Annual Report and Accounts 2022

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Chair's Statement

I'm delighted to introduce to you the Annual Report and Accounts for 2022. The year saw an unprecedented level of economic and political turmoil both at home and globally. However, the UK savings and mortgage markets were buoyant and the Society benefited from increased levels of activity, growing both sides of the balance sheet in the year.

In September, Mark Robinson, the Society's Chief Executive Officer retired after 15 years of dedicated service. Mark arrived at the Society in 2007 on the day that Northern Rock collapsed. He led the Society through the financial crisis of the late 2000's and into an enviable position as one of the most profitable and well capitalised building societies in the UK. I'd like to thank Mark for his strategic leadership during this period and wish him well in his retirement.

As we say goodbye to Mark, we warmly welcome Iain Kirkpatrick, who arrived as the new Chief Executive in September. During a rigorous recruitment and selection process, the board were impressed with Iain's talent and experience and we are delighted to have him on board for the next phase of our journey. We look forward to this exciting period in the Society's history.

ECONOMY

The effects of Brexit and the Covid-19 pandemic reduced markedly during the year, being replaced by the significant impacts of Russia's invasion of Ukraine. Most immediately was the significant and sustained increase in energy and food prices. As a result of increasing inflation the Bank of England responded with a series of interest rate rises. Economic and political events led to the election of two new Prime Ministers and the mini budget resulting in market volatility and sharp increases in market rates. It has been the most eventful economic year since 2008.

Average pricing for a residential 2-year fixed rate mortgage went up 4.06% to 5.34% across the market. During August and September more than 3,000 mortgage products were withdrawn from the market while institutions paused to re-set products. Your Society remained open for business, being able to respond quickly to the changing conditions.

Market conditions have generated an increased demand amongst borrowers to lock into fixed-rate mortgages. Savers are increasingly looking for the best rate to offset inflation eroding their investments, and to increase income on their investments to support with the cost of living.

The Society has responded to rate increases by balancing the needs of all members, both borrowers and savers. By continuing to offer a competitive savings product range we saw record savings inflows into the Society of £92m. The Society was able to protect borrowers by increasing the Standard Variable Rate, to which most mortgage rates are linked, by just 1.50% while increasing the average rate paid to savers by 1.57%.

BUSINESS RESULTS

The Society is guided by its vision of putting members and communities at the heart of what it does, by helping them to thrive. To achieve this we aim to give our savers security through our financial strength, great service and long term attractive rates. We recognise that giving back to our communities and helping our members and stakeholders to thrive doesn't just rest with great rates and great service, but that the Society can have a wider impact in supporting the environment, communities and society. With this in mind we are seeking to amend our Rules and Memorandum, together known as the 'Rules' at our AGM in April. This will enable the Society to give back in the way we believe our members want to see. Further details can be found in the notice of AGM.

I am pleased to report that profit before tax (PBT) for the year was £4.50m together with the increase in rates which meant that the defined benefit pension scheme, which was closed in 2005, moved from a deficit to a small surplus. These contributions meant that, after tax the society's capital increased to £53.67m (8.3% reserves/total assets).

The Society achieved strong growth in mortgage and savings balances, offering highly competitive fixed rate bonds during the year. The savings book grew by more than 20% to £523m, providing funding for mortgages which grew by 15% to £504m. Liquidity remained within our appetite levels all year.

The credit quality of the Society's mortgage book remains good and 98% of mortgage balances were up to date and not subject to any form of forbearance at the year end. Total arrears balances were £5.5m and this compares to approximately £5m in pre-Covid times. However, we expect conditions to be challenging for some of our borrowers in 2023. In recognition of a weakening in house prices and the economy the Society increased its resources and training in order to deal with an increase in borrowers in difficulty.

YOUR SOCIETY

In seeking to protect our members during the cost of living crisis we reviewed our fees and services. We have chosen to sweep away the vast majority of non-product related fees. These were typically small fees associated with administrative tasks. We have also committed to protect members from the highest mortgage rates. The Society's Standard Variable Rate is a reference rate which discounted products are linked to and is the reversionary rate for the majority of mortgages. However, we have committed to contacting every borrower who reverts to SVR to offer them an alternative cheaper product and where we can't make contact with the borrower, we will automatically switch them onto a fee free discounted rate.

Chair's Statement (continued)

The Society continues to support colleagues following the Covid-19 pandemic and recognises the increase in flexible working practises. Head office staff have been transitioned to a now permanent hybrid working environment, with the majority of the workforce on site for two days a week. This has proved very popular providing collaborative co-working facilities as well as the benefits of working from home.

Meetings of the Board and Board Committees took place via a combination of virtual and physical meetings in Market Harborough during the year. It was agreed that this took the best elements of collaborative working and team building and the efficiency of meeting virtually. The frequency of these meeting will again be examined in 2023. The AGM will return to being in person this year and we look forward to welcoming our members back to the Harborough Theatre to meet directors on Thursday 27 April 2023.

This is the last time I will write to you as Chair as I will be retiring later in 2023. Having served on the Board for more than nine years I shall be stepping down, having overseen the transition to the new CEO. We have formally commenced the search for a replacement member of the board using an independent search agency Warren Partners, who specialise in financial services executive and non-executive recruitment. So it just leaves me to thank each one of our members – both savers and borrowers - for their support in 2022. I also want to recognise the Society's loyal staff, business partners and suppliers for their contribution throughout the various challenges in recent times. I wish you all the very best.

Michael Thomas

Chair

9 March 2023

Chief Executive's Review

I would like to start by saying how happy I am to assume this role following the excellent work done by your previous CEO, Mark Robinson who left the organisation in great shape. I extend my thanks and acknowledgement to Mark for his excellent work in leading the Society and providing a great handover to me. I'm really proud to be joining a building society with over 150 years of history and excellent financial strength.

2022 was a great year for the Society with significant growth in both savings and mortgage balances. The Society added to its capital strength with strong profits again in 2022. We continue to focus on offering attractive products and a caring service and during the year we introduced a number of initiatives guided by these principles.

Despite the economic and political turmoil of the last year, the Society has continued to perform well. For the time-being the Society has adopted hybrid working, which has proved attractive to most colleagues as well as presenting a number of opportunities to recruiting and retaining talent.

I very much look forward to working with your Board and Leadership Team, and with you as members in the coming years. I am passionate about what being a mutual organisation really means and to help ensure that we deliver for you in this regard, we have launched our Thrive Agenda to continue to support members, colleagues, communities and the environment.

MORTGAGES

Demand for mortgages in the year remained high following the lockdowns of the pandemic. We saw a high demand for holiday let mortgages, specifically in parts of the UK which have become popular holiday destinations together with a strong demand for short term bridging. New mortgage lending totalled £182m in the year, increasing the overall balance of lending by £65m to £504m. Despite recent news that house prices are starting to fall, house price growth achieved in the year as a whole was around 10%, meaning that security values improved.

The government is working on proposals of increasing the EPC threshold for let properties. It is expected that a minimum of a "C" rating will be required in the future. We have started to plan for this and have written to all buy-to-let borrowers to make them aware of the proposals and offer them a free EPC report. As well as providing a current estimation of your properties' carbon emissions the reports provide a useful and property specific guide to reducing your home's carbon emissions. This is typically achieved by improving insulation and introducing green energy generation. In some circumstances we can offer a £500 grant for the completion of these improvements. Please contact us if you are a borrower and would like further details.

Like other lenders we continue to support borrowers who find themselves in difficulty. We have carried out stress tests to measure the impact of the increased cost of living on our borrowers. All of our borrowers underwent an affordability stress assessment as part of the application process but we recognise that people's circumstances change and some find themselves in unexpected difficulty. The Society always listens to borrower circumstances and provides appropriate advice. Forbearance will be offered on a temporary basis, which may include a reduction in monthly payments or term extension. Our advisers will assess each borrower's needs and advise on the best outcome for the borrower. Overall arrears did not move significantly in 2022 and at the year-end no loans were more than 12 months payments behind (2021: the arrears amounted to £13k on accounts with capital balances of £87k). No commercial or buy-to-let loans were in arrears and no repossessions were made in 2022 (2021; nil). The Society has consistently delivered credit quality better than the sector average as we apply risk averse underwriting and prudent loan to value ratios.

We value highly the relationship that we have with our mortgage brokers, they are key partners in our business. We listen carefully to customers' needs and we were delighted to receive the independent Feefo gold award yet again.

FUNDING

The funding market has been very active during 2022 with savers looking for a better return on their investments and more motivation to move with rates increasing for the first time in many years. The Society has been active and competitive in the savings market, increasing all variable rate savings accounts in response to the increase in the Bank of England Base Rate. Your Society was also the first institution to offer a savings rate of over 4% since 2014. The Society continues to benchmark all savers rates to ensure that it remains highly competitive across its range of savings products.

The Society was highly successful in attracting new savers in the year, mostly via it's easy to use Online Service and increased balances during the year by £92m to £522m. All our branches remain open and committed to serving their local communities.

Our Online Service allows savers to access their accounts 24/7. I am pleased that usage of this facility increased by 33% last year – complementing our traditional face to face counter services.

The Society has maintained its usage of the latest Term Funding Scheme (TSFME), a central bank funding scheme for lenders. It currently holds £58m drawn from the scheme which provides reliable funding for four years.

Chief Executive's Review (continued)

FINANCIAL STRENGTH

Building Societies should be profitable to maintain their financial strength and allow them to invest for the future. However, we do not seek to maximise profit but to achieve results in line with our strategy. In 2022 profit before tax was £4.50m which was lower than in 2021 (£5.0m) as we balanced the needs of savers and borrowers, increasing the average rate paid to savers by more than the increase in our standard variable rate, the reference rate for most of our mortgage products. Retained profit meant capital increased by just under 8% to £53.67m.

