordance with the requirements of the Building Societies Act 1986 and in accordance with the Building Societies (Accounts and Related Provisions) Regulations 1998, to present fairly the financial position and the performance of the group and the society; the Building Societies Act 1986 provides in relation to such annual accounts that references in the relevant part of that Act to annual accounts giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the Group and Society 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 they have been prepared in accordance with applicable International Accounting Standards;
- state whether they have been prepared in accordance with the Building Societies Act 1986;
- assess the Group and Society’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or 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 group.

DIRECTORS’ RESPONSIBILITIES FOR ACCOUNTING RECORDS AND INTERNAL CONTROLS

The Directors are responsible for ensuring that the Group:

- keeps proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and 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 group 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.

Lesley Titcomb

Chair

22 March 2024

Independent auditor’s report to the members of Market Harborough 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 UK adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986.

We have audited the financial statements of Market Harborough Building Society (the ‘Society’) for the year ended 31 December 2023 which comprise the Group and Society Statements of Comprehensive Income, the Group and Society Statements of Financial Position, the Group and Society Statements of Changes in Members’ Interests, the Group and Society Statements of Cash Flows and notes to the financial statements, including a summary of material accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards.

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 25 September 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 ended 31 December 2019 to 31 December 2023. We remain independent of the Group and 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 Group or 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 Group’s and the Society’s ability to continue to adopt the going concern basis of accounting included:

- Assessing the Director’s assessment of going concern including supporting financial forecasts through review of key ratios such as net assets, capital and liquidity for significant deterioration, indicating issues related to going concern;
- With the assistance of our regulatory experts, reviewing the Group’s and the Society’s Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) to assess whether it is consistent with the Directors' going concern assessment;
- Holding discussions with the Directors on whether events or conditions exist that, individually or collectively, may cast significant doubt on the Group’s and the Society's ability to continue as a going concern. We corroborated those discussions by agreeing information acquired to supporting documents such evidence of cash flow forecasts and minutes of meetings of Board of Directors;
- Challenging the Directors’ assumptions and judgements made with regards to their base forecast and reverse stress testing. 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 Group and Society such as rise in interest rates, falling house prices, climate change and cyber-attacks and their corresponding economic impact, checking that these had been appropriately considered as part of the Directors’ going concern assessment.
- We have back tested the forecasts prepared by management to assess the reliability of the forecasts prepared. This was performed by comparing the 2023 budget to the 2023 actual performance. Based on our industry knowledge, we performed stress tests on the forecasts by considering a downside scenario.

Independent auditor's report to the members of Market Harborough Building Society (continued)

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 Group and 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

Key audit matters		**2023**	**2022**
	KAM 1	Revenue recognition	Revenue recognition
	KAM 2	Impairment losses on loans and advances	Impairment losses on loans and advances
Materiality	£565,000 (2022: £537,000) 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's activities 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

The disclosure of the Director's consideration of the impact of climate change on the operations of the Society is included in the Strategic Report and forms part of the Statutory other information. Our procedures on these unaudited disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated, in line with our responsibilities as set out in the "Other information" section of our audit report below.

In note 1, the Directors have explained how they have reflected the impact of climate change in their financial statements, and the significant judgements and estimates relating to climate change. These disclosures also explain the uncertainty regarding effects arising from climate change including the limited impact on accounting judgments and estimates for the current period under the requirements of accounting standards. We have performed our own quantitative and qualitative risk assessment of the impact of climate change on the Society, taking into consideration the sector in which the Society operates and how climate change affects this particular sector. We reviewed 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 note 1 may affect the financial statements and our 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 (continued)

<table>
<tr><th colspan="2">Key audit matter</th><th>How the scope of our audit addressed the key audit matter</th></tr>
<tr>
<td>Revenue Recognition

Note 1 (accounting policy: pages 47-53) and note 3.</td>
<td>The Group has recognised interest income of £34,684k (2022: £19,802k) under the effective interest rate ("EIR") method.

The loans and advances to customers of £597,972k (2022: £497,973k) contain prepaid fees that are integral to the EIR as well as accrued interest income, both of which are spread over the behavioural life of the loans and advances using the EIR method. The net EIR liability at year end is £247k (2022: £166k).

The Group's interest income on mortgages is recognised on the EIR basis in accordance with IFRS 9. The calculation of EIR is complex and relies heavily on the completeness and accuracy of the data in the EIR models.

Significant management judgement is required to determine the expected cash flows for the Group's loans and advances within these models.

The key assumptions in the EIR models are the directly attributable fees and costs, the expected behavioural life including assumptions relating to the amount of customers and time they will remain on a standard variable rate and redemption profiles of the mortgages due to the impact on timing and quantum of expected future cash flows.

Errors within the EIR models themselves or bias in key assumptions applied could result in the material misstatement of revenue.

Revenue recognition was therefore considered to be a significant risk area.</td>
<td>Our procedures included the following:

• Assessed whether the revenue recognition policies adopted by the Group are in accordance with requirements of relevant accounting standards.
• Through inspection of a sample of contractual terms we challenged the fees and costs included or excluded from the EIR estimates (including early redemption charges) which involved assessing the types of fees being spread within the effective interest rate models versus the requirements of the applicable financial reporting standard.
• Tested the operating effectiveness of business process controls over loan origination including the initial recording of contractual interest rates and associated loan amounts which form key inputs into the effective interest income calculations.
• Tested the completeness and accuracy of data and key model inputs feeding into the EIR adjustment model by agreeing this to source documents and policy. With the assistance of our IT audit specialists we assessed whether the model performed the EIR calculation in line with the Group's accounting policy, by assessing the code underpinning the model calculations through reconciliation to underlying records.
• Performed a full recalculation of the contractual interest recognised during the financial year on loans advanced to check the accuracy of interest recognised.
• Assessed the models for their sensitivities to changes in the key assumptions.
• Challenged the reasonableness of the loan behavioural life assumptions used by management considering recent historical experience of loan behavioural lives based on customer behaviour, product type, market factors, performance and external data where applicable.

Key observations:

• Based on the procedures above, we did not identify any material errors within the EIR modes or indicators that the assumptions included in the EIR model are unreasonable.</td>
</tr>
</table>

Independent auditor's report to the members of Market Harborough Building Society (continued)

Key audit matters (continued)

<table>
<tr><th colspan="2">Key audit matter</th><th>How the scope of our audit addressed the key audit matter</th></tr>
<tr><td>Loan Loss Provisioning.

Note 1 (accounting policy: pages 44-50) and note 11.</td><td>Provision for impairment losses on loans and advances to customers is £1,755,971 (2022: £983, 000).

Commensurate with the activities of the Group, the total loan loss provision is a material balance.

Under IFRS 9, the Group is required to assess the recoverability of the loan portfolio for all items and not just those specifically identified. Therefore the Group is required to assess the Expected Credit Loss ("ECL") provision for all performing loans taking into account economic factors (including assessment of Probability of Default (PDs), Loss Given Default (LGDs) and Exposure at Default (EADs)) along with the staging, to ensure that credit impaired loans are presented and valued accurately. This includes the determination of what constitutes a significant increase in credit risk (SICR) as this would determine whether a lifetime probability of default is to be applied.

Estimating the loan loss provision requires significant management judgement and estimate in determining the value and timing of expected future cash flows as well as collateral held.

Due to the sensitivity to key inputs, judgements and estimates and high degree of estimation uncertainty the Group's loan loss 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.

For these reasons we considered this to be a key audit matter.</td><td>Our procedures included the following:

• We have tested the completeness and accuracy of the underlying reports used in the calculation of the loan loss provision by agreeing inputs on a sample basis to supporting documentation.
• Testing the operating effectiveness of the Group's controls in respect of new loans issued and ongoing monitoring of those loans to check the validity, accuracy and completeness of inputs, including the valuation of collateral, into the core banking system.
• Assessing the appropriateness of the ECL model by reference to internal and external information to establish if it is in accordance with requirements of IFRS 9.
• All inputs into the model have been reviewed and benchmarked to other data sources including the levels of provision for comparable lenders, and industry benchmarks for forced sale discounts and probability of default.
• Evaluated and challenged the Group's determination of what constitutes a SICR, by comparing the criteria against historical performance to check that the selected criteria is timely and forward-looking.
• We tested the methodology of the staging of loans as to whether it was done in accordance with management's definition of SICR.
• Evaluated whether the definition of default used for the estimate of ECL (for both assessing whether there is a SICR and calculating ECL) was in accordance with the requirements of IFRS 9 and results in a probability of default that reflects the Group's current view of the future and is unbiased.
• Evaluated the selection and source of the information used by the Group in terms of PD's, LGD's and EAD's against the requirements of IFRS 9.
• Assessed the appropriateness of the number of multiple-economic scenarios, their weightings and their application to PDs, EADs and LGDs, considering the key drivers of credit risk, exposures and information that is available to the Group.
• Assessed the logic and arithmetic accuracy of the calculation of the ECL.
• Reviewed a selected sample of loans based on risk characteristics of a history of arrears, forbearance indicators, size of advance or high LTV to identify
• We have assessed the provision applied to these loans by reference to relevant supporting information such as property type and valuation to challenge the completeness and accuracy of the provision applied.

Key observations:

Based on the procedures performed, we did not identify any indicators that the provision for loans and advances is unreasonably estimated in consideration of the key assumptions and judgements made.</td></tr>
</table>

Independent auditor's report to the members of Market Harborough Building Society (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	565,000	537,000
Basis for determining materiality	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	423,000	403,000
Basis for determining performance materiality	On the basis of our risk assessment together with our assessment of the Society's overall control environment and expected total value of known and likely misstatements, based on past experience, our judgment was that overall performance materiality for the Society should be 75% of materiality.	

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £28,400 (2022:£10,500). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the Annual report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Independent auditor's report to the members of Market Harborough Building Society (continued)

OTHER BUILDING SOCIETIES ACT 1986 REPORTING

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

Annual business statement and Directors' report	In our opinion, based on the work undertaken in the course of the audit: • the annual business statement and the Directors' report have been prepared in accordance with the requirements of the Building Societies Act 1986; • the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and • the information given in the annual business statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given. In the light of the knowledge and understanding of the Society and its environment obtained in the course of the audit, we have not identified material misstatements in the Directors' report.
Matters on which we are required to report by exception	We have nothing to report in respect of the following matters in relation to which the Building Societies Act 1986 requires us to report to you if, in our opinion: • adequate accounting records have not been kept by the Society; 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 8 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 Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

Independent auditor's report to the members of Market Harborough Building Society (continued)

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;
- Obtaining and understanding of the Society's policies and procedures regarding compliance with laws and regulations; and
- we considered the significant laws and regulations to be the Building Societies Act 1986, pension legislation, 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;
- 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:
- Detecting and responding to the risks of fraud; and
- 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;
- 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 deemed to have the 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.

Independent auditor's report to the members of Market Harborough Building Society (continued)

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
London, UK
22 March 2024

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

Income Statements

For the year ended 31 December 2023 All figures £'000	Note	2023 Group	2022 Group	2023 Society	2022 Society
Interest income	3	37,796	20,699	37,796	20,699
Interest payable and similar charges	4	(20,380)	(5,825)	(20,380)	(5,825)
Net Interest Income		**17,416**	**14,874**	**17,416**	**14,874**
Fees and commissions receivable		480	521	480	521
Fees and commissions payable		(426)	(446)	(426)	(446)
Other operating income		17	14	17	14
Net (loss)/gain from derivative financial instruments	5	(529)	478	(529)	478
Total Net Income		**16,958**	**15,441**	**16,958**	**15,441**
Administrative expenses	6	(11,479)	(9,647)	(11,479)	(9,647)
Depreciation, amortisation and impairment	14, 15, 16	(572)	(798)	(572)	(798)
Other operating charges		(141)	(161)	(141)	(161)
Other finance cost		22	(5)	22	(5)
Operating Profit before Impairment Gain/(Loss)		**4,788**	**4,830**	**4,788**	**4,830**
Impairment loss on loans and advances	7	(439)	(335)	(439)	(335)
Profit Before Tax		**4,349**	**4,495**	**4,349**	**4,495**
Tax on profit	8	(1,075)	(925)	(1,075)	(925)
Profit For The Financial Year		**3,274**	**3,570**	**3,274**	**3,570**

All of the above arise from continuing operations. All of the above arose in the UK.

Statements of Comprehensive Income

For the year ended 31 December 2023 All figures £'000	Note	2023 Group	2022 Group	2023 Society	2022 Society
Profit For The Financial Year		**3,274**	**3,570**	**3,274**	**3,570**
Items that will not be reclassified to the income statement					
Re-measurement of defined benefit obligation	22	(23)	611	(23)	611
Tax on items that will not be reclassified to the income statement		6	(153)	6	(153)
Other comprehensive (expense)/income for the period net of income tax		**(17)**	**458**	**(17)**	**458**
Total Comprehensive Income For The Period		**3,257**	**4,028**	**3,257**	**4,028**

The notes on pages 47 to 95 form part of these Annual Report and Accounts.

Statements of Financial Position

As at 31 December 2023 All figures £'000	Note	2023 Group	2022 Group Restated	2023 Society	2022 Society Restated
Cash in hand and balances at central banks	24	105,050	131,176	105,050	131,176
Loans and advances to credit institutions	9	8,345	7,042	8,345	7,042
Derivative financial instruments	10	3,391	6,645	3,391	6,645
Loans and advances to customers	11	597,534	497,973	597,534	497,973
Other assets	13	764	757	764	757
Property, plant and equipment	14	6,135	2,350	6,135	2,350
Right of use assets	16	20	40	20	40
Intangible assets	15	261	485	261	485
Retirement benefit asset	22	536	393	536	393
Total Assets		**722,036**	**646,861**	**722,036**	**646,861**
Shares	18	564,178	493,397	564,178	493,397
Amounts owed to credit institutions	19	59,274	60,940	59,274	60,940
Amounts owed to other customers	20	36,337	30,559	36,337	30,559
Derivative financial instruments	10	2,420	1,704	2,420	1,704
Other Liabilities and accruals	21	2,159	5,858	3,344	7,043
Lease Liabilities		16	36	16	36
Current tax liabilities		479	523	479	523
Deferred tax liability	17	243	171	243	171
Total Liabilities		**665,106**	**593,188**	**666,291**	**594,373**
General reserve	23	56,930	53,673	55,745	52,488
Total Reserves		**56,930**	**53,673**	**55,745**	**52,488**
Total Reserves and Liabilities		**722,036**	**646,861**	**722,036**	**646,861**

Restated values for 2022 include interest accrued on derivative financial instruments previously included in other assets/liabilities.

The notes on pages 47 to 95 form part of these Annual Report and Accounts.