OUR COMMUNITIES AND COLLEAGUES

During 2022 we launched our Thrive Agenda. We believe that giving back to our members and communities, to help them Thrive, remains our purpose as a mutual building society. Your Society was established over 150 years ago in order to help communities with housing needs. With this in mind, having consulted members, your Society committed £2m to provide housing to local people in need. In 2022 the Society purchased 3 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. In addition, we gave £100,000 shared between local food banks, donated £15,000 to a local housing charity and continued to support local good causes via our Charitable Foundation.

As well as looking outwards to our communities we have focussed on looking after our valuable colleagues. We recognised the stresses on household budgets due to increasing costs and paid one off payments of £500 and then £1,200 per employee during the year. The pandemic and lockdown accelerated the trend towards flexible working and staff have embraced the new norm of hybrid working with the majority of head office colleagues working on site for two days per week.

We continue to support colleague development with regular and relevant training. We offer support for leadership development via internal and externally hosted training. Professional qualifications are often funded where they are relevant to the role and the Society continues to sponsor a small number employees through the Loughborough University Master's degree for Building Societies. This local degree course gives a business education over a three year duration tailored to the particular disciplines of a modern mutual.

Financial education in the community is also supported by the Society and colleagues who again worked with local schools. Employees gave 537 hours of time volunteering and support was provided to the member nominated Charity of the Year; Leicester South Foodbank. The senior leadership team spent a day volunteering at their central hub in February to see this vital work first hand. Other charities to benefit from Society and colleague activities during the year include: LOROS, Cransley, Rainbows Hospices as well as the Air Ambulance and Cancer Research. This work has benefits for all involved.

The Society directly donated £168k to Charities including £45k to its Charitable Foundation which supported many smaller local good causes, particularly those impacted by the cost of living crisis.

OUTLOOK

Russia's invasion of the Ukraine continues to have a direct impact on our lives and the UK economy but we recognise that we have greater challenges to come as we move to become a carbon neutral business. As a modern mutual we strongly believe that we have our part to play in reducing our greenhouse gas emissions in the hope that the environment can start to recover from the damage inflicted on it by human behaviour. The Society has started its journey towards achieving carbon neutrality and we will be able to report more on this topic next year.

The Society exists to support its members, colleagues, communities and the environment to thrive and enjoy better lives. It is well capitalised, profitable and has invested appropriately for a successful future. We remain focussed on giving back through all that we do.

Iain Kirkpatrick

Chief Executive

9 March 2023

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 the Code does not directly apply to mutual organisations, the Group has regard to its principles as they apply to a building society. The full UK Corporate Governance Code can be found on the FRC's website: 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 normally meets six times a year and holds further meetings as and when required. The Board met on six occasions during 2022 to attend to normal governance matters. The Board maintained focus on operational resilience and staff wellbeing throughout the year, bearing in mind the change in working environment brought about by the Covid-19 pandemic.

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.

The Board has appointed a 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.

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 of the Society 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 through 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 Committee normally meets at least four times each year, however in 2022 the Committee met only three times due to unexpected circumstances. 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.

The Committee is chaired by Zoe Shapiro; other members being Lindsay Forster, Jonathan Fox, Andrew Merrick, Michael Thomas, and Nala Worsfold; all of whom are Non-Executive Directors.

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 (from 19 September 2022), Mark Robinson (until 19 September 2022), Michael Thomas, and Nala Worsfold. All are Directors of the Society, with the exception of Michelle Pledger and 3 are Non-Executive Directors.

Nominations Committee

The Committee is chaired by Michael Thomas, 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 Walker Report on 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 two times 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 no less than two Non-Executive Directors: 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. Engagement with customers is undertaken in various ways including social media, regular communications and mainstream media.

The Society is keen to find out its members' views so that it can continually improve. It provides them with a number of ways and opportunities to give their feedback. A dedicated email address (asktheboard@mhbs.co.uk) is promoted, 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 this feedback and other complaints or praise received are shared in Board meetings. Members of the Board visit branches and meet with members as part of their role. During 2022 branch visits were conducted virtually and in person so that Directors retained the opportunity to engage with Society colleagues. 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 sends a copy of its summary financial statement which provides an abridged 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 staff meeting where the Society strategic direction and objectives are communicated to staff. Additionally, a staff represented engagement team seek feedback from colleagues and communicates this to the Executive team and Senior Independent Director.

The Society is actively engaged with local communities and in 2022 supported local food banks with a donation of £100,000. 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 staff engagement team has also been established to facilitate staff 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 staff 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. Further to discussions with Society colleagues, increased pension contributions were made available to all members of staff and a medical cash plan introduced. Feedback on the enhanced pension provisions and benefits was reported as very positive.

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

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, Michael Thomas, was appointed as an independent Non-Executive Director in July 2013 following a rigorous selection exercise and was elected by the other members of the Board to become Chair on 13 July 2020. 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 two 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. He 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 new 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 produced 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 as required to support Non-Executive Director knowledge and development, e.g. IT Infrastructure and Security. 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 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 Michael Thomas, as Chair, is effective and that he devotes sufficient time for Board and Committee meetings and any other necessary duties.

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, a description of the role and capabilities for a particular appointment is 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 two 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, Michael Thomas, has served on the Society's board for more than nine years. He was appointed as Non-Executive Director in July 2013 and as Chair in July 2020. The Board has agreed to extend his tenure for a limited time in order to ensure effective succession. 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 2022 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. 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.

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. 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 Committee usually 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 two 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.

The 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 (CONTINUED)

Minutes of the 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 32. 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 Michael Thomas (Chair), Iain Kirkpatrick and Nicholas Fielden. The Company became dormant on 1 January 2016.

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 Chair of the 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 due to the coronavirus pandemic. The meeting planned for April 2023 will be held in person and all members are invited to attend.

Corporate Governance Report (continued)

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
Michael Thomas (Chair)	6 (6)	2*	3 (3)	4 (4)	4 (4) Ch	-
Andrew Merrick (Vice Chair)	6 (6)	4 (4) Ch	3 (3)	-	-	-
Jonathan Fox (SID)	6 (6)	1*	3 (3)	-	4 (4)	2 (2) Ch
Lindsay Forster	5 (6)	1*	3 (3)	-	-	2 (2)
Zoe Shapiro	5 (6)	4 (4)	3 (3) Ch	-	4 (4)	-
David Stunell	6 (6)	4 (4)	1*	4 (4) Ch	-	2 (2)
Nala Worsfold	6 (6)	4 (4)	2 (3)	4 (4)	-	-
Nicholas Fielden	6 (6)	4*	3*	4 (4)	-	1*
Iain Kirkpatrick	2 (2)[1]	1*	1*	1 (1)	-	-
Mark Robinson	4 (4)[2]	3*	2*	3 (3)	4*	2*

Ch - denotes Chair at 31 December 2022

( ) = number of meetings eligible to attend. Attendance by invitation is marked with *
[1] Iain Kirkpatrick attended a third Board meeting as an attendee only and not a member
[2] Mark Robinson attended a fifth Board meeting as an attendee only and not a member

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:

Michael Thomas
Chair
9 March 2023

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 Committee is chaired by Michael Thomas, other members during 2022 comprised Jonathan Fox and Zoe Shapiro.

Michael Thomas will retire from the Board later in 2023. The search for his successor has commenced and is being led by Jonathan Fox as Senior Independent Director and member of the Nominations Committee.

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. Board succession planning ensures that the correct mix of skills is represented on the Board and its Committees.

EQUALITY, 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 Society's diversity and inclusion ambition is to foster an inclusive environment where everyone can contribute to the Society's success. 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; that being the most typical catchment area for recruitment. 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 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%

Nominations Committee Report (continued)

GENDER DIVERSITY (continued)

31 December 2021	Male	Female	Total	% Female
Board of Directors	6	3	9	33%
Executive Management	3	3	6	50%
Executive Management Direct Reports	4	12	16	75%
All Society Colleagues	32	88	120	70%

ETHNIC DIVERSITY

All Employees	White British	Other Ethnicity	Total	% Other
31 December 2022	99	14	113	12%
31 December 2021	117	9	126	7%

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's ethnic mix is in line with the Market Harborough area which continues to be a less diverse ethnic mix than England and Wales as a whole.

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 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 Committee ensures that each Non-Executive Director is independent whilst serving as a Director. All Directors are subject to re-election every two years. The Committee believes this provides members with the opportunity to refresh the Board in a timely manner without leaving the Society at risk of having no Directors in place to lead the Society. The Committee keeps this policy under review. The Committee 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.

The 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 Committee ensures that there are regular evaluations of the performance of the Board, its Committees, the Chair and individual Directors. 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. No such review was carried out in 2022.

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

Michael Thomas
Chair of Nominations Committee
9 March 2023

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 four times for scheduled meetings during 2022 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 2022 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 rising inflation, increased interest rates, Brexit, invasion of Ukraine and cost of living crisis. 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 25.

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 £0.4m (2021: £0.3m deficit). 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 2022 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 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 2022 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. Further to consideration by the Committee, BDO LLP are recommended as external auditor to the Society at the 2023 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 2022 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 2022 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.

Audit and Compliance Committee Report (continued)

INTERNAL CONTROLS (continued)

The Committee is satisfied that, throughout 2022, 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.

A Merrick

Andrew Merrick
Chair of the Audit and Compliance Committee
9 March 2023

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 2022. 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 2022 despite the challenging conditions caused by political and economic turbulence and the cost of living crisis resulting from the war in Ukraine and the Covid-19 pandemic, delivering post-tax profits of £3.6m. 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 September 2022 and they are available on the Society's website. The Committee meets at least twice each year.

The Committee consists of no less than two independent Non-Executive Directors. In 2022 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 Finance Director 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, increased pension contributions were made available to all members of staff and a medical cash plan introduced. The pension scheme was aligned for all employees, including Executives. Feedback on the enhanced pension provisions and benefits 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 schemes available to senior leaders and those available to Executives. The Schemes were affirmed.

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 2022 Annual General Meeting, 88% 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. This review was carried out in 2021 and payments were aligned to anticipated outcome with regard to Society and individual performance.

Policies and incentive schemes are reviewed on an annual basis and revised as appropriate. The remuneration policies in place during 2022 were reviewed by the Committee and were considered to be effective. In 2022 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.

CONTRACTUAL ARRANGEMENTS

The Society will not enter into an employment contract which would compensate any individual for failing to perform his/her 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. Bonus schemes for Executive Directors and other senior managers make provision for clawback of payments in the event of subsequent 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 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 Finance Director and Customer Experience Director.

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.

None of the Executive Directors have a contractual notice period which exceeds one year, or a contractual entitlement to a termination payment which would exceed twelve months' salary and benefits.

VARIABLE REMUNERATION

In considering the targets for both the annual and the long term 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 which 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 2022 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 16% of base salary (excluding allowances).

Long Term Incentive Scheme

Long term incentive schemes are 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 is approved by the Remuneration Committee at the commencement of the period to which it relates.

Currently the schemes include targets for the delivery of strategic objectives, organisational health (including stakeholder satisfaction) and measures relating to credit risk. The schemes are capped at 9% of base salary (excluding allowances).

Remuneration Report (continued)

EXECUTIVE DIRECTORS' REMUNERATION

The emoluments below represent audited information.

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	0	15,702	**216,649**
Iain Kirkpatrick[2]	63,462	**6,416**	55,000	0	0	0	**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

2021 All figures £	Base Salary	Benefits & Allowances	Performance pay annual incentive scheme	Performance pay long-term incentive scheme	Pension Contribution	Total
Mark Robinson	176,604	35,415	31,815	17,475	10,000	**271,310**
Nicholas Fielden	142,329	16,502	25,641	14,073	14,233	**212,779**
Total	**318,933**	**51,916**	**57,456**	**31,548**	**24,233**	**484,089**

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. 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 (Finance Director) will receive a payment of 50% of salary provided he is still in post once the new Chief Executive has been employed for twelve months.

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 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 £	2022	2021
Michael Thomas	45,487	43,462
Michael Bury to 31 July 2021	0	17,625
Lindsay Forster	25,333	23,917
Jonathan Fox	32,667	30,963
Andrew Merrick	32,667	33,125
Zoe Shapiro	28,825	27,213
David Stunell	28,825	24,946
Nala Worsfold	26,833	24,792
Total	**220,638**	**226,042**

Fees include amounts paid to the Chairs of the Assets & Liabilities Committee, Audit & Compliance Committee, Risk Committee and Remuneration Committee of £3,500 in 2022 (2021: £3,400) and £1,500 (2021: £875) to the Chair of the associated Pension and Life Assurance Scheme.

J Fox

Jonathan Fox
Chair of Remuneration Committee
9 March 2023

Directors' Report

Your Directors have pleasure in presenting their Annual Report for the year ended 31 December 2022.

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, and related insurance services. 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 post, 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 2022 is included in the Chair's Statement and the Chief Executive's Review. These reports include information about donations to charity (page 6) and mortgage arrears (page 3). No political donations were made during the year (2021: nil).

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group 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 25 of the accounts.

The Board has established Committees to assist in the implementation and monitoring of risk management across the Group, 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 Group 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 Group's Corporate Plan, approved by the Board, sets out the key objectives and how key risks to achieving those objectives will be managed. The Group 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

Directors' Report (continued)

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

- Climate change will bring financial risks to the Society's business. 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. During 2021 the Board approved a new environmental policy and in 2022 progressed its journey to carbon neutrality. A commitment has been made to reduce scope one emissions to zero by 2030. 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 Group's IT systems, regulatory compliance, fraud and financial crime. The Group 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 from cybercrime are of growing concern. The Society recognises this risk to our customers and processes. 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 Group 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 2022 are set out in Note 6 and Note 22 of the accounts.

Credit risk: the risk of loss if a customer or counterparty fails to perform its obligations. The risk arises from the Group's loans and advances to customers and the investment in liquid assets with treasury counterparties. Treasury counterparty and sector exposure limits have been established by the Board within the Counterparty Policy and these are monitored by ALCO.

All mortgage applications are assessed with reference to the credit and underwriting criteria set out in the Group's Lending Policies. Details of the Group's arrears performance are set out in the Chief Executive's Review. The Group recognises that the personal and financial circumstances of our borrowers can be affected by deteriorating economic conditions and unplanned events. When this happens, we apply a formal policy directed towards forbearance and fair treatment of customers. The Group uses a number of forbearance measures to assist those borrowers including agreeing a temporary payment concession or a temporary transfer to interest only payments in order to reduce the borrowers' financial pressures. We expect borrowers to resume normal payments once they are able.

The ultimate protection against any downturn is loan to value (LTV). The Society has a low LTV portfolio, with only 2.7% (2021:1.1%) of balances exceeding 75% LTV. Furthermore, the stress tests it carries out include severe scenarios with low probability. These stress tests are also incorporated into the IFRS 9 provisioning approach. Differing economic scenarios are probability weighted within the approach – the most severe scenario (based on that used by the Bank of England to stress test the banking system) is given a 7.5% (2021:10%) probability weighting, with the most likely economic scenario being the downturn scenario a 42.5% (2021:40.0%) probability weighting.

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 is satisfied that a programme of actions to ensure timely implementation is in place. This includes the appointment of a Non-Executive Director as Consumer Duty Champion.

Directors' Report (continued)

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

Interest rate risk: 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 2022 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 Group's interest rate sensitivity and the use of derivatives for hedging purposes are set out in Note 30 of the accounts.

Risks associated with the UK leaving the EU: The effects on the UK economy post Brexit are starting to materialise. Whilst the Society is not directly affected by the impacts of Brexit, as the business model is based on lending in GBP that is secured on UK properties, the business model is exposed to the secondary impacts on the economy arising from higher prices and inflation. These would manifest themselves in the same way as any other economic downturn through decreased house prices and higher unemployment and therefore default rates.

The business does lend to ex pats, some of whom are based in Europe. The underwriting process considers the job / profession of the borrower and ex pats tend to be in professions with transferable skills and roles. Should they have to return to the UK then they are likely to be as employable as anyone else. Should jobs not be available, the low LTV will offer protection, and the number of properties that may have to be sold or repossessed is clearly immaterial to the wider market. Post Brexit, lending to customers residing in the EU27 was withdrawn as this was not included in the trade agreement. The decision to withdraw from this market will be kept under review pending future developments.

The Society notes not only the risks to its mortgage assets but also operational risks due to impact on resources, availability of skilled staff and suppliers with connections to the EEA. It believes it is well placed to deal with any such impact and has not been adversely impacted by supply chain constraints to date.

Liquidity risk: the risk that the Group does not have sufficient financial resources to meet its liabilities as they fall due, or can secure them only at an excessive cost. It arises from the maturity mismatch of the Group's assets and liabilities. The Group'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 liabilities cannot be met as they fall due both in 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 Group. The Financial Risk Management Policies detail liquidity risk limits set by the Board and these are reviewed daily by the Group's Finance department and monitored every month, each time the ALCO or Management ALCO meets. Management ALCO consists of the executive members of the ALCO. Further details of liquidity and funding are set out below.

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. 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.

Directors' Report (continued)

BOARD RISK FRAMEWORK

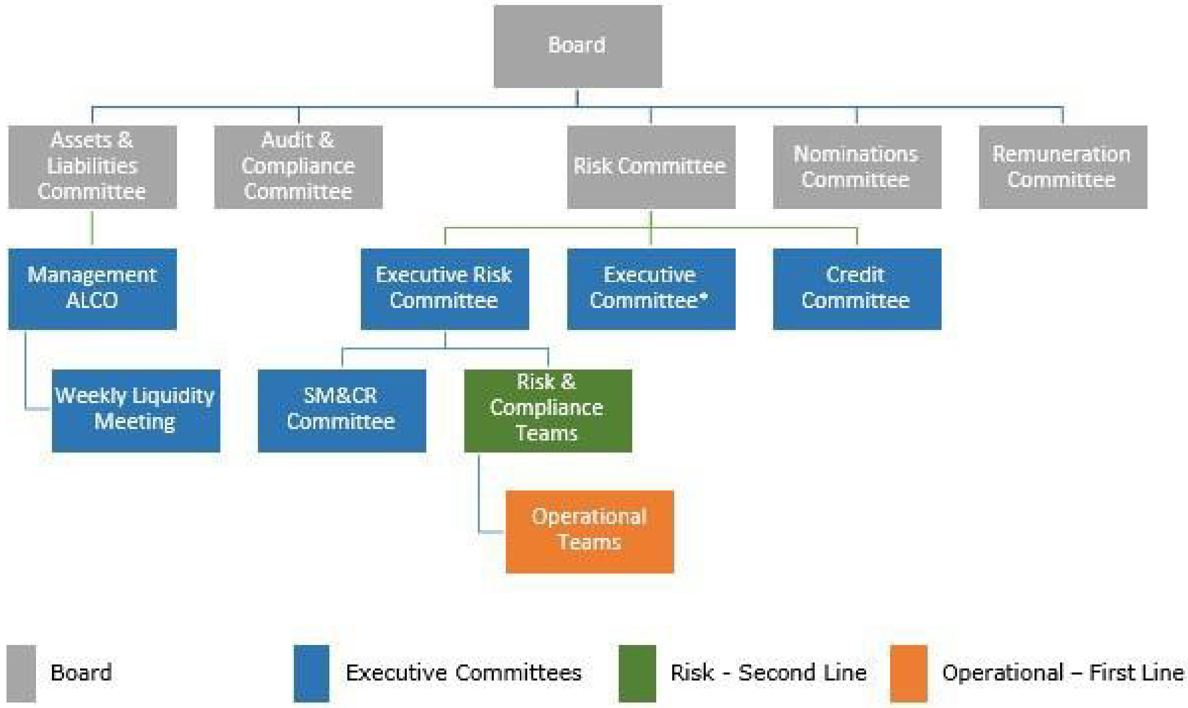
The risk management framework is designed to safely deliver the Corporate Plan in line with the Board's risk appetite. The Board is responsible for ratification of all policies. All of the senior management are involved in the development of risk management policies and their subsequent monitoring as 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 25 to 30 to the annual accounts.