Approved by the Board of Directors on 22 March 2024, and signed on its behalf by:

Lesley Titcomb
Chair

Iain Kirkpatrick
Chief Executive

Nicholas Fielden
Chief Finance Officer

Statements of Changes in Members' Interests

Group 2023 All figures £'000	General reserve	Total
Balance at 1 January 2023	53,673	53,673
Profit for the year	3,274	3,274
Other comprehensive income for the year (net of tax)		
Re-measurement of defined benefit obligation	(17)	(17)
Total Other Comprehensive Income	**(17)**	**(17)**
Total comprehensive income	**3,257**	**3,257**
Balance At 31 December 2023	**56,930**	**56,930**

Society 2023 All figures £'000	General reserve	Total
Balance at 1 January 2023	52,488	52,488
Profit for the year	3,274	3,274
Other comprehensive income for the year (net of tax)		
Re-measurement of defined benefit obligation	(17)	(17)
Total Other Comprehensive Income	**(17)**	**(17)**
Total comprehensive income	**3,257**	**3,257**
Balance At 31 December 2023	**55,745**	**55,745**

Statements of Changes in Members' Interests (continued)

Group 2022 All figures £'000	General reserve	Total
Balance at 1 January 2022	49,645	49,645
Profit for the year	3,570	3,570
Other comprehensive income for the year (net of tax)		
Re-measurement of defined benefit obligation	458	458
Total Other Comprehensive Expense	**458**	**458**
Total comprehensive income	**4,028**	**4,028**
Balance At 31 December 2022	**53,673**	**53,673**

Society 2022 All figures £'000	General reserve	Total
Balance at 1 January 2022	48,460	48,460
Profit for the year	3,570	3,570
Other comprehensive income for the year (net of tax)		
Re-measurement of defined benefit obligation	458	458
Total Other Comprehensive Expense	**458**	**458**
Total comprehensive income	**4,028**	**4,028**
Balance At 31 December 2022	**52,488**	**52,488**

The notes on pages 47 to 95 form part of these Annual Report and Accounts.

Cash Flow Statements

For the year ended 31 December 2023 All figures £'000	2023 Group	2022 Group Restated	2023 Society	2022 Society Restated
Profit before tax	4,349	4,495	4,349	4,495
Depreciation, amortisation and impairment	572	798	572	798
(Profit) / Loss on disposal of property, plant and equipment	(6)	0	(6)	0
Fair value Loss /(gain) on derivative instruments and hedging relationships	566	(478)	566	(478)
Interest on lease payments	0	1	0	1
Increase in impairment of loans and advances	439	332	439	332
Total Cash Flows From Operating Activities	**5,920**	**5,148**	**5,920**	**5,148**
Decrease/(Increase) in other assets	389	(689)	389	(689)
(Decrease)/increase in other liabilities	(566)	6,916	(566)	6,916
(Increase) in loans and advances to customers	(97,062)	(65,121)	(97,062)	(65,121)
Increase in shares	68,063	97,124	68,063	97,124
(Decrease)/Increase in amounts owed to other credit institutions	(2,000)	2,000	(2,000)	2,000
Increase/(Decrease) in amounts owed to other customers	5,427	(4,958)	5,427	(4,958)
(Decrease) in retirement benefit obligation	(166)	(121)	(166)	(121)
Taxation paid	(1,041)	(891)	(1,041)	(891)
Net Cash (used in)/from Operating Activities	**(21,036)**	**39,408**	**(21,036)**	**39,408**
Proceeds from disposal of property, plant and equipment	6	0	6	0
Purchase of property, plant and equipment	(4,033)	(1,172)	(4,033)	(1,172)
Purchase of intangible assets	(81)	(150)	(81)	(150)
Net Cash Used in Investing Activities	**(4,108)**	**(1,322)**	**(4,108)**	**(1,322)**
Principal element of lease payments	(21)	(21)	(21)	(21)
Net Cash Used in Financing Activities	**(21)**	**(21)**	**(21)**	**(21)**
Net Change In Cash Or Cash Equivalents	**(25,165)**	**38,064**	**(25,165)**	**38,064**
Cash and cash equivalents at 1 January	**138,010**	**99,946**	**138,010**	**99,946**
Cash And Cash Equivalents At 31 December	**112,845**	**138,010**	**112,845**	**138,010**

Restated values for 2022 include interest accrued on derivative financial instruments previously included in other assets/liabilities.

Interest received was £36.2m (2022 £19.1m) and interest paid was £6.5m (2022 £851k).

The notes on pages 47 to 95 form part of these Annual Report and Accounts.

Notes to the Annual Report and Accounts

1. MATERIAL ACCOUNTING POLICIES

The material accounting policies adopted in the preparation of these Annual Report and Accounts are set out below.

Basis of preparation

Both the Society and Group annual accounts are prepared and approved by the Directors in accordance with UK adopted international accounting standards; and have been prepared in accordance with the requirements of the Building Societies Act 1986 and in accordance with the Building Societies (Accounts and Related Provisions) Regulations 1998. The statements of the Group are presented in GB pounds sterling (GBP), which is the functional and presentation currency of the Group as it represents the primary currency of the underlying transactions, assets, funding and revenues. Amounts are rounded to the nearest thousand unless otherwise stated.

The Directors have prepared forecasts of the Group's financial position for at least the period ending twelve months from the date of approval of these Annual Report and Accounts. They have also considered the effect on the Society's business of operating under stressed but plausible operating conditions. This analysis focused on the expected profitability, capital adequacy and liquidity under a stress scenario. As a result they are satisfied that the Society and the Group have adequate resources to continue in business for the foreseeable future. Emphasis is placed on capital adequacy and liquidity as profitability in a single year would not be a significant factor in the long term viability of the Society. The Society holds excess capital over and above the regulatory requirement under normal and stressed circumstances. Retail funding is provided on the whole by individual savers, and can therefore be assumed to provide adequate stable funding. For this reason, the Annual Report and Accounts continue to be prepared on a going concern basis.

The Directors have considered the economic impacts of current political turmoil, such as in Ukraine, Gaza, and Suez Canal, high inflation and interest rates and have concluded that this would not impact the going concern basis under which these accounts have been prepared. The Directors have also considered and were comfortable with, the long term viability of the Society as discussed on page 28.

The impact of Climate risk on the accounting judgments and estimates

The Society makes use of reasonable and supportable information to make accounting judgments and estimates. This includes information about the observable effects of the physical and transition risks of climate change on the current creditworthiness of borrowers, asset values and market indicators, where relevant. Many of the effects arising from climate change will be longer term in nature, with an inherent level of uncertainty, and have limited effect on accounting judgments and estimates for the current period. Some physical and transition risks can manifest in the shorter term.

The following items represent the most significant effects:

- The use of market indicators as inputs to fair value is assumed to include current information and knowledge regarding the effect of climate risk.
- The measurement of loan loss provision with regards to the valuation of collateral that is assumed to include current information and knowledge regarding the effect of climate risk.

The accounting policies for the Group also include those for the Society unless otherwise stated.

Prior period has been restated to reclassify accrued interest of £467k from other assets to derivative financial instruments asset as accrued interest is part of the fair value of the derivative financial instruments. Additionally, £212k of accrued interest payable has been reclassified from other liabilities to derivative financial instruments, liabilities as part of the fair value of the derivatives. These changes have been reflected in the Statement of Financial Position and the Cash Flow Statement. The impact of the opening balance sheet of the comparison period as of 1 January 2022 is to reclassify accrued interest of £4k from other assets to derivative financial instruments asset as accrued interest is part of the fair value of the derivative financial instruments. Additionally, £32k of accrued interest payable has been reclassified from other liabilities to derivative financial instruments, liabilities as part of the fair value of the derivatives.

Changes in accounting policies and future accounting developments

The IASB has not published any new standards effective from 1 January 2023, however it has published some minor amendments effective from 1 January 2023 that are adopted by the UK Endorsement Board and are applicable to the Society.

- IAS 1 Presentation of Financial Statements
- IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors
- IFRS 16 Leases
- IFRS 17 Insurance Contracts

The Society has assessed that they had an insignificant effect on the consolidated financial statements of the Group and Society.

Notes to the Annual Report and Accounts (continued)

MATERIAL ACCOUNTING POLICIES (continued)

Basis of consolidation

Subsidiary companies are defined as those in which the Society has the power over relevant activities, has exposure to the rights of variable returns and has the influence to affect those returns. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and de-consolidated from the date that control ceases. The Group accounts consolidate the assets, liabilities and results of the Society and of its subsidiary, eliminating intercompany balances and transactions. All entities have accounting periods ending on 31 December. The results of subsidiary undertakings acquired or disposed of during the year are included in the income statements from the effective date of acquisition or up to the effective date that ownership ceases. The Society has one subsidiary company, Market Harborough Mortgages Limited, which remained dormant throughout the financial period; no acquisitions or disposals were made during 2023.

Interest income and expense

Interest income and interest expense for all interest-bearing financial instruments are recognised in the consolidated income statement using the effective interest rate (EIR) method.

The EIR method is used to calculate the amortised cost of financial instruments and to recognise interest receivable or payable over the relevant period. The effective interest rate is the rate that discounts the expected future cashflows (excluding credit losses), over the expected life of the financial instrument, to the gross carrying amount of the financial asset or liability. This includes fees and commissions if they are an integral part of the effective interest rate of a financial instrument. In calculating the effective interest rate, all contractual terms of the financial instrument are taken into account. Historical and forecast mortgage redemption data and management judgement are used to estimate the expected lives of mortgage assets.

Interest income and expense in the Income Statement include interest receivable / payable on derivative financials instruments.

Fees and commission

Fees and commissions that are integral part of creating loans and advances to customers are deferred and spread using the EIR method and included in Interest income. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised in the income statement when the commitment expires.

Other fee and commission income – including account servicing fees and commission relating to the sale of third party products - is recognised as the related services are performed.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income and gains arising in the accounting period.

Deferred tax is provided using the statement of financial position liability method, providing for temporary differences between the carrying amount of assets and liabilities for accounting purposes and the amounts used for taxation purposes.

Deferred tax assets and liabilities are recognised net on the statement of financial position, deferred tax assets are only recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised. All deferred tax assets and liabilities relate to the Group, which is one trading entity, and relate to taxes levied by HMRC only.

Both current and deferred taxes are determined using the rates enacted or substantively enacted at the statement of financial position date.

Tax relating to actuarial gains / (losses) on retirement benefit obligations is recognised in other comprehensive income.

Notes to the Annual Report and Accounts (continued)

MATERIAL ACCOUNTING POLICIES (continued)

Financial assets

Financial assets comprise cash and balances at central banks, loans and advances to credit institutions, derivative financial instruments, loans and advances to customers and other debtors and accrued income.

In accordance with IFRS 9 Financial Instruments: Recognition and Measurement, the Group classifies its financial assets into the following categories:

Financial assets held at amortised cost

Under IFRS 9, assets may be held at amortised cost, where the asset's contractual cash flow reflects solely payments of principal and interest on the principal amount outstanding (SPPI) and the business model is to hold the asset to collect the contractual cash flows. In this case, income is recognised under the EIR method. Any gain or loss arising on derecognition is recognised directly in profit or loss. The carrying value of these assets is adjusted by any expected credit loss allowance recognised. The Group classifies the following financial instruments as amortised cost:

- loans and advances to customers
- loans and advances to credit institutions;
- cash in hand and balances with the Bank of England; and
- other debtors and accrued income.

The initial value of loans and advances to customers may, if applicable, include certain upfront costs and fees such as procuration fees and product fees which are recognised over the expected life of mortgage assets. Throughout the year and at each year end, the mortgage life assumptions are reviewed for appropriateness. Any changes to the expected life assumptions of the assets are recognised through interest income and reflected in the carrying value of the mortgage assets.

The Group's non-mortgage lending, typically loans and advances to banks, is similarly undertaken with a view to recovery of contractual cash flows and with interest charged that meets the SPPI requirements.

The Group's cash balances, where interest generative, are held to collect contractual interest flows and to ensure appropriate liquidity is available to meet the Group's liabilities as they fall due.

Financial assets held at fair value through profit and loss

Under IFRS 9, where the contractual cash flow characteristics of an asset do not reflect SPPI, the asset is classified at 'fair value through profit or loss' (FVTPL), with fair value movements recognised through the Income Statement.

The Society enters into derivative financial instruments to hedge its exposures relating to interest rate movements. Derivatives are recognised at fair value on the date the derivative contract is entered into, and subsequently re-measured at their fair value. Changes in fair values are recognised through the Income Statement. In accordance with the Building Societies Act 1986, the Society does not hold or issue derivative financial instruments for trading purposes.

Impairment of financial assets

Loss provisions for expected credit losses (ECL) on financial assets held at amortised cost are recognised in the Income Statement. The Group provides for expected credit losses across applicable financial assets based on whether there has been a significant increase in credit risk since the asset's origination.

The Group reviews its mortgage advances portfolio at least on a quarterly basis to assess impairment. In determining whether an impairment loss should be recorded, the Group is required to exercise a degree of judgement. Impairment provisions are calculated using historical arrears experience, modelled credit risk characteristics and expected cash flows.

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. The accuracy of the provision would therefore be affected by unexpected changes to these assumptions.

A sensitivity analysis of these assumptions is provided in Note 28 of the Accounts.

MATERIAL ACCOUNTING POLICIES (continued)

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- Stage 1: A financial asset that is not credit-impaired on initial recognition and its credit risk has not significantly increased since origination. ECL is measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months.
- Stage 2: If a significant increase in credit risk since initial recognition is identified, the financial asset is moved to 'Stage 2' but is not yet deemed to be credit impaired. The definition of a significant increase in credit risk is detailed below. ECL for stage 2 assets are measured based on expected credit losses on a lifetime basis.
- Stage 3: If the financial asset is credit-impaired, it is moved to 'Stage 3'. The definition of credit-impaired is outlined below. ECL for stage 3 assets is also measured on expected credit losses on a lifetime basis.

Significant increase in credit risk

A loan is considered to have experienced a 'significant increase in credit risk' when it meets any of the following criteria:

- Over 30 days in arrears
- Subject to forbearance
- A material reduction in the creditworthiness of the customer since inception
- Owner-occupied interest only mortgage where there is insufficient equity to sell and downsize
- Other material information that has come to light since the loans inception

Credit Impairment

A loan will be categorised as being 'impaired', and in default, if it meets any of the following criteria:

- Over 90 days in arrears
- Customer is declared or has sought to become bankrupt
- The loan has gone past the scheduled term end date of the loan

It is the Society's policy to consider a financial instrument as 'cured' and therefore reclassified out of Stage 2 or 3 when the impairment criteria is no longer met. The data observation period is 12 months.

Forward-looking information is taken into account in the measurement of ECL with its use of economic assumptions such as inflation, unemployment rates, house price indices and Gross Domestic Product.

Loans are written off against the ECL balance when there is no realistic prospect of recovery. This is generally after receipt of any proceeds from the realisation of the collateral backing the loan.

The Group has no purchased or originated credit impaired assets and has not applied any simplified approaches.

Financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL as classified in Note 0 Financial Instruments.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Cash and cash equivalents

'Cash and cash equivalents' include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in its fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

Notes to the Annual Report and Accounts (continued)

MATERIAL ACCOUNTING POLICIES (continued)

Derivatives held for risk management purposes and hedge accounting

The Group uses derivatives only for risk management purposes. It does not use derivatives for trading purposes. Derivatives are measured at fair value in the statement of financial position. Fair values are obtained by applying quoted market rates to a discounted cash flow model. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The Group has elected to continue to apply the hedge accounting requirements of IAS 39 on adoption of IFRS 9.

The Group looks to designate derivatives held for risk management purposes as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Group documents formally the relationship between the hedging instruments and hedged items, 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. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, as to 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%. If derivatives are not designated as hedges, then changes in their fair values are recognised immediately in the income statement in the period in which they arise.

Portfolio fair value hedges are used to hedge exposures to variability in the fair value of financial assets and liabilities, such as fixed rate mortgages and savings products. Changes in the fair value of derivatives are recognised immediately in the income statement together with changes in the fair value of the hedged item that are attributable to the hedged risk (in the same line in the income statement as the hedged item). If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, hedge accounting is discontinued prospectively. Any adjustment up to that point to a hedge item, for which the effective interest method is used, is amortised to the income statement as part of the recalculated effective interest rate of the item over its remaining life.

Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Any gain or loss on disposal of an item of property and equipment is recognised within other income in profit or loss.

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss.

The estimated useful lives of significant items of property and equipment are as follows:

- Land is not depreciated;
- Buildings - 50 years;
- IT equipment - 3–5 years; and
- Fixtures and fittings - 5 years.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Intangible assets

Software acquired by the Group is measured at cost less accumulated amortisation and any accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate: that the product is technically feasible, 'its intention and ability to complete the development and use the software in a manner that will generate future economic benefits', and that it can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and any accumulated impairment losses. The Society does not currently have any internally developed software (2022: nil).

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Software is amortised on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of software for the current and comparative periods is three to five years.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Notes to the Annual Report and Accounts (continued)

MATERIAL ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than deferred tax assets) 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 or Cash-generating unit (CGU) is the greater of its value in use and its fair value less costs to sell. 'Value in use' is based on the estimated future cash flows, 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 or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Loan commitments

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Employee benefits

The Society operates a defined contribution scheme on behalf of Executive Directors and colleagues. Obligations for contributions to defined contribution plans are expensed as the related service is provided and recognised as personnel expenses in profit or loss. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

The Society historically operated a defined benefit scheme; this was closed to future accrual in 2005. The Group's net obligation in respect of its defined benefit plan is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Re-measurements of the net defined benefit asset, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in personnel expenses in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Use of judgements and estimates

In preparing these consolidated financial statements, management has made judgements and estimates that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and judgements are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements are included in:

- Note 28: establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of expected credit loss (ECL) and selection and approval of models used to measure ECL.

Notes to the Annual Report and Accounts (continued)

MATERIAL ACCOUNTING POLICIES (continued)

Assumptions and estimations

Information about assumptions and estimations that have a significant risk of resulting in a material adjustment in the year is included in the following notes:

- Note 11: loans and advances to customers – the assessment of the expected life of mortgages will change the timescale over which interest income is released and thus impact the gross carrying value of the mortgages.
- Note 22: measurement of defined benefit obligations: key actuarial assumptions.
- Note 28: impairment of financial instruments: key assumptions used in estimating recoverable cash flows.
- Note 28: impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information.

2. CHANGES IN ACCOUNTING POLICIES AND FUTURE ACCOUNTING DEVELOPMENTS

The IASB has not published any new standards effective from 1 January 2023, however it has published some minor amendments effective from 1 January 2023 that are adopted by the UK Endorsement Board. Amendments were made to the following standards:

- IFRS 17 Insurance Contracts (initial application)
- IAS 1 and IFRS Practice Statement – Disclosure of Accounting Policies
- Amendments to IAS 12- Deferred Tax related to Assets and Liabilities arising from a Single Transaction
- Amendments to IAS 8 - Definition of Accounting Estimates

The Society has assessed that they had an insignificant effect on the consolidated financial statements of the Group and Society.

In addition the IASB has not published any new standards effective from 1 January 2024, however it has published some minor amendments effective from that date that are adopted by the UK Endorsement Board, which are as follows:

- IAS 1 Classification of Liabilities as Current or Non-current
- IFRS 16 Lease Liability in a Sale and Leaseback
- IAS 1 Non-current Liabilities with Covenants
- IAS7 & IFRS 7 Supplier Finance Arrangements

The Society has assessed these that these will have an insignificant impact on the consolidated financial statements of the Group and Society.

3. INTEREST INCOME

All figures £'000	**2023 Group**	**2022 Group**	**2023 Society**	**2022 Society**
On loans fully secured on residential property	28,049	17,285	28,049	17,285
On other loans	1,329	1,083	1,329	1,083
On liquid assets	5,306	1,434	5,306	1,434
Total interest income calculated using the effective interest rate method	**34,684**	**19,802**	**34,684**	**19,802**
Net interest income / (expense) on derivatives	3,112	897	3,112	897
Total	**37,796**	**20,699**	**37,796**	**20,699**

Interest income is calculated in accordance with the effective interest method. Included within interest income is £54k (2022: £nil) in respect of interest income accrued on impaired loans two or more months in arrears.

Notes to the Annual Report and Accounts (continued)

4. INTEREST PAYABLE AND SIMILAR CHARGES

All figures £'000	2023 Group	2022 Group	2023 Society	2022 Society
On shares held by individuals	16,207	4,953	16,207	4,953
On deposits and other borrowings	3,156	1,087	3,156	1,087
On leases	-	1	-	1
Total interest expense calculated using the effective interest rate method	**19,363**	**6,041**	**19,363**	**6,041**
Net interest cost / (income) on derivatives	1,017	(216)	1,017	(216)
Total	**20,380**	**5,825**	**20,380**	**5,825**

5. NET GAIN/ (LOSS) FROM DERIVATIVE FINANCIAL INSTRUMENTS

All figures £'000	2023 Group	2022 Group	2023 Society	2022 Society
Derivatives in designated fair value hedge relationships	(3,623)	3,562	(3,623)	3,562
Adjustments to hedged items in fair value hedge accounting relationships	3,212	(3,275)	3,212	(3,275)
Derivatives not in designated fair value hedge relationships	(155)	191	(155)	191
Subtotal	(566)	478	(566)	478
Terminated Derivatives	37	-	37	-
Total	**(529)**	**478**	**(529)**	**478**

The net loss from derivative financial instruments was £529k in 2023. This has moved from a gain of £478k in 2022 and represents the net fair value movement on derivative instruments that are matching risk exposure on an economic basis.

Some accounting volatility arises on these items due to accounting 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 the Group's underlying performance.

Notes to the Annual Report and Accounts (continued)

ADMINISTRATIVE EXPENSES (continued)

6. ADMINISTRATIVE EXPENSES

All figures £'000	**2023 Group**	**2022 Group**	**2023 Society**	**2022 Society**
Staff costs				
Wages and salaries	5,731	5,030	5,731	5,030
Social security costs	632	590	632	590
Other pension costs	540	392	540	392
Total staff costs	**6,903**	**6,012**	**6,903**	**6,012**
Other administrative costs	4,576	3,635	4,576	3,635
Total	**11,479**	**9,647**	**11,479**	**9,647**

Auditor's Remuneration

Included in other administrative costs are the fees paid to auditors. These are analysed below:

All figures £'000 and exclude VAT	**2023 Group**	**2022 Group**	**2023 Society**	**2022 Society**
Auditor's remuneration	195	175	195	175
Total	195	175	195	175

Staff Numbers

The Full Time Equivalents of staff for the Group and the Society as at Dec 2023, including Executive Directors, all of whom were employed in the UK, was:

Full Time Equivalents	**2023 Group**	**2022 Group**	**2023 Society**	**2022 Society**
Full time employees	97	77	97	77
Part time employees	35	35	35	35
Total	**132**	**112**	**132**	**112**

Full Time Equivalents	**2023 Group**	**2022 Group**	**2023 Society**	**2022 Society**
Head office	116	100	116	100
Branches	16	12	16	12
Total	**132**	**112**	**132**	**112**

Notes to the Annual Report and Accounts (continued)

ADMINISTRATIVE EXPENSES (continued)

The number of staff for the Group and the Society as at Dec 2023, including Executive Directors, all of whom were employed in the UK, was:

Headcount Numbers	2023 Group	2022 Group	2023 Society	2022 Society
Branch Full time employees	5	2	5	2
Branch Part time employees	17	17	17	17
Total	**22**	**19**	**22**	**19**

Headcount Numbers	2023 Group	2022 Group	2023 Society	2022 Society
Head Office Full time employees	92	75	92	75
Head Office Part time employees	40	41	40	41
Total	**132**	**116**	**132**	**116**

Headcount Numbers	2023 Group	2022 Group	2023 Society	2022 Society
Total Branch employees	22	19	22	19
Total Head Office employees	132	116	132	116
Total	**154**	**135**	**154**	**135**

Directors' Emoluments and Transactions

Directors' Emoluments

Group and Society All figures £'000	2023 Group	2022 Group
For services as Non-Executive Directors	240	221
For services as Executive Directors	811	658
Total	**1,051**	**879**

Directors' Transactions

Full details of emoluments for non-executive directors are given in the Directors' Remuneration Report under the heading "Non-Executive Directors' Remuneration". Full details of emoluments for Executive Directors are given in the Directors' Remuneration Report under the heading "Executive Directors' Remuneration"

There have been no significant contracts during the year in which any Director had a material interest.

A register is maintained in accordance with the requirements of Section 68 of the Building Societies Act 1986, and the requisite particulars are available for inspection at the Society's head office during the period of 15 days expiring with the annual general meeting, and at the annual general meeting on 25 April 2024.

Notes to the Annual Report and Accounts (continued)

7. IMPAIRMENT LOSSES ON LOANS AND ADVANCES

The table below shows charge/ (credit) to the income statement which comprises:

All figures £'000	2023 Loans fully secured on residential property	2023 Other loans fully secured on land	2023 Total	2022 Loans fully secured on residential property	2022 Other loans fully secured on land	2022 Total
Charge/(release) of provision for impairment	451	(14)	437	339	(7)	**332**
Recoveries of debts previously written off	-	-	-	(3)	-	**(3)**
Operational losses	2	-	2	6	-	**6**
Total	**453**	**(14)**	**439**	**342**	**(7)**	**335**

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

All figures £'000	2023 Group	2022 Group	2023 Society	2022 Society
Current tax	996	894	996	894
Adjustment in respect of prior years	2	(15)	2	(15)
Total current tax	**998**	**879**	**998**	**879**
Origination and reversal of temporary difference	73	46	73	46
Effect of change in tax rate on deferred tax	5	(3)	5	(3)
Adjustment in respect of prior years	(1)	3	(1)	3
Total deferred tax	**77**	**46**	**77**	**46**
Total tax expense	**1075**	**925**	**1075**	**925**

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

All figures £'000	2023 Group	2022 Group	2023 Society	2022 Society
Profit before tax	**4,349**	4,495	**4,349**	4,495
Expected tax at 23.5%	1008	854	1008	854
Expenses not deductible for corporation tax purposes	61	99	61	99
Super deduction element of capital allowances	(1)	(13)	(1)	(13)
Effect of change in tax rate on deferred tax	5	(3)	5	(3)
Adjustment in respect of prior years	2	(12)	2	(12)
Total tax expense	**1075**	**925**	**1075**	**925**

Notes to the Annual Report and Accounts (continued)

9. LOANS AND ADVANCES TO CREDIT INSTITUTIONS

All figures £'000	**2023 Group**	**2022 Group**	**2023 Society**	**2022 Society**
Repayable on call and short notice	7,795	6,834	7,795	6,834
Other loans and advances to credit institutions	550	208	550	208
Total	**8,345**	**7,042**	**8,345**	**7,042**

10.DERIVATIVE FINANCIAL INSTRUMENTS

The Group mitigates the credit risk of derivatives by holding collateral in the form of cash where credit risk exceeds an agreed threshold as set out below.

Derivative transactions are entered into under International Swaps and Derivatives Association (ISDA) master agreements. Under these agreements and in certain circumstances – e.g. when a credit event such as a default occurs – all outstanding transactions under the agreement with the counterparty are terminated. The termination values are therefore assessed for settlement of all transactions with the counterparty. There is no right of set off. The Group executes a Credit Support Annex (CSA) in conjunction with each ISDA agreement, which requires the Group and its counterparties to post collateral to mitigate counterparty credit risk, where collateral is only posted should the minimum threshold amount of £250,000 be reached. At 31 December 2023, £950k was received and £280k was placed (2022: £4,600k net was received) as cash collateral with swap counterparties.

The Society does not transact derivatives on exchanges or with Central Clearing Parties.

Before fair value hedge accounting is applied by the Group, the Group determines whether an economic relationship between the hedged item and the hedging instrument exists based on an evaluation of the qualitative characteristics of these items and the hedged risk that is supported by quantitative analysis. The Group considers whether the critical terms of the hedged item and hedging instrument closely align when assessing the presence of an economic relationship. The Group evaluates whether the fair value of the hedged item and the hedging instrument respond similarly to similar risks. The Group further supports this qualitative assessment by using regression analysis to assess whether the hedging instrument is expected to be and has been highly effective.

The Group establishes a hedge ratio by aligning the par amount of the fixed-rate loan or deposit and the notional amount of the interest rate swap designated as a hedging instrument. Under the Group policy, in order to conclude that a hedge relationship is effective, all of the following criteria should be met:

- The regression co-efficient (R squared), which measures the correlation between the variables in the regression, is at least 0.9;
- The slope of the regression line is within a 0.8–1.25 range; and
- The confidence level of the slope is at least 95%.

In these hedge relationships, the main sources of ineffectiveness are:

- The effect of the counterparty and the Group's own credit risk on the fair value of the interest rate swap, which is not reflected in the fair value of the hedged item attributable to the change in interest rate; and
- Differences in maturities of the interest rate swap and the loans or the deposit products.

There were no other sources of ineffectiveness in these hedge relationships.

The effective portion of fair value gains on derivatives held in qualifying fair value hedging relationships and the hedging gain or loss on the hedged items are included in net gains from derivative financial instruments (Note 0).

Notes to the Annual Report and Accounts (continued)

DERIVATIVE FINANCIAL INSTRUMENTS (continued)

At 31 December 2023, the Group held the following interest rate swaps as hedging instruments in fair value hedges of interest rate risk.