The Society's risk governance structure is detailed below:



* This Committee can escalate risk matters to any of the Board Committees or Board itself

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 INDICATORS

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

	2022 Group	2021 Group	2020 Group
Total assets	£647m	£541m	£531m
New mortgage lending	£182m	£132m	£94m
Growth in mortgage assets	13.9%	2.4%	0.5%
Net increase / (decrease) in retail deposits	£92m	(£30m)	£21m
Liquidity to funding ratio	23.6%	20.4%	20.9%
Management expenses as a percentage of mean total assets	1.8%	1.6%	1.5%
Cost to income ratio	68.7%	64.7%	73.4%
Pre-tax profit	£4.5m	£5.0m	£2.7m
Post-tax profit	£3.6m	£4.0m	£2.2m
Profit as a percentage of mean total assets	0.6%	0.8%	0.4%
Net interest receivable as a percentage of mean total assets	3.5%	3.0%	3.1%
Gross capital as a percentage of shares and borrowings	9.2%	10.1%	9.3%
Free capital as a percentage of shares and borrowings	8.9%	9.9%	9.1%

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

NON-FINANCIAL INDICATORS

Customer surveys in 2022 showed that 88% (2021: 90%) of new savers and mortgage customers would recommend us. In December 2021 92% (2020: 92%) of employees responded to a satisfaction survey; 84% (2020: 89%) of respondents agreed that they enjoyed their job. The next employee engagement survey will be carried out in early 2023. During 2022 the Society continued to support the development of its staff; three employees celebrated examination passes and the achievement of 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 2022, the Society purchased three residential properties in Leicestershire which have been leased out at zero rent to a local Social Housing Association to provide accommodation to 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 2022 the Board comprised seven Non-Executive Directors and two 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**
Michael Thomas	Iain Kirkpatrick : Chief Executive (from 19 September 2022)
Lindsay Forster	Mark Robinson : Chief Executive (until 18 September 2022)
Jonathan Fox	Nicholas Fielden : Finance Director
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.

LONG TERM VIABILITY STATEMENT AND 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 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 meet its capital requirements at all times. 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 2022 the Society reviewed its stress scenarios to ensure they reflected the latest forecasts on the potential economic stress which may be forthcoming. 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)

LONG TERM VIABILITY STATEMENT AND GOING CONCERN (CONTINUED)

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 2022 (31 December 2021: 2).

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 2023.

On behalf of the Board of Directors:

Michael Thomas
Chair
9 March 2023

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.

Michael Thomas
Chair
9 March 2023

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 Group's and of the Society's affairs as at 31 December 2022 and of the Group and of the Society's 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') and its subsidiaries (the 'Group') for the year ended 31 December 2022 which comprise the Group and Society Income Statements, 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 Cash Flow Statements, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and 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 4 years, covering the years ended 31 December 2019 to 31 December 2022. 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:

- Obtaining and evaluating the Directors' assessment of going concern, challenging this in light of our understanding of the Group's and Society's strategy, forecasts, capital adequacy and liquidity positions and current assessment of the impact of various stress scenarios. Further, we have used publicly available information, for example on the housing market including the house price index, to challenge and assess the reasonableness of certain assumptions used to derive the forecasts and stress tests applied.
- In understanding the capital and liquidity of the Group and Society, we have reviewed the Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Adequacy Assessment Process (ILAAP) and capital adequacy ratio with the help of our regulatory experts. We have used this understanding to assess the Group's and Society's capital and liquidity position and their ability to remain compliant with the required regulatory requirements.
- Enquiring with the Directors and assessing the continued economic impact of Russia's invasion of Ukraine, the UK economic environment and rising cost of living on the business and whether the impact thereof has been adequately factored into the Directors assessment of going concern.
- Assessing the forecast used to support the going concern assessment for arithmetical accuracy.

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.

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

OVERVIEW

Coverage	100% of Group's profit before tax (2021: 100%) 100% of Group's revenue (2021: 100%) 98% of Group's net assets (2021: 98%)		
Key audit matters		2022	2021
	Revenue Recognition	✓	✓
	Loan Loss Provisioning	✓	✓
Materiality	£537k based on 1% of Net Assets (2021: £496k based on 1% of Net Assets).		

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Our audit approach was developed by obtaining an understanding of the Group's activities and the overall control environment. Based on this understanding, we assessed those aspects of the Group's transactions and balances which were most likely to give risk to a material misstatement. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

The Group is made up of the Society and its wholly owned subsidiary. The significant component is Market Harborough Building Society which was subject to a full scope audit performed by the Group engagement team. The remaining subsidiary was a dormant company and subject to a desktop review performed by the Group engagement team.

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.

Independent auditor’s report to the members of Market Harborough Building Society (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 46-51) and note 3.</td>
<td>The Group has recognised interest income of £20,699k (2021: £16,308k) under the effective interest rate (“EIR”) method.

The loans and advances to customers of £497,973k (2021: £437,080k) 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 £166k (2021: £279k).

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 an elevated 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 didnot 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)

Loan Loss Provisioning Note 1 (accounting policy: pages 46-51) and note 11.	Provision for impairment losses on loans and advances to customers is £983,000 (2021: £651, 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 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.	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 individual loans that could be subject to impairment. 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.

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:

	Group financial statements		Society financial statements	
	2022 £k	2021 £k	2022 £k	2021 £k
Materiality	537	496	526	486
Basis for determining materiality	1% of Net Assets		98% of Group Materiality	
Rationale for the benchmark applied	We determined that Net Assets was the most appropriate benchmark considering the different stakeholders. This is considered to be the measure which closely corresponds to regulatory capital. Regulatory stability is considered to be the main driver for the Group as the purpose of the Group is to optimise rather than maximise profits.		98% of Group materiality given the assessment of the component aggregation risk.	
Performance materiality	403	372	395	364
Basis for determining performance materiality	75% of materiality, determined on the basis of our risk assessment together with our assessment of the overall control environment.			

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

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £10,500 (2021:£9,900). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

OTHER INFORMATION

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

We have nothing to report in this regard.

OTHER BUILDING SOCIETIES ACT 1986 REPORTING

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

<table>
<tr><td>Annual business statement and Directors' report</td><td>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 Group and Society and its environment obtained in the course of the audit, we have not identified any material misstatements in the directors' report.</td></tr>
<tr><td>Matters on which we are required to report by exception</td><td>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 of Society are not in agreement with the accounting records; or
we have not received all the information and explanations we require for our audit.</td></tr>
</table>

OPINION ON OTHER MATTER PRESCRIBED BY THE CAPITAL REQUIREMENTS (COUNTRY-BY-COUNTRY REPORTING) REGULATIONS 2013

In our opinion the information given on Page 92 the financial year ended 31 December 2022 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

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

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 Group and 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 Group or Society or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

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

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

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

Our procedures in response to the above included:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- making enquiries in respect of known or suspected fraud and non-compliance with laws and regulations of management, and the audit committee;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and correspondence with the FCA and the PRA for instances of fraud or non- compliance with laws and regulations;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments by testing a sample, based on risk criteria, to supporting documentation and business rationale; and
- in addressing the risk of fraud in accounting estimates, the procedures performed in the key audit matters section of our report assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists 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.

DocuSigned by:

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Matthew Hopkins (Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor London, UK

9 March 2023

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

Income Statements

For the year ended 31 December 2022 All figures £'000	Note	2022 Group	2021 Group	2022 Society	2021 Society
Interest income calculated using the effective interest method	3	20,699	16,308	20,699	16,308
Interest payable and similar charges	4	(5,825)	(3,189)	(5,825)	(3,189)
Net Interest Income		**14,874**	**13,119**	**14,874**	**13,119**
Fees and commissions receivable		521	451	521	451
Fees and commissions payable		(446)	(347)	(446)	(347)
Other operating income		14	15	14	15
Net gain/(loss) from derivative financial instruments	5	478	185	478	185
Total Net Income		**15,441**	**13,423**	**15,441**	**13,423**
Administrative expenses	6	(9,647)	(8,300)	(9,647)	(8,300)
Depreciation, amortisation and impairment	14, 15, 16	(798)	(341)	(798)	(341)
Other operating charges		(161)	(32)	(161)	(32)
Other finance cost		(5)	(16)	(5)	(16)
Operating Profit		**4,830**	**4,734**	**4,830**	**4,734**
Impairment gain/(losses) on loans and advances	7	(335)	267	(335)	267
Profit Before Tax		**4,495**	**5,001**	**4,495**	**5,001**
Tax on profit	8	(925)	(967)	(925)	(967)
Profit For The Financial Year		**3,570**	**4,034**	**3,570**	**4,034**

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 2022 All figures £'000	Note	2022 Group	2021 Group	2022 Society	2021 Society
Profit For The Financial Year		**3,570**	**4,034**	**3,570**	**4,034**
Items that will not be reclassified to the income statement					
Re-measurement of defined benefit obligation	22	611	801	611	801
Tax on items that will not be reclassified to the income statement		(153)	(144)	(153)	(144)
Other comprehensive (expense)/income for the period net of income tax		**458**	**657**	**458**	**657**
Total Comprehensive Income For The Period		**4,028**	**4,691**	**4,028**	**4,691**

The notes on pages 46 to 92 form part of these Annual Report and Accounts.