Group and Society As at December 2023 All figures £'000	Maturity		
	Less than 1 year	1 – 5 years	More than 5 years
Hedge of loans and advances			
Nominal amount	20,000	68,500	-
Average fixed interest rate	2.08%	3.17%	-
Hedge of retail deposits			
Nominal amount	62,000	114,500	-
Average fixed interest rate	3.31%	4.53%	-

Group and Society As at December 2022 All figures £'000	Maturity		
	Less than 1 year	1 – 5 years	More than 5 years
Hedge of loans and advances			
Nominal amount	63,500	90,000	-
Average fixed interest rate	0.57%	2.45%	-

The amounts relating to items designated as hedging instruments and hedge ineffectiveness were as follows. The remaining derivatives are used for hedging the pipeline.

Group and Society As at December 2023 All figures £'000	Nominal	Fair Value Assets	Fair Value Liabilities	Change in fair value used for calculating hedge ineffectiveness	Ineffectiveness recognised in profit or loss
Derivatives designated as fair value hedges – interest rate swaps					
In hedging relationships	259,000	2,519	(1,636)	(3,623)	(411)
Not in hedging relationships	6,000	27	(2)	-	(118)
Accrued interest relating to derivatives designated as fair value hedges – interest rate swaps		845	(782)	-	-
Total FV including interest accrued		**3,391**	**(2,420)**	**(3,623)**	**(529)**

Notes to the Annual Report and Accounts (continued)

DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Group and Society As at December 2022 (Restated) All figures £'000	Nominal	Fair Value Assets	Fair Value Liabilities	Change in fair value used for calculating hedge ineffectiveness	Ineffectiveness recognised in profit or loss
Derivatives designated as fair value hedges – interest rate swaps					
In hedging relationships	192,000	5,817	(1,312)	3,562	287
Not in hedging relationships	38,500	361	(179)	-	191
Accrued interest relating to derivatives designated as fair value hedges – interest rate swaps		467	(213)	-	-
Total FV including interest accrued		**6,645**	**(1,704)**	**3,562**	**478**

2022 values have been restated to include accrued interest and disclose the interest rate swaps not in designated hedge relationships.

The line item in the statement of financial position where the hedging instrument is included is derivative financial instruments.

The line item in the profit or loss that includes hedge ineffectiveness is Net gains / (losses) from derivative financial instruments.

The amounts relating to items designated as hedged items were as follows

Group and Society As at December 2023 All figures £'000	Carrying amount		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item		Change in value used for calculating hedge ineffectiveness
	Assets	Liabilities	Assets	Liabilities	
Retail Deposits	-	(175,020)	-	217	(839)
Loans and advances	82,984	-	-	-	-
From previous hedge relationships		-	(1,116)	-	-
In ongoing hedge relationships		-	(717)	-	4,051

Group and Society As at December 2022 All figures £'000	Carrying amount		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item		Change in value used for calculating hedge ineffectiveness
	Assets	Liabilities	Assets	Liabilities	
Retail Deposits	-	(69,686)	-	(622)	622
Loans and advances	116,898	-	(4,769)	-	(3,896)

Notes to the Annual Report and Accounts (continued)

DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The line item in the statement of financial position in which the hedged item is included is loans and advances to customers for loans and advances and shares for retail deposits. There was £1.1m (2022: £nil) accumulated amount of fair value hedged adjustments remaining in the statement of financial position for hedged items, loans and advances, for hedged items that have ceased to be adjusted for hedging gains and losses. This amount is being amortised over the remaining life of the previously hedged item.

11.LOANS AND ADVANCES TO CUSTOMERS

All figures £'000	2023 Group	2022 Group	2023 Society	2022 Society
Loans fully secured on residential property	581,147	474,491	581,147	474,491
Other loans fully secured on land	19,640	29,234	19,640	29,234
Gross loan receivables	**600,787**	**503,725**	**600,787**	**503,725**
Stage 1 (see below)	(833)	(659)	(833)	(659)
Stage 2 (see below)	(470)	(324)	(470)	(324)
Stage 3 (see below)	(117)	-	(117)	-
Provision for impairment losses on loans and advances	**(1,420)**	**(983)**	**(1,420)**	**(983)**
Net loan receivables	**599,367**	**502,742**	**599,367**	**502,742**
Fair value adjustment for hedged risk	(1,833)	(4,769)	(1,833)	(4,769)
Total	**597,534**	**497,973**	**597,534**	**497,973**

The Group has pledged £94m (2022: £84m) of mortgage loan pools with the Bank of England. Of these mortgage loan pools £79m (2022: £83m) are encumbered mortgage assets supporting the TFSME scheme.

In determining the expected life of mortgage assets, the Group uses historical and forecast redemption data as well as management judgement.

At regular intervals throughout the year, the expected life of mortgage assets is reassessed for reasonableness. Any variation in the expected life of mortgage assets will change the carrying value in the statement of financial position and the timing of the recognition of interest income.

A one month increase in average life of a mortgage, allied to the assumption that this additional time would be on SVR would result in a £3.5m (2022: £821k) increase in the gross carrying value of loans and advances.

Notes to the Annual Report and Accounts (continued)

LOANS AND ADVANCES TO CUSTOMERS (continued)

The movement in provision for impairment losses on loans and advances for the Group may be analysed as follows:

Group and Society **All figures £'000**	**Stage 1**	**Stage 2**	**Stage 3**	**2023** **Total**
Loan Balance at 1 January 2023	483,685	20,040	-	503,725
Transfers resulting in increased impairment loss provision:				
From Stage 1 to Stage 2	(15,783)	15,628	-	(155)
From Stage 1 to Stage 3	(3,448)	-	3,569	122
From Stage 2 to Stage 3	-	-	-	-
Transfers resulting in reduced impairment loss provision:				
From Stage 2 to Stage 1	9,820	(9,802)	-	18
From Stage 3 to Stage 1	-	-	-	-
From Stage 3 to Stage 2	-	-	-	-
New Advances [1]	181,396	4,913	16	186,325
Redemptions and Repayments	(86,451)	(2,797)	-	(89,248)
Loan Balance at 31 December 2023	**569,220**	**27,982**	**3,585**	**600,787**

Group and Society **All figures £'000**	**Stage 1**	**Stage 2**	**Stage 3**	**2023** **Total**
Provision at 1 January 2023	659	323	-	982
Transfers resulting in increased impairment loss provision:				
From Stage 1 to Stage 2	(49)	82	-	33
From Stage 1 to Stage 3	(3)	-	117	114
From Stage 2 to Stage 3	-	-	-	-
Transfers resulting in reduced impairment loss provision:				
From Stage 2 to Stage 1	15	(84)	-	(69)
From Stage 3 to Stage 1	-	-	-	-
From Stage 3 to Stage 2	-	-	-	-
New Advances[1]	349	171	-	520
Redemptions and Repayments	(38)	(9)	-	(47)
Other re-measurement of impairment loss provision	(100)	(13)	-	(113)
Write offs	-	-	-	-
Provision at 31 December 2023	**833**	**470**	**117**	**1,420**

Notes to the Annual Report and Accounts (continued)

LOANS AND ADVANCES TO CUSTOMERS (continued)

Group and Society All figures £'000	Stage 1	Stage 2	Stage 3	2022 Total
Loan Balance at 1 January 2022	416,359	22,153	92	438,604
Transfers resulting in increased impairment loss provision:				
From Stage 1 to Stage 2	(7,453)	7,453	-	-
From Stage 1 to Stage 3	-	-	-	-
From Stage 2 to Stage 3	-	-	-	-
Transfers resulting in reduced impairment loss provision:				
From Stage 2 to Stage 1	12,600	(12,600)	-	-
From Stage 3 to Stage 1	-	-	-	-
From Stage 3 to Stage 2	-	5	(5)	-
New Advances [1]	163,116	8,201	-	171,317
Redemptions and Repayments	(100,938)	(5,171)	(87)	(106,196)
Loan Balance at 31 December 2022	**483,685**	**20,040**	**-**	**503,725**

Group and Society All figures £'000	Stage 1	Stage 2	Stage 3	2022 Total
Provision at 1 January 2022	409	242	-	651
Transfers resulting in increased impairment loss provision:				
From Stage 1 to Stage 2	(8)	71	-	63
From Stage 1 to Stage 3	-	-	-	-
From Stage 2 to Stage 3	-	-	-	-
Transfers resulting in reduced impairment loss provision:				
From Stage 2 to Stage 1	3	(125)	-	(122)
From Stage 3 to Stage 1	-	-	-	-
From Stage 3 to Stage 2	-	-	-	-
New Advances[1]	401	203	-	604
Redemptions and Repayments	(76)	(17)	-	(93)
Other remeasurement of impairment loss provision movement	(70)	(51)	-	(121)
Write offs	-	-	-	-
Provision at 31 December 2022	**659**	**323**	**-**	**982**

[1]New assets originated enter at stage 1. The balances presented are the final position as at 31 December 2023

Notes to the Annual Report and Accounts (continued)

12.INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

The Society directly holds 100% of the issued ordinary share capital of Market Harborough Mortgages Limited. The principal activity of the company is mortgage related finance. Its share capital is £1 (2022: £1). Its principal place of business is Welland House, The Square, Market Harborough, Leicestershire, LE16 7PD. It is registered in England and Wales. There have been no additions or disposals of investments during the year. Market Harborough Mortgages Limited became dormant from 1 January 2016.

13.OTHER ASSETS

All figures £'000	**2023 Group**	**2022 Group**	**2023 Society**	**2022 Society**
Prepayments	762	725	762	725
Other debtors	2	32	2	32
Total	**764**	**757**	**764**	**757**

The fair value of other financial assets approximates the book value.

14.PROPERTY PLANT AND EQUIPMENT

Group & Society 2023 **All figures £'000**	**Freehold Property**	**Leasehold Property**	**Equipment Fixtures & Fittings**	**Motor Vehicles**	**Total**
At 1 January	2,744	73	3,712	40	6,569
Additions	3,892	-	140	-	4,033
Disposals	-	-	-	(12)	(12)
Total cost at 31 December	**6,636**	**73**	**3,853**	**28**	**10,590**
At 1 January	138	73	3,555	23	3,789
Charge for the year	27	-	108	7	142
On disposals	-	-	-	(12)	(12)
Total depreciation at 31 December	**165**	**73**	**3,663**	**18**	**3,919**
Impairment at 31 December	**537**	**-**	**-**	**-**	**537**
Net book value at 31 December	**5,935**	**-**	**190**	**10**	**6,135**

Property plant and equipment additions of £1,138k include four freehold properties purchased by the Society in 2023 at a cost of £1,138k. They have been added to the three properties purchased in 2022. These properties have been leased out at zero rent to a local Social Housing Association to provide accommodation to local families in need. The properties are accounted for under IAS 16 Property, Plant and Equipment using the cost valuation model, i.e. the assets are carried at cost less accumulated depreciation and impairment losses.

In recognition of no expected financial return, i.e. zero rent, on these properties the Society has recognised an impairment loss of £106k in its Income Statement. IAS 36 Impairment of Assets requires impairment measurement using the recoverable amount which is the higher of 'Fair Value less Cost of Sales' and 'Value in Use'. As the 'Value in Use' has been assessed as nil, 'Fair Value less Cost of Sales' has been determined as the recoverable amount. The fair value less cost of sales measurement has been classified as level 3 as per IFRS13. A discounted cash flow valuation technique was used to calculate the recoverable amount. The key assumptions are the discount rate of 4.1% being the 10 year government GILT curve (in line with the lease agreement). The increase in average property prices of 1.2% using HPI curves to arrive at the future value.

Notes to the Annual Report and Accounts (continued)

PROPERTY PLANT AND EQUIPMENT (continued)

Group & Society 2022 All figures £'000	Freehold Property	Leasehold Property	Equipment Fixtures & Fittings	Motor Vehicles	Total
At 1 January	1,640	73	3,644	40	5,397
Additions	1,104	-	68	-	1,172
Disposals	-	-	-	-	-
Total cost at 31 December	**2,744**	**73**	**3,712**	**40**	**6,569**
At 1 January	133	73	3,450	17	3,673
Charge for the year	5	-	105	5	115
On disposals	-	-	-	-	-
Total depreciation at 31 December	**138**	**73**	**3,555**	**22**	**3,788**
Impairment at 31 December	**431**	**-**	**-**	**-**	**431**
Net book value at 31 December	**2,175**	**-**	**157**	**18**	**2,350**

The majority of the freehold property and leasehold property included above for 2022 was occupied by the Society. The additions in 2022 relate to the purchase of three new freehold properties for a total cost of £1.1m, these properties were purchased to provide housing for families in need, initially these have been made available for Ukrainian refugee families. These properties have not been purchased for earning rental or capital appreciation.

15.INTANGIBLE ASSETS

Group & Society 2023 All figures £'000	Purchased Software
At 1 January	4,182
Additions	138
Written off in the year	(57)
Total cost at 31 December	**4,263**
Amortisation	
At 1 January	3,697
Charge for the year	305
Total amortisation at 31 December	**4,002**
Net book value at 31 December	**261**

Notes to the Annual Report and Accounts (continued)

INTANGIBLE ASSETS (continued)

Group & Society 2022 All figures £'000	Purchased Software
At 1 January	4,032
Additions	150
Total cost at 31 December	**4,182**
At 1 January	3,465
Charge for the year	232
Total amortisation at 31 December	**3,697**
Net book value at 31 December	**485**

16.LEASES

During 2022 the Society had one financial lease contract relating to a branch building lease.

The statement of financial position shows the following amounts relating to leases:

Group & Society All figures £'000	2023 £'000	2022 £'000
Right-of-use assets as at 1 January	40	60
Additions	-	-
Amortisation	(20)	(20)
Right-of-use assets as at 31 December	**20**	**40**

Lease liability maturity analysis:

Group & Society All figures £'000	2023 £'000	2022 £'000
Less than one year	20	20
One to five years	-	21
More than five years	-	-
Total lease liabilities as at 31 December	**20**	**41**

The income statement shows the following amounts relating to leases:

Group & Society All figures £'000	2023 £'000	2022 £'000
Depreciation charge for right-of-use assets	20	20
Interest expense (included in interest payable and similar charges)	-	1

Notes to the Annual Report and Accounts (continued)

17.DEFERRED TAX

Deferred tax movement All figures £'000	2023 Group	2022 Group	2023 Society	2022 Society
At 1 January	(171)	28	(171)	28
Income statement credit	(77)	(46)	(77)	(46)
Recognised directly in other comprehensive income	5	(153)	5	(153)
At 31 December	**(243)**	**(171)**	**(243)**	**(171)**

The deferred tax charge in the income statement comprises the following temporary differences:

All figures £'000	2023 Group	2022 Group	2023 Society	2022 Society
Property, plant and equipment and intangibles	19	5	19	5
IFRS 9 transitional adjustment	6	5	6	5
Pensions and other post tax retirement benefits	(39)	(23)	(39)	(23)
Effect of change in tax rate	(5)	3	(5)	3
Adjustment for prior years	1	(3)	1	(3)
Other provisions	(59)	(33)	(59)	(33)
Total	**(77)**	**(46)**	**(77)**	**(46)**

Deferred income tax liabilities are attributable to the following items:

All figures £'000	2023 Group	2022 Group	2023 Society	2022 Society
Pensions and other post-retirement benefits	(134)	(98)	(134)	(98)
Property, plant and equipment	(130)	(147)	(130)	(147)
Other	21	74	21	74
Total	**(243)**	**(171)**	**(243)**	**(171)**

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled, or the asset realised. The March 2021 Budget announced an increase to the main rate of corporation tax to 25% from April 2023. This rate was substantively enacted on 24 May 2021 and, as a result, deferred tax balances as of 31 December 2022 take account of this rate, where appropriate.