Statements of Financial Position

As at 31 December 2022 All figures £'000	Note	2022 Group	2021 Group	2022 Society	2021 Society
Cash in hand and balances at central banks		131,176	93,866	131,176	93,866
Loans and advances to credit institutions	9	7,042	6,091	7,042	6,091
Derivative financial instruments	10	6,178	1,021	6,178	1,021
Loans and advances to customers	11	497,973	437,080	497,973	437,080
Other assets	13	1,224	733	1,224	733
Property, plant and equipment	14	2,350	1,723	2,350	1,723
Right of use assets		40	60	40	60
Intangible assets	15	485	567	485	567
Retirement benefit asset		393	0	393	0
Deferred tax asset	17	0	28	0	28
Total Assets		**646,861**	**541,169**	**646,861**	**541,169**
Shares	18	493,397	395,419	493,397	395,419
Amounts owed to credit institutions	19	60,940	58,518	60,940	58,518
Amounts owed to other customers	20	30,559	35,438	30,559	35,438
Derivative financial instruments	10	1,491	86	1,491	86
Other Liabilities and accruals	21	6,071	1,133	7,256	2,318
Lease Liabilities		36	56	36	56
Current tax liabilities		523	535	523	535
Retirement benefit liabilities	22	0	339	0	339
Deferred tax liability	17	171	0	171	0
Total Liabilities		**593,188**	**491,524**	**594,373**	**492,709**
General reserve	23	53,673	49,645	52,488	48,460
Total Reserves		**53,673**	**49,645**	**52,488**	**48,460**
Total Reserves and Liabilities		**646,861**	**541,169**	**646,861**	**541,169**

The notes on pages 46 to 92 form part of these Annual Report and Accounts.

Approved by the Board of Directors on 9 March 2023, and signed on its behalf by:

Michael Thomas
Chair

Iain Kirkpatrick
Chief Executive

Nicholas Fielden
Finance Director

Statements of Changes in Members' Interests

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 Income	**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 Income	**458**	**458**
Total comprehensive income	**4,028**	**4,028**
Balance At 31 December 2022	**52,488**	**52,488**

Statements of Changes in Members' Interests (continued)

Group 2021 All figures £'000	General reserve	Total
Balance at 1 January 2021	44,954	44,954
Profit for the year	4,034	4,034
Other comprehensive income for the year (net of tax)		
Re-measurement of defined benefit obligation	657	657
Total Other Comprehensive Expense	**657**	**657**
Total comprehensive income	**4,691**	**4,691**
Balance At 31 December 2021	**49,645**	**49,645**

Society 2021 All figures £'000	General reserve	Total
Balance at 1 January 2021	43,769	43,769
Profit for the year	4,034	4,034
Other comprehensive income for the year (net of tax)		
Re-measurement of defined benefit obligation	657	657
Total Other Comprehensive Expense	**657**	**657**
Total comprehensive income	**4,691**	**4,691**
Balance At 31 December 2021	**48,460**	**48,460**

The notes on pages 46 to 92 form part of these Annual Report and Accounts.

Cash Flow Statements

For the year ended 31 December 2022 All figures £'000	Note	2022 Group	2021 Group	2022 Society	2021 Society
Profit before tax		4,495	5,001	4,495	5,001
Depreciation, amortisation and impairment		798	341	798	341
Fair value (gain) on derivative instruments		(478)	(185)	(478)	(185)
Interest on lease payments		1	1	1	1
Increase/(decrease) in impairment of loans and advances		332	(267)	332	(267)
Total Cash Flows From Operating Activities		**5,148**	**4,891**	**5,148**	**4,891**
(Increase) in other assets		(689)	(64)	(689)	(64)
(Decrease)/increase in other liabilities		6,916	(746)	6,916	(746)
(Increase) in loans and advances to customers		(65,121)	(11,515)	(65,121)	(11,515)
Increase/(decrease) in shares		97,124	(24,660)	97,124	(24,660)
Increase in amounts owed to other credit institutions		2,000	37,000	2,000	37,000
(Decrease) in amounts owed to other customers		(4,958)	(4,842)	(4,958)	(4,842)
(Decrease) in retirement benefit obligation		(121)	(109)	(121)	(109)
Taxation paid		(891)	(666)	(891)	(666)
Net Cash from/(used in) Operating Activities		**39,408**	**(711)**	**39,408**	**(711)**
Purchase of property, plant and equipment		(1,172)	(55)	(1,172)	(55)
Purchase of intangible assets		(150)	(174)	(150)	(174)
Net Cash Used in Investing Activities		**(1,322)**	**(229)**	**(1,322)**	**(229)**
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		**38,064**	**(961)**	**38,064**	**(961)**
Cash and cash equivalents at 1 January		**99,946**	**100,908**	**99,946**	**100,908**
Cash And Cash Equivalents At 31 December		**138,010**	**99,946**	**138,010**	**99,946**

Interest received was £19.1m (2021 £15.2m) and interest paid was £851k (2021 £453k).

The notes on pages 46 to 92 form part of these Annual Report and Accounts.

Notes to the Annual Report and Accounts

1. PRINCIPAL ACCOUNTING POLICIES

The principal 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 Russia's invasion of Ukraine, the UK leaving the EEA, rising inflation and interest rates and cost of living crisis and have concluded that this would not impact the going concern basis under which these accounts have been prepared. The Directors have also considered the long term viability of the Society as discussed on page 30.

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

Changes in accounting policies and future accounting developments

The IASB has not published any new standards effective from 1 January 2022, however it has published some minor amendments effective from 1 January 2022 that are adopted by the UK Endorsement Board and are applicable to the Society.

- Conceptual Framework for Financial Reporting (Amendments to IFRS 3)
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendment – Onerous Contracts – Cost of Fulfilling a Contract)
- IAS 16 Property, Plant and Equipment (Amendment – Proceeds before Intended Use)
- Annual improvements to IFRS standards 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41)

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

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 which remained dormant throughout the financial period; no acquisitions or disposals were made during 2022.

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.

Notes to the Annual Report and Accounts (continued)

PRINCIPAL ACCOUNTING POLICIES (continued)

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.

Leases

Leasehold property is accounted for in accordance with IFRS 16 Leases. The standard requires that a right-of-use asset is recognised on the balance sheet for all leases, based on discounted future commitments. A corresponding liability arises representing the present value of future lease commitments. Leases of low value and those with a short term are excluded from this treatment, in which case rental charges are charged to the income statement on a straight-line basis over the life of the lease.

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 and 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 and relate to taxes levied by HMRC.

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.

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.

Notes to the Annual Report and Accounts (continued)

PRINCIPAL ACCOUNTING POLICIES (continued)

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', 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.

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' 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

Notes to the Annual Report and Accounts (continued)

PRINCIPAL ACCOUNTING POLICIES (continued)

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.

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 25 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.

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.

Notes to the Annual Report and Accounts (continued)

PRINCIPAL ACCOUNTING POLICIES (continued)

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 (2021: 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.

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 staff. 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 liability, 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.

Notes to the Annual Report and Accounts (continued)

PRINCIPAL ACCOUNTING POLICIES (continued)

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 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 25: classification of financial assets - the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest (SPPI) on the principal amount outstanding.
- 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.

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 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.

Notes to the Annual Report and Accounts (continued)

2. FUTURE ACCOUNTING DEVELOPMENTS

The IASB has published a number of minor amendments to IFRSs that are effective from 1 January 2022 and 1 January 2023. The Society expects they will have an insignificant effect, when adopted, on the consolidated financial statements of the Group and Society.

3. INTEREST INCOME CALCULATED USING THE EFFECTIVE INTEREST METHOD

All figures £'000	2022 Group	2021 Group	2022 Society	2021 Society
On loans fully secured on residential property	17,285	16,258	17,285	16,258
On other loans	1,083	369	1,083	369
On liquid assets	1,434	101	1,434	101
Net interest income / (expense) on derivatives	897	(420)	897	(420)
Total	**20,699**	**16,308**	**20,699**	**16,308**

Included within interest income is £nil (2021: £0.4k) in respect of interest income accrued on impaired loans two or more months in arrears.