Notes to the Annual Report and Accounts (continued)

18.SHARES

Group and Society All figures £'000	2023	2022
Held by individuals	562,450	492,719
Other shares	1,511	1,300
Fair value adjustment for hedged risk	217	(622)
Total	**564,178**	**493,397**

19.AMOUNTS OWED TO CREDIT INSTITUTIONS

Group and Society All figures £'000	2023	2022
Amounts owed to credit institutions	59,274	60,940
Total	**59,274**	**60,940**

At 31 December 2023 the Society has drawn £58.5m under the Term Funding Scheme with additional incentives for SMEs (TFSME), included above. These loans are repayable to the Bank of England £11.5m by 2024 and £47m by 2025.

20.AMOUNTS OWED TO OTHER CUSTOMERS

Group and Society All figures £'000	2023	2022
Retail customers:		
On demand	5,536	6,220
Notice	28,732	22,317
Local authorities		
Term	2,069	2,022
Total	**36,337**	**30,559**

21.OTHER LIABILITIES AND ACCRUALS

All figures £'000	2023 Group	2022 Group	2023 Society	2022 Society
Accruals	1,718	1,234	1,718	1,234
Other taxes and social security	248	215	248	215
Amounts due to subsidiary	-	-	1,185	1,185
Other creditors	193	4,409	193	4,409
Total	**2,159**	**5,858**	**3,344**	**7,043**

The fair value of other financial liabilities and accruals approximates the book value.

Notes to the Annual Report and Accounts (continued)

22.RETIREMENT BENEFIT LIABILITIES / ASSETS

Defined benefit scheme

The Society operates a pension scheme providing benefits based on final pensionable pay that was closed for the accrual of future benefits on 6 April 2005 and replaced with a defined contribution group personal pension scheme. The assets of the former are held separately from those of the Society being invested with an insurance company in managed funds.

The pension cost is assessed following the advice of a qualified independent actuary using the projected unit method. The latest funding review of the scheme which has been completed was at 6 April 2018 and takes into account the closure of the scheme for future service accrual. This review showed that the market value of the scheme assets at 6 April 2018 was £9.2 million and that the actuarial value of those assets represented 93% of the benefits that had accrued to members after allowing for expected future increase in salaries. The Triannual Actuarial Report at 6 April 2021 provided an updated valuation of assets of £9.6m and that the scheme remained 94% funded. The Society continues to make contributions in line with agreed schedule in order to eliminate this deficit.

Following the High Court ruling in October 2018, the liability reported includes an increase of £172k relating to an additional provision for Guaranteed Minimum Pension (GMP) equalisation. This additional charge was accounted for through the Income Statement in 2018.

An updated actuarial valuation at 31 December 2023 was carried out in line with IAS 19 by a qualified independent actuary, as follows:

Group and Society **Growth and rates of return**	**2023**	**2022**
Discount rate	4.5	4.8
Rate of increase in salaries	3.5	3.6
Pension Increases:		
Rate of increase in pensions (RPI max 5% min 3%)	3.5	3.5
Rate of increase in pensions (RPI max 5%)	2.9	3.1
Inflation	3.0	3.1

Group and Society **Expected life at 31 December (normal retirement age of 65)**	**2023**	**2022**
Expected life at retirement for a new pensioner (yrs.) - Male	21.5	22
Expected life at retirement for a new pensioner (yrs.) - Female	23.9	24.4
Expected life at retirement in 20 years' time (yrs.) – Male	22.7	23.3
Expected life at retirement in 20 years' time (yrs.) - Female	25.3	25.8

Notes to the Annual Report and Accounts (continued)

RETIREMENT BENEFIT LIABILITIES / ASSETS (continued)

Approximate sensitivities of the principal assumptions are set out in the table below which shows the increase or reduction in the pension obligations that would result. Each sensitivity considers one change in isolation.

Group and Society **All figures £'000**	**Change in assumption**	**2023**	**2022**
Discount rate	Decrease by 0.5%	Increase by 7%	Increase by 7%
Rate of inflation	Increase by 0.5%	Increase by 3%	Increase by 3%
Rate of increase in salaries	Increase by 0.5%	Increase less than 1%	Increase less than 1%
Life expectancy	Increase by 1 year	Increase by 4%	Increase by 4%

Fair Value of scheme assets **Group and Society** **All figures £'000**	**2023**	**2022**
As at 1 January	7,679	11,102
Interest on pension scheme assets	365	199
Contributions by employer	235	195
Benefits paid	(309)	(264)
Administration costs	(86)	(73)
Loss on asset returns	352	(3,480)
At 31 December	**8,236**	**7,679**

Present value of defined benefit obligations **Group and Society** **All figures £'000**	**2023**	**2022**
As at 1 January	(7,286)	(11,441)
Interest on pension scheme liabilities	(348)	(200)
Benefits paid	309	264
Experience (loss)/gain on liabilities	(252)	(348)
Gain on changes in assumptions	(123)	4,439
At 31 December	**(7,700)**	**(7,286)**

Notes to the Annual Report and Accounts (continued)

RETIREMENT BENEFIT LIABILITIES / ASSETS (continued)

The amounts recognised in the statement of financial position are determined as follows:

Group and Society **All figures £'000**	**2023**	**2022**
Present value of funded obligations	(7,700)	(7,286)
Fair value of plan assets	8,236	7,679
Surplus / (Liability) in the statement of financial position	**536**	**393**

The Trust Deed provides the Society with an unconditional right to a refund of surplus assets assuming the full settlement of plan liabilities in the event of a plan wind-up. In the ordinary course of business the Trustees have no rights to unilaterally wind-up, or otherwise augment the benefits due to members of the scheme. Based on these rights, any net surplus in the scheme is recognised in full.

The actual return on plan assets less interest was a gain of £352k (2022: £3,480k loss). The amounts recognised in the income statement are as follows:

Group and Society **All figures £'000**	**2023**	**2022**
Amounts recognised in finance income		
Interest cost	(348)	(200)
Administration costs	(86)	(73)
Interest on pension scheme assets	365	199
Total	**(69)**	**(74)**

Movement in the liability recognised in the statement of financial position:

Group and Society **All figures £'000**	**2023**	**2022**
Opening defined benefit obligation	393	(339)
Total as above	(69)	(74)
Employer contributions	235	195
Re-measurement gains/(losses)	(23)	611
Closing defined benefit obligation	**536**	**393**

The amounts recognised in the statement of other comprehensive income are as follows:

Group and Society **All figures £'000**	**2023**	**2022**
Actual loss on pension scheme assets	352	(3,480)
Experience (loss)/gain arising on scheme liabilities	(252)	(348)
Changes in assumptions underlying the present value of the scheme liabilities	(123)	4,439
Re-measurement of defined benefit obligation	**(23)**	**611**

Notes to the Annual Report and Accounts (continued)

RETIREMENT BENEFIT LIABILITIES / ASSETS (continued)

The major categories of plan assets are:

Group and Society All figures £'000	2023	2022
Equities	2,421	2,055
Bonds	-	-
Cash	67	284
Property	34	135
Liability Driven Investment (LDI)	2,090	2,028
Diversified Growth Funds (DGFs)	1,451	1,091
Diversified Credit Funds (DCFs)	2,173	2,086
Total	**8,236**	**7,679**

During 2021 the Trustees reviewed its investment strategy and commenced investment in Liability driven investments (LDIs). LDI is a form of investing in which the main goal is to gain sufficient assets to meet all liabilities.

Diversified Growth Funds (DGFs) are an actively managed multi-asset portfolio that aims to deliver returns comparable to global equities over the medium term, but with lower volatility Share Class.

Diversified Credit Funds (DCFs) are a fund that has invested in many different types of securities in order to hedge against the securities already in the fund.

The average duration of the defined benefit obligation at 31 December 2023 is 14 years (2022: 14 years).

During 2023 the Group made additional contributions of £235k (2022: £195k) as part of its funding plan. The Group and Society expect to contribute £207k to the fund during 2024. History of gains and losses for the current and previous four years is as follows:

Group & Society All figures £'000	2023	2022	2021	2020	2019
Present value of defined benefit obligation	(7,700)	(7,286)	(11,441)	(12,520)	(10,823)
Fair value of plan assets	8,236	7,679	11,102	11,272	10,230
Plan surplus/(deficit)	536	393	(339)	(1,248)	(593)
Experience adjustments on plan liabilities	(252)	348	(98)	-	(119)
Percentage of scheme liabilities	3.3%	(4.8%)	0.9%	0.0%	1.1%

The Society has agreed a schedule of contributions with the pension scheme expiring in August 2024, with the intention of eliminating the deficit.

Defined contribution scheme

Since April 2005 the Society has operated a defined contribution group personal pension scheme for eligible employees. Contributions of £540k were paid in 2023 (2022: £392k) to personal pension plans held in the names of individual employees with a major UK insurance company. There were no outstanding contributions at the beginning or end of the year.

Notes to the Annual Report and Accounts (continued)

23.GENERAL RESERVE

All figures £'000	2023 Group	2022 Group	2023 Society	2022 Society
At 1 January	53,673	49,645	52,488	48,460
Profit for the financial year	3,274	3,570	3,274	3,570
Net gain recognised directly in other comprehensive income	(17)	458	(17)	458
At 31 December	**56,930**	**53,673**	**55,745**	**52,488**

24.CASH AND CASH EQUIVALENTS

All figures £'000	2023 Group	2022 Group	2023 Society	2022 Society
Cash in hand	154	165	154	165
Balances with Bank of England	104,896	131,011	104,896	131,011
Total Cash in hand and balances at central banks	**105,050**	**131,176**	**105,050**	**131,176**
Loans and advances to credit institutions (note 9)	7,795	6,834	7,795	6,834
Total including Loans and advances to credit institutions	**112,845**	**138,010**	**112,845**	**138,010**

25.FINANCIAL INSTRUMENTS

The Group is a retailer of financial instruments, mainly in the form of mortgages and savings products. Through its normal operations it is exposed to a number of risks, the most significant of which are liquidity, credit risk in the mortgage book, credit risk in the treasury portfolio and interest rate risks (see below). The Group has a formal structure for managing these, including established risk limits, reporting lines, mandates and other control procedures. This structure is reviewed regularly by the Society's Board when considering the responsibility for managing and controlling the balance sheet exposures of the Group. The Assets and Liabilities Committee monitors liquidity risk and interest rate risk in the balance sheet, including in accordance with the Society's policy regarding interest rate risk in the banking book as approved by the Board. The Board monitors strategic risks such as margin compression and net interest margin, and the Risk Committee monitors other risks against the Board risk appetite statements.

Instruments used for risk management purposes include derivative financial instruments (derivatives). Derivatives are financial contracts or agreements whose value is derived from one (or more) underlying price, rate or index inherent in the contract or agreement, such as the interest rate. The principal derivatives used by the Group in balance sheet risk management are interest rate swaps, caps and collars which are used to hedge Group balance sheet exposures arising from fixed and capped rate mortgage lending, and fixed rate savings products. Such derivatives are only used in accordance with Section 9A of the Building Societies Act 1986, to reduce the risk of loss arising from changes in interest rates or other factors specified in the legislation. They are not used in trading activity or for speculative purposes.

The fair values of these hedges at 31 December 2023 are shown in note 25.

Financial assets and liabilities are measured on an on-going basis either at fair value or at amortised cost. Note 1 describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised.

Notes to the Annual Report and Accounts (continued)

FINANCIAL INSTRUMENTS (continued)

The tables below analyse the Group's assets and liabilities by financial classification:

Group & Society 2023 **All figures £'000**	**Amortised cost**	**Designated FV***	**Total**
Cash and balances at central banks	105,050	-	105,050
Loans and advances to credit institutions	8,345	-	8,345
Derivative financial instruments	-	3,391	3,391
Loans and advances to customers	597,534	-	597,534
Other financial assets	2	-	2
Total financial assets	**710,931**	**3391**	**714,322**
Shares	564,178	-	564,178
Amounts owed to credit institutions	59,274	-	59,274
Amounts owed to other customers	36,337	-	36,337
Derivative financial instruments	-	2,420	2,420
Other financial liabilities	1,911	-	1,911
Total financial liabilities	**661,700**	**2,420**	**664,120**

Group & Society 2022 **All figures £'000**	**Amortised cost**	**Designated FV*** **Restated**	**Total** **Restated**
Cash and balances at central banks	131,176	-	131,176
Loans and advances to credit institutions	7,042	-	7,042
Derivative financial instruments	-	6,645	6,645
Loans and advances to customers	497,973	-	497,973
Total financial assets	**636,191**	**6645**	**642,836**
Shares	493,397	-	493,397
Amounts owed to credit institutions	60,940	-	60,940
Amounts owed to other customers	30,559	-	30,559
Derivative financial instruments	-	1,704	1,704
Other financial liabilities	5,643	-	5,643
Total financial liabilities	**590,539**	**1704**	**592,243**

*Mandatorily at Fair Value through the Income Statement

Restated values include accrued interest which was previously disclosed with other assets / liabilities.

The Society has an additional financial liability to its subsidiary of £1,185k (2022: £1,185k). Amounts owed to credit institutions are borrowings from the Bank of England under the Term Funding Scheme with additional incentives for SMEs.

Notes to the Annual Report and Accounts (continued)

FINANCIAL INSTRUMENTS (continued)

Fair value 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 estimated fair value of the financial assets and liabilities above has been calculated using the following valuation methodology (which is explained in note 1):

Note	Valuation Category	Methodology
1	Level 1	The fair value of cash in hand and deposits with central banks is the amount repayable on demand.
2	Level 2	The fair value of overnight deposits is the amount repayable on demand. The estimated fair value of loans and advances to credit institutions is calculated based on discounted expected future cash flows.
3	Level 3	Loans and advances are recorded net of provisions for impairment together with the fair value adjustment for hedged items as required by IFRS 9. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received taking account of expected prepayment rates. Estimated cash flows are discounted at prevailing market rates for items of similar remaining maturity. The fair values have been adjusted where necessary to reflect any observable market conditions at the time of valuation.
4	Level 3	The fair value of shares and deposits and other borrowings with no stated maturity is the amount repayable on demand. The fair value of fixed interest bearing deposits and other borrowings without a quoted market price is based on expected future cash flows determined by the contractual terms and conditions discounted at prevailing market rates for items of similar remaining maturity.

The table below analyses the book and fair values of the Group's financial instruments held at amortised cost at 31 December.

Group & Society All figures £'000	Note	2023 Book value	2023 Fair value	2022 Book value	2022 Fair value
Financial assets					
Cash and balances at central banks	1	105,050	105,050	131,176	131,176
Loans and advances to credit institutions	2	8,345	8,345	7,042	7,042
Loans and advances to customers	3	597,534	604,144	497,973	503,440
Financial liabilities					
Shares	4	564,178	564,356	493,397	494,266
Amounts owed to credit institutions	4	59,274	59,274	60,940	60,940
Amounts owed to other customers	4	36,337	36,337	30,559	30,559

Notes to the Annual Report and Accounts (continued)

FINANCIAL INSTRUMENTS (continued)

Fair value of financial assets and liabilities carried at fair value

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

Group & Society 2023 All figures £'000	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments	-	3,391	-	3,391
Financial liabilities				-
Derivative financial instruments	-	(2,420)	-	(2,420)

Group & Society 2022 All figures £'000	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments	-	6,645	-	6,645
Financial liabilities				
Derivative financial instruments	-	(1,704)	-	(1,704)

Valuation techniques

The following is a description of the determination of fair value for financial instruments which are accounted for at fair value using valuation techniques. The fair value hierarchy detailed in IFRS 13: 'Fair Value Measurement' splits the source of input when deriving fair values 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; and
- Level 3 – inputs for the asset or liability that are not based on observable market data.

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

Interest rate swaps

- Level 2 - Interest rate swaps valuation is also based on the 'present value' method. Expected interest cash flows are discounted using the prevailing applicable rate: For swaps which are linked to SONIA, the SONIA yield curve is used. The 3 month SONIA yield curve is 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 Annual Report and Accounts (continued)

26.CREDIT RISK

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

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

Group and Society **All figures £'000**	**2023**	**2022**
Cash and balances at central banks	105,050	131,176
Loans and advances to credit institutions	8,345	7,042
Other debtors	2	32
Derivative financial instruments	3,391	6,645
Loans and advances to customers	599,367	502,742
Total statement of financial position exposure	**716,155**	**647,637**
Off balance sheet exposure – mortgage commitments	23,172	42,893
Total credit risk exposure	**739,327**	**690,530**

27.TREASURY CREDIT RISK

Treasury credit risk is the risk that the counterparty may default. The elements on the statement of financial position that represent treasury credit risk are:

- Loans and advances to credit institutions;
- Cash and balances at central banks; and
- Derivative financial instruments.

ALCO is responsible for approving treasury counterparties for both derivatives and investment purposes. Limits are placed on the amount of risk accepted in relation to one counterparty, or group of counterparties, and to industry sectors. This is monitored daily by the Society's Finance team and reviewed by the ALCO.

The Group's policy only permits lending to central government (which includes the Bank of England), banks with a high credit rating and certain building societies. Regular analysis of counterparty credit risk and monitoring of publicly available information is performed to highlight possible changes in risk.

An analysis of the Group's treasury asset concentration is shown in the table below:

Group & Society	**2023** **£'000**	**2023** **%**	**2022** **£'000**	**2022** **%**
Bank of England (AA)	104,942	90%	131,036	90%
AA to AA-	2,270	2%	3,949	3%
A+ to A	9,195	8%	9,530	7%
Other including cash in hand	379	0%	348	0%
Total	**116,786**	**100%**	**144,863**	**100%**

The Group has no exposure to foreign exchange risk. All instruments are denominated in Sterling.

Notes to the Annual Report and Accounts (continued)

TREASURY CREDIT RISK (continued)

All treasury exposures qualify as 'stage 1' exposures under IFRS 9 for impairment provisioning. The Society has Credit Support Annex agreements with all swap counterparties. These agreements have reciprocal arrangements that collateral be exchanged with a minimum threshold of £250k. At 31 December 2023 the Society had received £950k of cash collateral from counterparties. At 31 December 2022 the Society had placed £4,600k of cash collateral with counterparties.

28.CUSTOMER CREDIT RISK

All mortgage loan applications are assessed with reference to the Group's lending policy, which includes assessing applicants for potential fraud risk, and which is approved by the Board.

The lending portfolio is monitored by the Risk Committee to ensure that it remains in line with the stated risk appetite of the Group, including adherence to the lending principles, policies and lending limits.

Credit risk management information is comprehensive and is circulated to the Risk Committee to ensure that the portfolio remains within the Group's risk appetite.

It is the Group's policy to deliver good outcomes and fair value to our customers, whilst balancing the needs for the Society to lend profitably. This is done by reviewing the design, sales and administration of its products to ensure compliance with Consumer Duty and by constantly assessing its offering in comparison to other lenders to offer a proposition that reflects the price its customers pay. The Society ensures it lends responsibly by obtaining specific information concerning customer income and expenditure and credit reference agency data, verifying that the customer can meet the mortgage repayments over the life of the loan.

The Group does not have any exposure to the sub-prime market.

Impairment of Financial Assets

IFRS 9 bases the recognition of impairment of financial assets on an expected credit loss ('ECL') approach for financial assets held at amortised cost and fair value.

ECLs are based on an assessment of the probability of default ('PD'), loss given default ('LGD') and exposure at default ('EAD'), discounted to give a net present value. The estimation of ECL should be unbiased and probability weighted, considering all reasonable and supportable information, including forward looking economic assumptions and a range of possible outcomes.

IFRS 9 divides loans into three classes:

- No significant increase in credit risk since advance ('Performing');
- A significant increase in credit risk ('Underperforming'); and
- Impaired loans ('Non-Performing').

The Group's definition of a 'significant increase in credit risk' that results in a loan being categorised as Underperforming is determined by a combination of information available about the customer (e.g. credit bureau information) as well as the actual performance of the account. A loan is considered to be Underperforming when it meets any of the following criteria:

- A material reduction in the creditworthiness of the customer since inception based on quantitative and qualitative risk grade thresholds, as evidenced by an external credit score;
- Over 30 days in arrears;
- Subject to forbearance. Loans subject to forbearance can be considered in two main categories; those which are loans which are on interest only to owner-occupier borrowers who will be aged over 70 at the maturity of the loan, where there is insufficient equity to sell and downsize, and others where the Society is in an arrangement with the borrower. The latter can be 'repaired' whereas this is very unlikely for the former;
- A high risk repayment strategy for owner-occupier interest only properties with insufficient equity for the borrower to sell and downsize;
- Other material information that has come to light since the loan's inception (e.g. the customer entering into a debt management plan).

No reliance is placed on mortgage indemnity guarantee insurance which the Society may have in place. Impairment of off balance sheet exposure for mortgage commitments has been assessed and deemed immaterial.

Notes to the Annual Report and Accounts (continued)

CUSTOMER CREDIT RISK (continued)

A loan is characterised as a Non-Performing loan when it meets any of the following criteria:

- Over 90 days in arrears;
- Customer is declared or has sought to become bankrupt; and
- Owner-occupied interest only mortgage where there is no strategy of repayment, the strategy is described as 'sale and downsize' but there is insufficient equity, or the strategy is simply described as 'other' with no detail.

Where a loan which was previously underperforming or non-performing becomes a performing loan, the balance will move back to the relevant category.

The provisions on performing loans are equal to the level of expected credit default events within the next year.

The provisions on both Underperforming and Non-Performing loans are made based on the expected credit losses over the expected life of the loan taking account of forward looking economic assumptions and a range of possible outcomes. The Group has decided to consider the impairment position under four economic scenarios of increasing severity ranging from a benign scenario that is based on the current position to the most severe scenario that is based on that used by the Bank of England to stress test the banking system.

Impairment Implementation

The areas of key judgements within the IFRS 9 provisions are:

- Future economic forecasts and the linkage to arrears levels;
- The weighting that should be given to the different economic forecasts;
- The extent to which the customer credit score can reduce before it is considered to constitute a material reduction in credit-worthiness; and
- The degree of management override that should be applied to circumstances where a probability of default / exposure at default approach is unsuitable (such as older interest only borrowers).

All scenarios are based upon creating an expected loss through applying:

- A probability of default; and
- A loss given default. This is a function of the erosion of the underlying security.

The approach is to separately evaluate the incremental risks posed to the security value, taking into account factors such as HPI forecast, EPC and flood risks and other risk indicator. As well as the customer's probability of default, taking into account unemployment and economic forecasts. Risk drivers are separately considered to establish how they will cumulatively impact the risk to the security or the probability of default.

The result of this evaluation is to allocate the loan into a high, medium or low category for both security and probability of default as well as a numeric value to use for the erosion of security and the probability of default that could be used for each loan.

The probability weighting for the four scenarios chosen are:

- Benign (neutral economic scenario) – 20% (2022: 20%);
- Base (allied to the Society's expectations in its Corporate Plan) – 30% (2022: 30%);
- Downturn (economic recession) – 42.5% (2022: 42.5%); and
- Severe ('tail event' downturn) – 7.5% (2022: 7.5%).

If the weighting were unchanged from 2022 the provision increase would be c£224k higher at c£1,643k

If the weightings are changed as below:

- Benign – 25%
- Base – 25%
- Downturn – 25%
- Tail Event – 25%

The resulting provision would be c£1,550k higher at c£2,969k

Notes to the Annual Report and Accounts (continued)

CUSTOMER CREDIT RISK (continued)

If the weightings are changed as below to reflect the most likely impact of a severe recession

- Benign – 0%
- Base – 15%
- Downturn – 75%
- Tail Event – 10%

The resulting provision would be c£633k higher at £2,052k

The key weightings are therefore those impacting the Downturn and Tail Event scenarios. The Tail Event scenario is designed to be such an 'outlier' that the probability of it happening more than once a century is considered remote (think of the 1930s depression occurring in a home-owning economy). Thus the key weighting is that attaching to the Downturn, and a c£70k movement for each 5% increase in probability (where Base decreases by 5%) is not especially volatile.

The expected life impacts the proportion of the whole life credit loss that is used for performing loans. The remaining life is estimated at 1.25 years (2022: 1.25 years), if it were to reduce to 1 year the provision would increase by c£210k to £1,628k. If it were to increase to 18 months the provision would decrease by c£139k to £1,280k.

The Group monitors concentration of credit risk by sector and by geographic location. An analysis of concentrations of credit risk from loans and advances is shown below:

Group and Society **All figures £'000**	**2023**	**2022**
Loans and Advances to Customers (Gross Receivables)		
Loans fully secured on residential property	581,147	474,491
Other loans fully secured on land	19,640	29,234
Total	**600,787**	**503,725**

Notes to the Annual Report and Accounts (continued)

CUSTOMER CREDIT RISK (continued)

Loans fully secured on residential property

The maximum credit risk exposure is detailed below:

Group and Society **All figures £'000**	**2023**	**2022**
Greater London	184,803	158,219
East Midlands	30,138	30,142
South East	130,281	102,570
South West	96,240	71,171
East of England	43,139	37,885
North West	40,680	25,378
West Midlands	24,553	19,160
Yorkshire and The Humber	15,282	16,488
Wales	10,887	8,822
North East	5,028	4,390
Scotland	116	265
Total	**581,147**	**474,491**

The quality of the Group's retail mortgage book is reflected in the number and value of accounts in arrears with 0.6% (2022: nil) of loan balances being three months or more in arrears.

The credit risk exposure by loan to value band is detailed below:

Group and Society **All figures £'000**	**Stage 1**	**Stage 2**	**Stage 3**	**2023** **Total**
Under 50%	268,591	9,817	-	278,408
50% to 75%	253,140	16,974	3,585	273,700
75% to 85%	27,848	1,191	-	29,039
Over 85%	-	-	-	-
Total	**549,579**	**27,982**	**3,585**	**581,147**

The average loan to value of residential mortgages is 50% (2022: 46%); indexed using the House Price Index published by the Land Registry.

Notes to the Annual Report and Accounts (continued)

CUSTOMER CREDIT RISK (continued)

Group and Society All figures £'000	Stage 1	Stage 2	Stage 3	2022 Total
Under 50%	259,637	6,623	-	266,260
50% to 75%	181,815	12,226	-	194,041
75% to 85%	12,999	1,191	-	14,190
Over 85%	-	-	-	-
Total	**454,451**	**20,040**	**-**	**474,491**

The following table sets out information about the overdue status of loans and advances to customers in Stages 1, 2 and 3 for 2022 under IFRS 9:

Group & Society All figures £'000	Stage 1	Stage 2	Stage 3	2023 Total
Current	549,579	10,567	-	560,147
Past due up to 3 months	-	17,415	-	17,415
Past due over 3 months	-	-	3,585	3,585
Total	**549,579**	**27,982**	**3,585**	**581,147**

Group & Society All figures £'000	Stage 1	Stage 2	Stage 3	2022 Total
Current	454,451	14,511	-	468,961
Past due up to 3 months	-	5,529	-	5,529
Past due over 3 months	-	-	-	-
Total	**454,451**	**20,040**	**-**	**474,491**

Loan commitments are considered to be in Stage 1 and have loan to values consistent with the existing portfolio of loans and advances.

The main factor for loans moving into arrears tends to be the condition of the general economic environment.

Notes to the Annual Report and Accounts (continued)

CUSTOMER CREDIT RISK (continued)

Loans fully secured on residential property (Continued)

The tables below show the value of collateral held for loans fully secured on residential property:

Group & Society All figures £'000	Unindexed 2023	Indexed 2023
Stage 1	1,275,458	1,491,497
Stage 2	72,367	70,388
Stage 3	5,090	5,600
Total	**1,352,915**	**1,567,484**

Group & Society All figures £'000	Unindexed 2022	Indexed 2022
Stage 1	1,074,669	1,378,608
Stage 2	44,232	60,071
Stage 3	-	-
Total	**1,118,901**	**1,438,679**

The collateral consists of residential property. Collateral values are adjusted by the Land Registry House Price Index to derive the indexed valuation at 31 December. This Index takes into account regional data from the 12 standard planning regions of the UK. The Group uses the Index to update the property values of its residential and buy-to-let portfolios on a quarterly basis.

With collateral capped to the amount of outstanding debt, the value of collateral held against loans past due and in 'Stage 2' at 31 December is £17.4m (2022: £5.5m) against outstanding debt of £17.4m (2022: £5.5m) and in 'Stage 3' at 31 December is £3.6m against outstanding debt of £3.6m (2022: £nil against outstanding debt of £nil)

Mortgage indemnity insurance acts as additional security. It is taken out for all residential loans where the borrowing exceeds 75% of the value of the property at the point of application. However, no reliance is placed on this insurance when calculating any ECL.