4. INTEREST PAYABLE AND SIMILAR CHARGES

All figures £'000	2022 Group	2021 Group	2022 Society	2021 Society
On shares held by individuals	4,953	2,843	4,953	2,843
On deposits and other borrowings	1,087	345	1,087	345
On leases	1	1	1	1
Net interest cost / (income) on derivatives	(216)	0	(216)	0
Total	**5,825**	**3,189**	**5,825**	**3,189**

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

All figures £'000	2022 Group	2021 Group	2022 Society	2021 Society
Derivatives in designated fair value hedge relationships	3,562	1,715	3,562	1,715
Adjustments to hedged items in fair value hedge accounting relationships	(3,275)	(1,531)	(3,275)	(1,531)
Derivatives not in designated fair value hedge relationships	191	1	191	1
Total	**478**	**185**	**478**	**185**

The net gain from derivative financial instruments of £478k (2021: £185k) 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)

6. ADMINISTRATIVE EXPENSES

All figures £'000	**2022 Group**	**2021 Group**	**2022 Society**	**2021 Society**
Staff costs				
Wages and salaries	5,030	4,347	5,030	4,347
Social security costs	590	473	590	473
Other pension costs	392	357	392	357
Total staff costs	**6,012**	**5,177**	**6,012**	**5,177**
Other administrative costs	3,635	3,123	3,635	3,123
Total	**9,647**	**8,300**	**9,647**	**8,300**

Auditor's Remuneration

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

All figures £'000 and exclude VAT	**2022 Group**	**2021 Group**	**2022 Society**	**2021 Society**
Audit of these Annual Report and Accounts	175	150	175	150
Other assurance services	0	16	0	16
Total	**175**	**166**	**175**	**166**

Staff Numbers

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

Full Time Equivalents	**2022 Group**	**2021 Group**	**2022 Society**	**2021 Society**
Full time employees	77	74	77	74
Part time employees	35	36	35	36
Total	**112**	**110**	**112**	**110**

Full Time Equivalents	**2022 Group**	**2021 Group**	**2022 Society**	**2021 Society**
Head office	100	98	100	98
Branches	12	12	12	12
Total	**112**	**110**	**112**	**110**

Notes to the Annual Report and Accounts (continued)

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

Headcount Numbers	2022 Group	2021 Group	2022 Society	2021 Society
Branch Full time employees	2	2	2	2
Branch Part time employees	17	18	17	18
Total	**19**	**20**	**19**	**20**

Headcount Numbers	2022 Group	2021 Group	2022 Society	2021 Society
Head Office Full time employees	75	72	75	72
Head Office Part time employees	41	42	41	42
Total	**116**	**114**	**116**	**114**

Headcount Numbers	2022 Group	2021 Group	2022 Society	2021 Society
Total Branch employees	19	20	19	20
Total Head Office employees	116	114	116	114
Total	**135**	**134**	**135**	**134**

Directors' Emoluments and Transactions

Directors' Emoluments

Group and Society All figures £'000	2022	2021
For services as Non-Executive Directors	221	226
For services as Executive Directors	658	484
Total	**879**	**710**

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 27 April 2023.

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	2022 Loans fully secured on residential property	2022 Other loans fully secured on land	2022 Total	2021 Loans fully secured on residential property	2021 Other loans fully secured on land	2021 Total
Charge/(release) of provision for impairment	339	(7)	**332**	(270)	3	**(267)**
Recoveries of debts previously written off	(3)	0	**(3)**	(2)	0	**(2)**
Operational losses	6	0	**6**	2	0	**2**
Total	**342**	**(7)**	**335**	**(270)**	**3**	**(267)**

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

All figures £'000	2022 Group	2021 Group	2022 Society	2021 Society
Current tax	894	925	894	925
Adjustment in respect of prior years	(15)	8	(15)	8
Total current tax	**879**	**933**	**879**	**933**
Origination and reversal of temporary difference	46	29	46	29
Effect of change in tax rate on deferred tax	(3)	15	(3)	15
Adjustment in respect of prior years	3	(10)	3	(10)
Total deferred tax	**46**	**34**	**46**	**34**
Total tax expense	**925**	**967**	**925**	**967**

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	2022 Group	2021 Group	2021 Society	2021 Society
Profit before tax	**4,495**	**5,000**	**4,495**	**5,001**
Expected tax at 19%	854	951	854	951
Expenses not deductible for corporation tax purposes	99	4	99	4
Super deduction element of capital allowances	(13)	0	(13)	0
Effect of change in tax rate on deferred tax	(3)	14	(3)	14
Adjustment in respect of prior years	(12)	(2)	(12)	(2)
Total tax expense	**925**	**967**	**925**	**967**

Notes to the Annual Report and Accounts (continued)

9. LOANS AND ADVANCES TO CREDIT INSTITUTIONS

All figures £'000	2022 Group	2021 Group	2022 Society	2021 Society
Repayable on call and short notice (included within cash and cash equivalents)	6,834	6,080	6,834	6,080
Other loans and advances to credit institutions	208	11	208	11
Total	**7,042**	**6,091**	**7,042**	**6,091**

At 31 December 2022 the Group and Society had £nil (2021:£270k) deposited against derivative contracts (this is included in the above figures). For further details see note 10.

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. In general, under these agreements, 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 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 2022, £4,600k was received (2021: £270k was placed) 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 5).

Notes to the Annual Report and Accounts (continued)

DERIVATIVE FINANCIAL INSTRUMENTS (continued)

At 31 December 2022, 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 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	0
Average fixed interest rate	0.57%	2.45%	0
Hedge of retail deposits			
Nominal amount	0	125,500	0
Average fixed interest rate	0	3.86%	0

Group and Society As at December 2021 All figures £'000	Maturity		
	Less than 1 year	1 – 5 years	More than 5 years
Hedge of loans and advances			
Nominal amount	35,500	92,000	0
Average fixed interest rate	0.23%	0.55%	0

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 2022 All figures £'000	Nominal	Fair Value Assets	Fair Value Liabilities	Change in fair value used for calculating hedge ineffectiveness for 2021	Ineffectiveness recognised in profit or loss
Derivatives designated as fair value hedges – interest rate swaps	192,000	5,817	(1,312)	3,562	287

Group and Society As at December 2021 All figures £'000	Nominal	Fair Value Assets	Fair Value Liabilities	Change in fair value used for calculating hedge ineffectiveness for 2021	Ineffectiveness recognised in profit or loss
Derivatives designated as fair value hedges – interest rate swaps	117,500	1,021	(75)	1,715	184

Notes to the Annual Report and Accounts (continued)

DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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 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	0	(69,686)	0	(622)	622
Loans and advances	116,898	0	(4,769)	0	(3,896)

Group and Society As at December 2021 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	
Loans and advances	116,771	0	(872)	0	(1,531)

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 no accumulated amount of fair value hedged adjustments remaining in the statement of financial position for any hedged items that have ceased to be adjusted for hedging gains and losses.

Notes to the Annual Report and Accounts (continued)

11. LOANS AND ADVANCES TO CUSTOMERS

All figures £'000	2022 Group	2021 Group	2022 Society	2021 Society
Loans fully secured on residential property	474,491	429,584	474,491	429,584
Other loans fully secured on land	29,234	9,020	29,234	9,020
Gross loan receivables	**503,725**	**438,604**	**503,725**	**438,604**
Stage 1 (see below)	(659)	(409)	(659)	(409)
Stage 2 (see below)	(324)	(242)	(324)	(242)
Stage 3 (see below)	0	0	0	0
Provision for impairment losses on loans and advances	**(983)**	**(651)**	**(983)**	**(651)**
Net loan receivables	**502,742**	**437,953**	**502,742**	**437,953**
Fair value adjustment for hedged risk	(4,769)	(872)	(4,769)	(872)
Total	**497,973**	**437,080**	**497,973**	**437,080**

The Group has pledged £84m (2021: £112m) of mortgage loan pools with the Bank of England. Of these mortgage loan pools £83m (2021: £77m) 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 £821k (2021:£207k) 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**	**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	0	0
From Stage 1 to Stage 3	0	0	0	0
From Stage 2 to Stage 3	0	0	0	0
Transfers resulting in reduced impairment loss provision:				
From Stage 2 to Stage 1	12,600	(12,600)	0	0
From Stage 3 to Stage 1	0	0	0	0
From Stage 3 to Stage 2	0	5	(5)	0
New Advances [1]	163,116	8,201	0	171,317
Redemptions and Repayments	(100,938)	(5,171)	(87)	(106,196)
Loan Balance at 31 December 2022	**483,685**	**20,040**	**0**	**503,725**

Group and Society **All figures £'000**	**Stage 1**	**Stage 2**	**Stage 3**	**2022 Total**
Provision at 1 January 2022	409	242	0	651
Transfers resulting in increased impairment loss provision:				
From Stage 1 to Stage 2	(8)	71	0	63
From Stage 1 to Stage 3	0	0	0	0
From Stage 2 to Stage 3	0	0	0	0
Transfers resulting in reduced impairment loss provision:				
From Stage 2 to Stage 1	3	(125)	0	(122)
From Stage 3 to Stage 1	0	0	0	0
From Stage 3 to Stage 2	0	0	0	0
New Advances[1]	401	203	0	604
Redemptions and Repayments	(76)	(17)	0	(93)
Other re-measurement of impairment loss provision	(70)	(51)	0	(121)
Write offs	0	0	0	0
Provision at 31 December 2022	**659**	**323**	**0**	**982**

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	2021 Total
Loan Balance at 1 January 2021	404,907	21,801	381	427,089
Transfers resulting in increased impairment loss provision:				
From Stage 1 to Stage 2	(15,989)	15,989	0	0
From Stage 1 to Stage 3	0	0	0	0
From Stage 2 to Stage 3	0	(5)	5	0
Transfers resulting in reduced impairment loss provision:				
From Stage 2 to Stage 1	9,526	(9,526)	0	0
From Stage 3 to Stage 1	21	0	(21)	0
From Stage 3 to Stage 2	0	1	(1)	0
New Advances [1]	132,355	0	0	132,355
Redemptions and Repayments	(114,461)	(6,107)	(272)	(120,840)
Loan Balance at 31 December 2021	**416,359**	**22,153**	**92**	**438,604**

Group and Society All figures £'000	Stage 1	Stage 2	Stage 3	2021 Total
Provision at 1 January 2021	555	362	1	918
Transfers resulting in increased impairment loss provision:				
From Stage 1 to Stage 2	(128)	171	0	43
From Stage 1 to Stage 3	0	0	0	0
From Stage 2 to Stage 3	0	0	0	0
Transfers resulting in reduced impairment loss provision:				
From Stage 2 to Stage 1	3	(160)	0	(157)
From Stage 3 to Stage 1	0	0	0	0
From Stage 3 to Stage 2	0	0	0	0
New Advances[1]	275	0	0	275
Redemptions and Repayments	(98)	(58)	(1)	(157)
Other remeasurement of impairment loss provision (no	(198)	(73)	0	(271)
Write offs	0	0	0	0
Provision at 31 December 2021	**409**	**242**	**0**	**651**

[1]New assets originated enter at stage 1. The balances presented are the final position as at 31 December 2022

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 (2021: £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	2022 Group	2021 Group	2022 Society	2021 Society
Prepayments and accrued income	725	722	725	722
Other debtors	499	11	499	11
Total	**1224**	**733**	**1224**	**733**

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

14. PROPERTY PLANT AND EQUIPMENT

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	0	68	0	1,172
Disposals	0	0	0	0	0
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	0	105	5	115
On disposals	0	0	0	0	0
Total depreciation at 31 December	**138**	**73**	**3,555**	**22**	**3,788**
Impairment at 31 December	**431**	**0**	**0**	**0**	**431**
Net book value at 31 December	**2,175**	**0**	**157**	**18**	**2,350**

Property plant and equipment additions of £1,104k include three freehold properties purchased by the Society in 2022 at a cost of £1,104k. 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 £431k 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'. '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 3.7% and the increase in average property prices of 0.4%.