The Group has various forbearance options to support customers who may find themselves in financial difficulty. These include payment plans, term extensions and reduced payment concessions. There were no properties in possession at 31 December 2023 (31 December 2022: nil) and none taken into possession during the year.

Forbearance

Temporary interest only concessions are offered to customers in financial difficulty on a temporary basis with formal periodic review. The concessions allow customers to reduce monthly payments to cover interest only, and, if made, the arrears status would not increase. Reduced payment concessions allow a customer to make an agreed underpayment for a specific period of time. The monthly underpaid amount accrues as arrears and agreement is reached at the end of the concession period on how the arrears will be repaid.

Notes to the Annual Report and Accounts (continued)

CUSTOMER CREDIT RISK (continued)

Loans fully secured on residential property (Continued)

Payment plans are agreed to enable customers to reduce their arrears balances by an agreed amount per month which is paid in addition to their standard monthly repayment.

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

From the above list, only the suitable forbearance options will be offered to a customer when appropriate.

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.

Regular monitoring of the level and different types of forbearance activity are reported to the Board on a periodic basis. The Board monitors the level of arrears and forbearance cases. 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 loan balances of forbearance cases:

Group and Society				**2023**	**2022**
All figures £'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	
Interest only concessions	-	885	-	885	167
Reduced payment concessions	-	-	-	-	-
Payment plans	-	-	-	-	-
Mortgage term extensions	-	11,254	-	11,254	1,830
Total	**-**	**12,139**	**-**	**12,139**	**1,997**

Other loans fully secured on land

The maximum credit risk exposure is detailed below:

Group and Society	**2023**	**2022**
All figures £'000		
Greater London	2,398	3,630
East Midlands	492	499
South East	2,713	7,876
South West	8,488	11,378
East of England	1,839	1,851
North West	-	633
West Midlands	1,770	966
Yorkshire and The Humber	1,376	1,298
North East	563	1,103
Scotland	-	-
Total	**19,640**	**29,234**

Notes to the Annual Report and Accounts (continued)

CUSTOMER CREDIT RISK (continued)

Other loans fully secured on land (Continued)

The credit risk exposure by loan to value band is detailed below:

Group and Society				2023
All figures £'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Under 50%	5,313	-	-	5,313
50% to 75%	12,827	-	-	12,827
75% to 85%	1,500	-	-	1,500
Total	**19,640**	**-**	**-**	**19,640**

Group and Society				2022
All figures £'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Under 50%	6,794	-	-	6,794
50% to 75%	20,565	-	-	20,565
75% to 85%	1,875	-	-	1,875
Total	**29,234**	**-**	**-**	**29,234**

The average loan to value of other loans fully secured on land is 56% (2022: 56%).

The quality of the Group's mortgage book secured on commercial property is reflected in the number and value of accounts in arrears with £nil (2022: £nil) of loan balances being three months or more in arrears. The main factor for loans moving into arrears tends to be the condition of the general economic environment.

The following table sets out information about the overdue status of loans and advances to customers in Stages 1, 2 and 3 for 2023 under IFRS 9:

Group & Society				2023
All figures £'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Current	19,640	-	-	**19,640**
Overdue > 30 days	-	-	-	**-**
Total	**19,640**	**-**	**-**	**19,640**

Group & Society				2022
All figures £'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Current	29,234	-	-	**29,234**
Overdue > 30 days	-	-	-	**-**
Total	**29,234**	**-**	**-**	**29,234**

Notes to the Annual Report and Accounts (continued)

CUSTOMER CREDIT RISK (continued)

Other loans fully secured on land (Continued)

The tables below show the value of collateral held for other loans secured on land:

Group & Society All figures £'000	Unindexed 2023	Indexed 2023
Stage 1	41,170	41,170
Stage 2	-	-
Stage 3	-	-
Total	**41,170**	**41,170**

Group & Society All figures £'000	Unindexed 2022	Indexed 2022
Stage 1	56,666	56,666
Stage 2	-	-
Stage 3	-	-
Total	**56,666**	**56,666**

The collateral consists of commercial property. Collateral is capped at the amount of outstanding exposure.

There were no properties in possession or repossessed in the year. The Group has various forbearance options to support customers who may find themselves in financial difficulty. These include payment plans, term extensions and reduced payment concessions.

Forbearance

The forbearance policy for loans fully secured on land is the same as that for loans fully secured on residential property.

There were no mortgages in forbearance or impaired at 31 December 2023 (2022: none). Provisions of £38k (2022: £51k) are made for loans fully secured on land.

Provisions for loans fully secured on land are included in the provisions reported in Note 11.

Provision for impairment losses on loans and advances to customers by loan-to-value and performance

Loans fully secured on residential property

Group and Society All figures £'000	Stage 1	Stage 2	Stage 3	2023 Total
Under 50%	81	15	-	96
50% to 75%	542	425	117	1,084
75% to 85%	173	29	1	202
Total	**796**	**469**	**117**	**1,382**

Notes to the Annual Report and Accounts (continued)

CUSTOMER CREDIT RISK (continued)

Other loans fully secured on land

Group and Society All figures £'000	Stage 1	Stage 2	Stage 3	2023 Total
Under 50%	10	-	-	10
50% to 75%	27	-	-	27
75% to 85%	1	-	-	1
Total	**38**	**-**	**-**	**38**

Provision for impairment losses on loans and advances to customers disaggregated by probability of default bands;

Group and Society All figures £'000 PD %	2023 Gross Loans	2023 Expected Credit Loss	2022 Gross Loans	2022 Expected Credit Loss
0-5%	499,940	361	425,596	385
5-10%	36,108	125	31,784	145
10-25%	24,869	163	18,503	150
25-50%	35,109	581	24,316	299
50-99%	4,745	190	3,526	3
100%	16	-	-	0
Total	**600,787**	**1,420**	**503,725**	**982**

Notes to the Annual Report and Accounts (continued)

29.LIQUIDITY RISK

The Group's policy is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations in funding, to maintain public confidence in the sustainability of the Group and to enable it to meet its financial obligations as they arise. This is achieved through maintaining a prudent level of liquid assets and through control of the growth of the business. A significant proportion of the Society's liquidity is held either at call or in the form of debt securities and treasury bills, which are capable of being sold at short notice to meet unexpected and severe adverse cash flows. No debt securities or treasury bills were held at 31 December 2023 (2022: nil). Stress tests are undertaken to measure the Society's ability to meet such adverse flows, the results of which are reviewed by ALCO. The Board is confident that the Society will continue to be able to meet its future financial obligations as they arise.

The table below analyses the Group'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 Group'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 years but are generally repaid much sooner. The average life of a mortgage at the Group is less than 10 years. Conversely, retail deposits repayable on demand generally remain on balance sheet much longer.

Group 2023 **All figures £'000**	**On demand**	**Not more than 3 months**	**More than 3 months but not more than a year**	**More than a year but not more than 5 years**	**More than 5 years**	**Total**
Cash and balances at central banks	105,050	-	-	-	-	105,050
Loans and advances to credit institutions	8,345	-	-	-	-	8,345
Derivative financial instruments	-	871	212	2,308	-	3,391
Loans and advances to customers	-	10,488	38,161	178,008	370,877	597,534
Other Financial Assets	2	-	-	-	-	2
Total assets	**113,397**	**11,359**	**38,373**	**180,316**	**370,877**	**714,322**
Shares	150,977	88,758	171,314	153,129	-	564,178
Amounts owed to credit institutions	774	-	11,500	47,000	-	59,274
Amounts owed to other customers	5,536	17,142	13,659	-	-	36,337
Derivative financial instruments	-	782	574	1,064	-	2,420
Other financial liabilities	954	963	11	-	-	1,927
Total liabilities and reserves	**158,241**	**107,645**	**197,058**	**201,193**	**-**	**664,136**

Notes to the Annual Report and Accounts (continued)

LIQUIDITY RISK (Continued)

Group 2022 (Restated) **All figures £'000**	**On demand**	**Not more than 3 months**	**More than 3 months but not more than a year**	**More than a year but not more than 5 years**	**More than 5 years**	**Total**
Cash and balances at central banks	131,176	-	-	-	-	131,176
Loans and advances to credit institutions	7,042	-	-	-	-	7,042
Derivative financial instruments	-	571	1,018	5,056	-	6,645
Loans and advances to customers	-	7,061	20,614	121,070	349,228	497,973
Other Financial Assets	499	-	-	-	-	499
Total assets	**138,250**	**7,632**	**21,632**	**126,126**	**349,228**	**642,868**
Shares	168,043	101,631	66,415	157,308	-	493,397
Amounts owed to credit institutions	440	-	2,000	58,500	-	60,940
Amounts owed to other customers	6,220	21,447	2,892	-	-	30,559
Derivative financial instruments	-	213	-	1,491	-	1,704
Other Financial Liabilities	4,604	1,045	16	15	-	5,679
Total liabilities and reserves	**179,306**	**124,335**	**71,323**	**217,314**	**-**	**592,278**

2022 amounts have been restated to include off balance sheet mortgage commitments. Accrued Swap interest receivable and payable has been included in Derivative financial instruments instead of Other Financial Assets / Liabilities.

The following is an analysis of the gross contractual cash flows payable under financial liabilities:

Group and Society 2023 **All figures £'000**	**On demand**	**Not more than 3 months**	**More than 3 months but not more than a year**	**More than a year but not more than 5 years**	**More than 5 years**	**Total**
Shares	150,977	89,222	172,047	164,996	-	577,243
Amounts owed to credit institutions	774	-	12,017	50,887	-	63,678
Amounts owed to other customers	5,536	17,225	13,898	-	-	36,659
Derivative financial instruments	-	1,044	375	1,123	-	2,542
Other financial liabilities	954	963	11	-	-	1,927
Total on balance sheet exposure	**158,241**	**108,455**	**198,348**	**217,005**	**-**	**682,049**
Off balance sheet exposure – mortgage commitments	-	23,172	-	-	-	23,172
Total financial liabilities	**158,241**	**131,627**	**198,348**	**217,005**	**-**	**705,221**

Notes to the Annual Report and Accounts (continued)

LIQUIDITY RISK (Continued)

Group and Society 2022 **All figures £'000**	**On demand**	**Not more than 3 months**	**More than 3 months but not more than a year**	**More than a year but not more than 5 years**	**More than 5 years**	**Total**
Shares	168,043	102,038	67,343	169,013	-	506,437
Amounts owed to credit institutions	440	-	2,000	58,500	-	60,940
Amounts owed to other customers	6,220	21,447	2,892	-	-	30,559
Derivative financial instruments	-	288	717	859	-	1,864
Other Financial Liabilities	4,604	1,045	16	15	-	5,679
Total on balance sheet exposure	**179,306**	**124,817**	**72,968**	**228,387**	**-**	**605,478**
Off balance sheet exposure – mortgage	-	42,893	-	-	-	42,893
Total financial liabilities	**179,306**	**167,710**	**72,968**	**228,387**	**-**	**648,371**

30.MARKET RISK

Market risk is the risk of changes to the Society's earnings and capital caused by changes in 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 manages interest rate exposures to within Board agreed limits firstly through the use of a natural hedge, whereby mortgage and savings products with similar repricing profiles offset each other, or via an interest rate derivative.

The management of interest rate risk is based, among other things, on a full statement of financial position gap analysis, then is subjected to a number of stress tests which include parallel and non-parallel shifts to interest rates. This process calculates economic value before and after the stressed interest rates are applied and compares the differences.

In addition, management review interest rate basis risk; stressing the statement of financial position by both an expected or 'base case' and a severe stress scenario of interest rate changes. This process shows how expected earnings change when the base case and stress scenarios are applied. Both sets of results are measured against the Board's appetite for risk.

The Board considers the impact of a +/- 2% parallel shift in interest rates on the economic value and the net interest income of the Society, based on a static balance sheet. These scenarios illustrate basis risk in the structure of the balance sheet and the impact of repricing events, such as product maturities. The results of this scenario modelling informs the management of balance sheet structure.

The Board has set a risk appetite for market risk measured in the stressed gap analysis and a risk appetite for basis risk, based on minimum margins which are revised annually. The Board has also set a risk appetite for reduction in Net Interest Income (NII) and this too is revised annually. The stress tests and their results are monitored by the ALCO and reported to the Board.

Prepayment risk primarily relates to the Society's loan portfolio and is the risk that the Society will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected. It includes its borrowers that repay or refinance their fixed rate mortgages when interest rates fall or the corporate and small business customers with prepayment options with zero or low penalties that refinance their loans when their credit quality improves to a point that they can obtain lower rates.

The Society manages prepayment risk by operating early repayment charges (ERCs) on mortgages to reduce the risk of early repayment.

Notes to the Annual Report and Accounts (continued)

MARKET RISK (Continued)

The tables below summarise the Group's exposure to interest rate risk. Included in the tables are Group assets and liabilities, including derivative financial instruments which are principally used to reduce exposure to interest rate risk, categorised by re-pricing date.

Group 2023 **All figures £'000**	**Not more than 3 months**	**More than 3 months but not more than a year**	**More than a year but not more than 5 years**	**Non-interest bearing**	**Total**
Cash and balances at central banks	104,897	-	-	154	105,050
Loans and advances to credit institutions	7,795	-	-	550	8,345
Derivative financial instruments	26	212	2,308	845	3,391
Loans and advances to customers	447,379	32,287	117,869	-	597,534
Other Financial assets	-	-	-	2	847
Non-financial assets	-	-	-	7,714	7,714
Total assets	**560,097**	**32,499**	**120,177**	**9,265**	**722,036**
Shares	332,302	45,166	182,425	4,285	564,178
Amounts owed to credit institutions	59,274	-	-	-	59,274
Amounts owed to other customers	35,820	-	-	518	36,337
Derivative financial instruments	-	574	1,063	782	2,420
Other Financial liabilities	-	-	-	1,927	1,927
Non-financial liabilities	-	-	-	970	970
Reserves	-	-	-	56,930	56,930
Total liabilities and reserves	**427,396**	**45,740**	**183,488**	**65,411**	**722,036**
Impact of derivative instruments	(94,000)	56,000	38,000	-	-
Interest rate sensitivity gap	**38,701**	**42,759**	**(25,311)**	**(56,146)**	**-**
Changes in NPV from a shift in interest rates					
Parallel shift of + 2%	150	(13)	(1,553)		(1,416)
Parallel shift of - 2%	(150)	13	1,553		1,416

Notes to the Annual Report and Accounts (continued)

MARKET RISK (Continued)

Group 2022 **All figures £'000**	**Not more than 3 months**	**More than 3 months but not more than a year**	**More than a year but not more than 5 years**	**Non-interest bearing**	**Total**
Cash and balances at central banks	131,011	-	-	165	131,176
Loans and advances to credit institutions	6,834	-	-	208	7,042
Derivative financial instruments	104	1,019	5,056	467	6,646
Loans and advances to customers	330,833	51,767	115,373	-	497,973
Other financial assets	-	-	-	32	32
Non-financial assets	-	-	-	3,993	3,993
Total assets	**468,783**	**52,786**	**120,429**	**4,864**	**646,861**
Shares	320,439	14,909	156,264	1,785	493,397
Amounts owed to credit institutions	58,916	2,024	-	-	60,940
Amounts owed to other customers	30,369	-	-	190	30,559
Derivative financial instruments	-	-	1,491	213	1,704
Other financial liabilities	-	-	-	5,679	5,679
Non-financial liabilities	-	-	-	910	910
Reserves	-	-	-	53,673	53,673
Total liabilities and reserves	**409,724**	**16,933**	**157,755**	**62,450**	**646,861**
Impact of derivative instruments	12,000	(47,500)	35,500	-	-
Interest rate sensitivity gap	**71,059**	**(11,647)**	**(1,826)**	**(57,585)**	**-**
Changes in market value from a shift in interest rates					
Parallel shift of + 2%	(104)	170	248	-	314
Parallel shift of - 2%	104	(170)	(248)	-	(314)

There is no material difference between the interest rate risk profile for the Group and that for the Society.

The Group is not exposed to foreign currency risk.

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 IAS 32 'Financial Instruments – Presentation' 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.

All financial assets and liabilities are presented on a gross basis in the statement of financial position.

The Society and Group, at December 2023, have entered into Credit Support Annexes (CSAs) for its derivative instruments which provide for the exchange of collateral on a daily basis to mitigate net mark to market credit exposure. These are set to a minimum threshold of £250k. At 31 December 2023 the Society had received £950k and paid £280k cash collateral under such agreements.

Notes to the Annual Report and Accounts (continued)

31.CAPITAL STRUCTURE

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 Internal Capital Adequacy Assessment Process (ICAAP) assists the Society with its management of capital. The business planning updates enable the Board to monitor 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 the Total Capital Requirement (TCR).

The Board manages the Society's capital and risk exposures to maintain capital in line with regulatory requirements. This is subjected to regular stress tests to ensure the Society maintains sufficient capital for future possible events.

The Group's capital requirements are set and monitored by the PRA. During 2023 the Society has complied with the requirements included within the EU Capital Requirements Directive IV (Basel III).

There were no reported breaches of capital requirements during the year and there have been no material changes in the Society's management of capital during the year. At 31 December 2023 the Group had CET1 (Common Equity Tier 1) capital of £57m (2022: £53m) comprising of general reserves less intangible assets and other regulatory adjustments. The Group had no tier 2 capital, meaning that total regulatory capital was also £57m (2022:£53m).

Under Basel III Pillar 3 the Society is required to publish further information regarding its capital position and exposures. The Society's Pillar 3 disclosures are available on our website www.mhbs.co.uk.

Lending and Business Decisions

The Society manually underwrites all mortgage lending to enable it to make appropriate decisions based on an individual's circumstances. Once loan funds have been advanced detailed portfolio management information is used to review the ongoing risk profile of both the portfolios and individual customers. In addition, for residential and buy-to-let mortgages, property values are updated on a quarterly basis.

Pricing

Pricing models are utilised for all mortgage product launches. The models include expected loss estimates and capital utilisation enabling the calculation of a risk adjusted return on capital.

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. The limits are monitored daily to ensure the Society remains within risk appetite.

32.GUARANTEES AND FINANCIAL COMMITMENTS

The Society and Group have capital expenditure contracted for but not provided for in the accounts at 31 December 2023: £61k (2022: £115k).

Notes to the Annual Report and Accounts (continued)

33.RELATED PARTY TRANSACTIONS

Key management personnel compensation

The Directors of the Society are considered to be the only key management personnel as defined by IAS 24. Total compensation for key management personnel was as follows and a breakdown is disclosed on pages 22 and 23 in the Directors' remuneration report.

Group and Society All figures £'000	2023	2022
Key management personnel compensation	**1,051**	880

Transactions with key management personnel and their close family members

The following transactions were undertaken through the normal course of business:

Group & Society	2023 £'000	2023 Number of people	2022 £'000	2022 Number of people
Deposits, share accounts and investments				
Net movement in the year	(211)		52	
Balance at 31 December	29	10	232	10

Key management personnel and members of close family received £0.4k of interest in total (2022: £1.7k) during the year.

Secured loans made to key management personnel and members of their close family would be on the same terms and conditions that are applicable to all other employees and members of Market Harborough Building Society.

Amounts deposited by key management personnel and members of their close family earn interest at the same rates and on the same terms and conditions as applicable to all other employees and members of Market Harborough Building Society.

Directors' loans and transactions

At 31 December 2023 and 2022 there were no outstanding secured mortgage loans to Directors and their connected persons. 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, for the financial year ended 31 December 2023, will be available for inspection at the Head Office for a period of 15 days up to and including the annual general meeting.

Notes to the Annual Report and Accounts (continued)

34.COUNTRY BY COUNTRY REPORTING

Article 89 of the Capital Requirements Directive IV requires the Society to disclose the following information on a consolidated basis 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 Market Harborough Building Society are provision of residential mortgages and retail savings products.

Market Harborough Building Society and its subsidiary operate only in the United Kingdom. Details of the Society's trading subsidiaries are disclosed in Note 12.

Average employee numbers are disclosed in Note 0.

Group **All figures £'000**	**2023**	**2022**
Turnover	16,958	15,441
Profit before tax	4,349	4,495
Corporation tax paid	1,041	891

Turnover consists of net interest income, net fees and commissions received or paid and other income.

No public subsidies were received by the Group.

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 0.

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

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

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

No public subsidies were received during the year, however the Society is a participant of the Term Funding Scheme with additional incentives for SMEs (TFSME). Borrowings from the scheme are shown in note 0.

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.

Annual Business Statement

1. STATUTORY RATIOS AND OTHER PERCENTAGES

Group	2023	2022	Statutory limit
Lending limit			
Proportion of business assets not in the form of loans fully secured on residential property	3.8%	6.4%	25.0%
Funding limit			
Proportion of shares and borrowings not in the form of shares held by individuals	14.7%	15.9%	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 (as amended by the Building Societies Act 1997) and are based on the statement of financial position.

Business assets are the total assets of the Group as shown in the statement of financial position plus provisions for impairment, less tangible fixed assets and liquid assets.

Loans fully secured on residential property are the amount of principal owed by borrowers and interest accrued not yet payable. This is the amount shown in the statement of financial position plus provisions for bad and doubtful debts and interest in suspense.

2. OTHER PERCENTAGES

Group	2023	2022
As a percentage of shares and borrowings		
Gross capital	8.6%	9.2%
Free capital	7.9%	8.9%
Liquid assets	17.2%	23.6%
As a percentage of mean total assets	17.2%	23.6%
Profit after taxation		
Management expenses (Group)	0.5%	0.6%
Management expenses (Society)	1.8%	1.8%
As a percentage of total assets at year end	1.8%	1.8%
Return on assets	0.5%	0.7%

The above percentages have been calculated from the Group Annual Report and Accounts.

Definitions

'Gross capital' represents the general reserve.

'Free capital' represents the general reserve plus provisions for bad and doubtful debts less tangible fixed assets.

'Mean total assets' is the average of the 2023 and 2022 year-end total assets.

'Liquid assets' represents available liquidity on the Group’s balance sheet.

Annual Business Statement (continued)

3. INFORMATION RELATING TO THE DIRECTORS

As at December 2023:

Director	Occupation / Professional Qualification	Other Directorships	Year of Birth	Date of Appointment
Anniemarie Cossar	Chief Customer Officer		1967	09-02-23
Nicholas Fielden	Chief Finance Officer & Chartered Accountant	Market Harborough Mortgages Ltd	1965	09-12-13
Lindsay Forster	Company Director	Shepper Ltd	1974	01-07-19
Jonathan Fox	Company Director		1965	01-09-15
Iain Kirkpatrick	Company Director	Market Harborough Mortgages Ltd	1972	19-09-22
Andrew Merrick	Company Director & Chartered Accountant	Yorkshire Water Services Ltd Trustee of the Nell Bank Charitable Trust Ilkley Lawn Tennis & Squash Club Ltd ILTSC Events Ltd	1961	01-01-18
Zoe Shapiro	Company Director		1969	01-02-16
David Stunell	Company Director & Corporate Treasurer	Hounte Ltd King & Shaxson Ltd King & Shaxson Asset Management Ltd	1958	01-12-20
Lesley Titcomb	Company Director & Chartered Accountant	Market Harborough Mortgages Ltd Pay.UK Limited Foundation for Credit Counselling National Bank of Kuwait	1961	01-10-23
Nala Worsfold	Company Director & Chartered Accountant		1965	01-12-20

The Chief Executive has a notice period of twelve months by the Society and six months by the executive, and the Chief Finance Officer has a notice period of six months by both the executive and the Society. The contract for Iain Kirkpatrick was entered into on 19 September 2022 and for Nicholas Fielden on 4 November 2013. In order to help provide a smooth transition for the incoming Chief Executive, Nicholas Fielden received a payment after Iain Kirkpatrick had been employed for twelve months. Documents may be served on any of the Directors, marked as “private and confidential” to the Secretary at the offices of the Society at Welland House, The Square, Market Harborough, LE16 7PD.

Annual Business Statement (continued)

4. OTHER SENIOR EXECUTIVES

Name	Occupation	Directorships
Stephen Barringer	Head of Specialist Lending	None
Michelle Pledger	Chief Risk Officer	None
Elizabeth Souter	Financial Controller & Secretary	Uppingham Community College
Lesley Vernon	Chief Engagement Officer	Stonebridge City Farm

5. NEW ACTIVITIES

No new powers were exercised for the first time during the year.

Glossary

Term	Definition
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 2014 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.
CET1 (Common Equity Tier 1)	CET1 capital comprises general reserves, other reserves less intangible assets and other regulatory deductions.
Credit risk	This is the risk that a customer or counterparty fails to meet their contractual obligations.
CRD IV (Capital Requirements Directive)	CRD IV is the European legislation which came into force from 1 January 2014 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.
Deferred tax asset	Corporation tax recoverable (or payable) in future periods resulting from temporary or timing differences, between the accounting value of assets and liabilities and the tax base of those assets and liabilities.
Defined benefit obligation	The present value of expected future payments required to settle the obligations of a defined benefit plan resulting from employee service.
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, exchange rates or 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.
Expected credit loss (ECL)	Expected credit loss is a calculation of the present value of the amount expected to be lost on a financial asset over its expected life.
Fair value	Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arms' length transaction.
Financial Conduct Authority (FCA)	The statutory body responsible for conduct of business regulation and supervision of UK authorised firms.

Glossary (continued)

Term	Definition
Financial Services Compensation Scheme	The UK's compensation fund of last resort for customers of authorised financial services firms. The FSCS may pay compensation to customers if a firm is unable, or likely to be unable, to pay claims against it, usually because it has stopped trading or has been declared in default. The FSCS is funded by the financial services industry. Every firm authorised by the FCA is obliged to pay an annual levy, which goes towards its running costs and compensation payments.
Forbearance strategies	Strategies to support borrowers in financial difficulty, such as agreeing a temporary reduction in the monthly payment, extending mortgage terms and a conversion to an interest-only basis. The aim of forbearance strategies is to avoid repossession.
Free Capital	The aggregate of gross capital and provisions for collective impairment losses on loans and advances to customers less property, plant and equipment and intangible assets.
Funding Limit	Measures the proportion of shares and borrowings (excluding the fair value adjustment for hedged risk) not in the form of shares held by individuals. The calculation of the funding limit is explained in the Annual Business Statement.
General reserves	The accumulation of the Society's historic and current year profits which is the main component of Common Equity Tier 1 capital.
Gross capital	General reserves
Impaired loans	Loans which have been classified as Stage 3 (see definition below).
Internal Liquidity Adequacy Assessment Process (ILAAP)	The Society's own assessment of the liquidity resources it requires in order to remain within the risk tolerances it has set. This will include an evaluation of potential stresses based on multiple market environments.
Interest rate risk	The risk of loss due to a change in market interest rates.
Internal Capital Adequacy Assessment Process (ICAAP)	The Society's own assessment, as part of Basel II 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.
Lending limit	Measures the proportion of business assets not in the form of loans fully secured on residential property.
Leverage ratio	Leverage ratio is defined as Tier 1 capital divided by the total exposures which includes on and off balance sheet items, with this ratio expressed as a percentage.
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.
Market risk	The risk that movements in market risk factors, including foreign exchange rates, interest rates, credit spreads and customer-driven factors will create potential losses or decrease the value of the Society's balance sheet.

Glossary (continued)

Term	Definition
Mean total assets	Represents the amount produced by halving the aggregate of total assets at the beginning and end of the financial year.
Member	A person who has a share investment or a mortgage loan with the Society.
Net interest income	The difference between interest receivable on assets and similar income and interest paid on liabilities and similar charges.
Operational risk	The risk of loss arising from inadequate or failed internal processes, people and systems, or from external events.
Renegotiated loans	Loans are classed as renegotiated where an agreement between a borrower and a lender has been made to modify the loan terms either as part of an on-going relationship or if the borrower is in financial difficulties. The renegotiated loan might not be treated as past due or impaired.
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 (RWA)	The value of assets, after adjustment, under the relevant Basel III capital rules to reflect the degree of risk they represent.
Residential loans	Loans that are loaned to individuals rather than institutions. Residential mortgage lending is secured against residential property.
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.
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, amounts owed to other customers.
SPPI test	An assessment of whether the contractual terms of the financial asset give rise to cash flows that are in substance solely payments of principal and interest.
Stage 1	Stage 1 assets are assets which have not experienced a significant increase in credit risk since the asset was originally recognised on the balance sheet. 12 month ECL are recognised as the impairment provision for all financial assets on initial recognition.
Stage 2	Stage 2 assets have experienced a significant increase in credit risk since initial recognition. Lifetime ECL is recognised as an impairment provision.
Stage 3	Stage 3 assets are those which are credit impaired. Lifetime ECL is also recognised as an impairment provision.
Standardised approach	The basic method used to calculate capital requirements for credit risk under Basel III. In this approach the risk weightings used in the capital calculation are determined by specified percentages.
Standard Variable Rate (SVR)	Variable rate on mortgage loans set by the lender.
Wholesale funding	The total of amounts owed to credit institutions, amounts owed to other non-retail customers.

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Member of UK Finance and the Building Societies Association

Registered in the UK, authorised and regulated by the Prudential Regulation Authority and regulated by the Financial Conduct Authority.

Financial Services Register number 206041, registered office as above.

Market Harborough
BUILDING SOCIETY

together we thrive!