Notes to the Annual Report and Accounts (continued)

PROPERTY PLANT AND EQUIPMENT (continued)

Group & Society 2021 All figures £'000	Freehold Property	Leasehold Property	Equipment Fixtures & Fittings	Motor Vehicles	Total
At 1 January	1,640	73	3,634	40	5,387
Additions	0	0	55	0	55
Disposals	0	0	(47)	0	(47)
Total cost at 31 December	**1,640**	**73**	**3,642**	**40**	**5,395**
At 1 January	128	73	3,384	13	3,598
Charge for the year	5	0	112	4	121
On disposals	0	0	(47)	0	(47)
Total depreciation at 31 December	**133**	**73**	**3,449**	**17**	**3,672**
Net book value at 31 December	**1,507**	**0**	**193**	**23**	**1,723**

All of the freehold property and leasehold property included above for 2021 was occupied by the Society. In 2022 the Society purchased 3 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 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**

Notes to the Annual Report and Accounts (continued)

INTANGIBLE ASSETS (continued)

Group & Society 2021 All figures £'000	Purchased Software
At 1 January	3,858
Additions	174
Total cost at 31 December	**4,032**
At 1 January	3,267
Charge for the year	198
Total amortisation at 31 December	**3,465**
Net book value at 31 December	**567**

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	2022 £'000	2021 £'000
Right-of-use assets as at 1 January	60	80
Additions	0	0
Amortisation	(20)	(20)
Right-of-use assets as at 31 December	**40**	**60**

Lease liability maturity analysis:

Group & Society All figures £'000	2022 £'000	2021 £'000
Less than one year	20	20
One to five years	21	41
More than five years	0	0
Total lease liabilities as at 31 December	**41**	**61**

The income statement shows the following amounts relating to leases:

Group & Society All figures £'000	2022 £'000	2021 £'000
Depreciation charge for right-of-use assets	20	20
Interest expense (included in interest payable and similar charges)	1	1

Notes to the Annual Report and Accounts (continued)

17. DEFERRED TAX

Deferred tax movement All figures £'000	2022 Group	2021 Group	2022 Society	2021 Society
At 1 January	28	206	28	206
Income statement credit	(46)	(34)	(46)	(34)
Recognised directly in other comprehensive income	(153)	(144)	(153)	(144)
At 31 December	**(171)**	**28**	**(171)**	**28**

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

All figures £'000	2022 Group	2021 Group	2022 Society	2021 Society
Property, plant and equipment and intangibles	5	12	5	12
IFRS 9 transitional adjustment	5	5	5	5
Pensions and other post tax retirement benefits	(23)	(20)	(23)	(20)
Effect of change in tax rate	3	(15)	3	(15)
Adjustment for prior years	(3)	10	(3)	10
Other provisions	(33)	(26)	(33)	(26)
Total	**(46)**	**(34)**	**(46)**	**(34)**

Deferred income tax assets are attributable to the following items:

All figures £'000	2022 Group	2021 Group	2022 Society	2021 Society
Pensions and other post-retirement benefits	0	85	0	85
Property, plant and equipment	0	(10)	0	(10)
Other	0	(47)	0	(47)
Total	**0**	**28**	**0**	**28**

Deferred income tax liabilities are attributable to the following items:

All figures £'000	2022 Group	2021 Group	2022 Society	2021 Society
Pensions and other post-retirement benefits	(98)	0	(98)	0
Property, plant and equipment	(147)	0	(147)	0
Other	74	0	74	0
Total	**(171)**	**0**	**(171)**	**0**

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	2022	2021
Held by individuals	492,719	394,185
Other shares	1,300	1,234
Fair value adjustment for hedged risk	(622)	0
Total	**493,397**	**395,419**

19. AMOUNTS OWED TO CREDIT INSTITUTIONS

Group and Society All figures £'000	2022	2021
Amounts owed to credit institutions	60,940	58,518
Total	**60,940**	**58,518**

At 31 December 2022 the Society has drawn £58.5m under the Term Funding Scheme with additional incentives for SMEs (TFSME), included above. The drawings 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	2022	2021
Retail customers:		
On demand	6,220	6,261
Notice	22,317	28,074
Local authorities		
Term	2,022	1,103
Total	**30,559**	**35,438**

21. OTHER LIABILITIES AND ACCRUALS

All figures £'000	2022 Group	2021 Group	2022 Society	2021 Society
Accruals and deferred income	1,234	861	1,234	861
Other taxes and social security	215	208	215	208
Amounts due to subsidiary	0	0	1,185	1,185
Other creditors	4,622	64	4,622	64
Total	**6,071**	**1,133**	**7,256**	**2,318**

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 GMP equalisation. This additional charge was accounted for through the Income Statement in 2018.

An updated actuarial valuation at 31 December 2022 was carried out in line with IAS 19 by a qualified independent actuary, as follows:

Group and Society **Growth and rates of return**	**2022**	**2021**
Discount rate	4.8	1.8
Rate of increase in salaries	3.6	3.9
Rate of increase in pensions	3.1	3.4
Inflation	3.1	3.4

Group and Society **Expected life at 31 December (normal retirement age of 65)**	**2022**	**2021**
Expected life at retirement for a new pensioner (yrs) - Male	22	21.9
Expected life at retirement for a new pensioner (yrs) - Female	24.4	24.3
Expected life at retirement in 20 years’ time (yrs) – Male	23.3	23.3
Expected life at retirement in 20 years’ time (yrs) - Female	25.8	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**	**2022**	**2021**
Discount rate	Decrease by 0.5%	Increase by 7%	Increase by 9%
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 5%

Fair Value of scheme assets **Group and Society** **All figures £'000**	**2022**	**2021**
As at 1 January	11,102	11,272
Interest on pension scheme assets	199	134
Contributions by employer	195	199
Benefits paid	(264)	(385)
Administration costs	(73)	(61)
Loss on asset returns	(3,480)	(57)
At 31 December	**7,679**	**11,102**

Present value of defined benefit obligations **Group and Society** **All figures £'000**	**2022**	**2021**
As at 1 January	(11,441)	(12,520)
Interest on pension scheme liabilities	(200)	(164)
Benefits paid	264	385
Experience (loss)/gain on liabilities	(348)	98
Gain on changes in assumptions	4,439	760
At 31 December	**(7,286)**	**(11,441)**

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	2022	2021
Present value of funded obligations	(7,286)	(11,441)
Fair value of plan assets	7,679	11,102
Surplus / (Liability) in the statement of financial position	**393**	**(339)**

The actual return on plan assets was a loss of £3,480k (2021: £57k loss). The amounts recognised in the income statement are as follows:

Group and Society All figures £'000	2022	2021
Amounts recognised in finance income		
Interest cost	(200)	(164)
Administration costs	(73)	(61)
Interest on pension scheme assets	199	134
Total	**(74)**	**(91)**

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

Group and Society All figures £'000	2022	2021
Opening defined benefit obligation	(339)	(1,248)
Total as above	(74)	(91)
Employer contributions	195	199
Re-measurement gains/(losses)	611	801
Closing defined benefit obligation	**393**	**(339)**

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

Group and Society All figures £'000	2022	2021
Actual loss on pension scheme assets	(3,480)	(57)
Experience (loss)/gain arising on scheme liabilities	(348)	98
Changes in assumptions underlying the present value of the scheme liabilities	4,439	760
Re-measurement of defined benefit obligation	**611**	**801**

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**	**2022**	**2021**
Equities	2,055	2,324
Bonds	0	0
Cash	284	58
Property	135	920
Liability Driven Investment (LDI)	2028	2151
Diversified Growth Funds (DGFs)	1091	1972
Diversified Credit Funds (DCFs)	2086	3677
Total	**7,679**	**11,102**

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.

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

The average duration of the defined benefit obligation at 31 December 2022 is 14 years (2021: 16 years).

During 2022 the Group made additional contributions of £195k (2021: £199k) as part of its funding plan. The Group and Society expect to contribute £212k to the fund during 2023. History of gains and losses for the current and previous four years is as follows:

Group & Society **All figures £'000**	**2022**	**2021**	**2020**	**2019**	**2018**
Present value of defined benefit obligation	(7,286)	(11,441)	(12,520)	(10,823)	(10,290)
Fair value of plan assets	7,679	11,102	11,272	10,230	8,861
Plan surplus/(deficit)	393	(339)	(1,248)	(593)	(1,429)
Experience adjustments on plan liabilities	348	(98)	0	(119)	(7)
Percentage of scheme liabilities	(4.8%)	0.9%	0.0%	1.1%	0.1%

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 £392k were paid in 2022 (2021: £357k) 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	2022 Group	2021 Group	2022 Society	2021 Society
At 1 January	49,645	44,954	48,460	43,769
Profit for the financial year	3,570	4,034	3,570	4,034
Net gain recognised directly in other comprehensive income	458	657	458	657
At 31 December	**53,673**	**49,645**	**52,488**	**48,460**

24. CASH AND CASH EQUIVALENTS

All figures £'000	2022 Group	2021 Group	2022 Society	2021 Society
Cash in hand	165	164	165	164
Balances with Bank of England	131,011	93,702	131,011	93,702
Loans and advances to credit institutions (note 9)	6,834	6,080	6,834	6,080
Total	**138,010**	**99,946**	**138,010**	**99,946**

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 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 Risk Committee monitors other risk 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 2022 are shown in note 10.

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 2022 **All figures £'000**	**Amortised cost**	**Mandatorily at FVTPL**	**Total**
Cash and balances at central banks	131,176	0	131,176
Loans and advances to credit institutions	7,042	0	7,042
Derivative financial instruments	0	6,178	6178
Loans and advances to customers	497,973	0	497,973
Other financial assets	499	0	499
Total financial assets	**636,690**	**6,178**	**642,868**
Shares	493,397	0	493,397
Amounts owed to credit institutions	60,940	0	60,940
Amounts owed to other customers	30,559	0	30,559
Derivative financial instruments	0	1,491	1491
Other financial liabilities	5856	0	5856
Total financial liabilities	**590,752**	**1,491**	**592,243**

Group & Society 2021 **All figures £'000**	**Amortised cost**	**Mandatorily at FVTPL**	**Total**
Cash and balances at central banks	93,866	0	93,866
Loans and advances to credit institutions	6,091	0	6,091
Derivative financial instruments	0	1,021	1021
Loans and advances to customers	437,080	0	437,080
Total financial assets	**537,037**	**1,021**	**538,058**
Shares	395,419	0	395,419
Amounts owed to credit institutions	58,518	0	58,518
Amounts owed to other customers	35,438	0	35,438
Derivative financial instruments	0	86	86
Other financial liabilities	925	0	925
Total financial liabilities	**490,300**	**86**	**490,386**

The Society has an additional financial liability to its subsidiary of £1,185k (2021: £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	2022 Book value	2022 Fair value	2021 Book value	2021 Fair value
Financial assets					
Cash and balances at central banks	1	131,176	131,176	93,866	93,866
Loans and advances to credit institutions	2	7,042	7,042	6,091	6,091
Loans and advances to customers	3	497,973	504,583	437,080	442,547
Financial liabilities					
Shares	4	493,397	493,575	395,419	396,288
Amounts owed to credit institutions	4	60,940	60,940	58,518	58,518
Amounts owed to other customers	4	30,559	30,559	35,438	35,438

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 2022 All figures £'000	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments	0	6,178	0	6,178
Financial liabilities				0
Derivative financial instruments	0	(1,491)	0	(1,491)

Group & Society 2021 All figures £'000	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments	0	1,021	0	1,021
Financial liabilities				
Derivative financial instruments	0	(86)	0	(86)

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**	**2022**	**2021**
Cash and balances at central banks	131,176	93,866
Loans and advances to credit institutions	7,042	6,091
Other debtors	499	11
Derivative financial instruments	6,178	1,021
Loans and advances to customers	502,742	437,953
Total statement of financial position exposure	**647,637**	**538,942**
Off balance sheet exposure – mortgage commitments	42,893	25,423
Total credit risk exposure	**690,530**	**564,365**

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	**2022** **£'000**	**2022** **%**	**2021** **£'000**	**2021** **%**
Bank of England (AA)	131,036	91%	93,702	93%
AA to AA-	3,949	3%	2,487	2%
A+ to A	9,063	6%	4,615	5%
Other including cash in hand	348	0%	174	0%
Total	**144,396**	**100%**	**100,978**	**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 2022 the Society had received £4,600k of cash collateral from counterparties. At 31 December 2021 the Society had placed £270k 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 strive for good customer outcomes and lend responsibly by verifying at the outset that the customer can meet the mortgage repayments. This is achieved by obtaining specific information from the customer concerning income and expenditure but also external credit reference agency data.

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 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.

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.

Notes to the Annual Report and Accounts (continued)

CUSTOMER CREDIT RISK (continued)

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 and to the customer's probability of default. 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% (2021: 20%);
- Base (allied to the Society's expectations in its Corporate Plan) – 30% (2021: 30%);
- Downturn (economic recession) – 42.5% (2021: 40%); and
- Severe ('tail event' downturn) – 7.5% (2021: 10%).

If the weighting were unchanged from 2021 the provision increase would be c£127k higher at c£1,109k

If the weightings are changed as below:

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

The resulting provision would be c£877k higher at c£1,859k

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£776k higher at £1,758k

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£450k 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 (2021: 1.25 years), if it were to reduce to 1 year the provision would increase by c£165k to £1,147k. If it were to increase to 18 months the provision would decrease by c£88k to £873k.

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**	**2022**	**2021**
Loans and Advances to Customers (Gross Receivables)		
Loans fully secured on residential property	474,491	429,584
Other loans fully secured on land	29,234	9,020
Total	**503,725**	**438,604**

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**	**2022**	**2021**
Greater London	158,219	135,161
East Midlands	30,142	29,844
South East	102,570	91,611
South West	71,171	60,790
East of England	37,885	31,757
North West	25,378	26,264
West Midlands	19,160	22,659
Yorkshire and The Humber	16,488	16,898
Wales	8,822	9,404
North East	4,390	4,845
Scotland	265	351
Total	**474,491**	**429,584**

The quality of the Group's retail mortgage book is reflected in the number and value of accounts in arrears with nil (2021: 0.1%) 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**	**2022** **Total**
Under 50%	259,637	6,623	0	266,260
50% to 75%	181,815	12,226	0	194,041
75% to 85%	12,999	1,191	0	14,190
Over 85%	0	0	0	0
Total	**454,451**	**20,040**	**0**	**474,491**

The average loan to value of residential mortgages is 46% (2021: 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**	**2021** **Total**
Under 50%	211,374	12,243	92	223,709
50% to 75%	191,196	9,810	0	201,006
75% to 85%	4,769	100	0	4,869
Over 85%	0	0	0	0
Total	**407,339**	**22,153**	**92**	**429,584**

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**	**2022** **Total**
Current	454,451	14,511	0	468,961
Past due up to 3 months	0	5,529	0	5,529
Past due over 3 months	0	0	0	0
Total	**454,451**	**20,040**	**0**	**474,491**

Group & Society **All figures £'000**	**Stage 1**	**Stage 2**	**Stage 3**	**2021** **Total**
Current	407,339	18,272	0	425,611
Past due up to 3 months	0	3,881	0	3,881
Past due over 3 months	0	0	92	92
Total	**407,339**	**22,153**	**92**	**429,584**

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 2022	Indexed 2022
Stage 1	1,074,669	1,378,608
Stage 2	44,232	60,071
Stage 3	0	0
Total	**1,118,901**	**1,438,679**

Group & Society All figures £'000	Unindexed 2021	Indexed 2021
Stage 1	986,203	1,237,865
Stage 2	51,455	71,178
Stage 3	166	424
Total	**1,037,823**	**1,309,468**

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 £5.5m (2021:£3.9m) against outstanding debt of £5.5m (2021:£3.9m). There are no loans past due and in 'Stage 3' at 31 December 2022 (2021:£0.1m against outstanding debt of £0.1m).

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 2022 (31 December 2021: 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 All figures £'000	Stage 1	Stage 2	Stage 3	2022 Total	2021
Interest only concessions	0	167	0	167	0
Reduced payment concessions	0	0	0	0	320
Payment plans	0	0	0	0	347
Mortgage term extensions	0	1,830	0	1,830	3,171
Total	**0**	**1,997**	**0**	**1,997**	**3,838**

Other loans fully secured on land

The maximum credit risk exposure is detailed below:

Group and Society All figures £'000	2022	2021
Greater London	3,630	4,534
East Midlands	499	1
South East	7,876	1,367
South West	11,378	1,503
East of England	1,851	984
North West	633	354
West Midlands	966	0
Yorkshire and The Humber	1,298	277
North East	1,103	0
Scotland	0	0
Total	**29,234**	**9,020**

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 All figures £'000	Stage 1	Stage 2	Stage 3	2022 Total
Under 50%	6,794	0	0	6,794
50% to 75%	20,565	0	0	20,565
75% to 85%	1,875	0	0	1,875
Total	**29,234**	**0**	**0**	**29,234**

Group and Society All figures £'000	Stage 1	Stage 2	Stage 3	2021 Total
Under 50%	2,970	0	0	2,970
50% to 75%	6,050	0	0	6,050
Total	**9,020**	**0**	**0**	**9,020**

The average loan to value of other loans fully secured on land is 56% (2021:52%).

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 (2021: £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 2022 under IFRS 9:

Group & Society All figures £'000	Stage 1	Stage 2	Stage 3	2022 Total
Current	29,234	0	0	**29,234**
Overdue > 30 days	0	0	0	**0**
Total	**29,234**	**0**	**0**	**29,234**

Group & Society All figures £'000	Stage 1	Stage 2	Stage 3	2021 Total
Current	9,020	0	0	**9,020**
Overdue > 30 days	0	0	0	**0**
Total	**9,020**	**0**	**0**	**9,020**

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 2022	Indexed 2022
Stage 1	56,666	56,666
Stage 2	0	0
Stage 3	0	0
Total	**56,666**	**56,666**

Group & Society All figures £'000	Unindexed 2021	Indexed 2021
Stage 1	17,822	17,822
Stage 2	0	0
Stage 3	0	0
Total	**17,822**	**17,822**

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 2022 (2021: none). Provisions of £51k (2021:£58k) are made for loans fully secured on land.

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

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 2022 (2021: 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 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**
Cash and balances at central banks	131,176	0	0	0	0	131,176
Loans and advances to credit institutions	7,042	0	0	0	0	7,042
Derivative financial instruments	0	104	1,018	5,056	0	6,178
Loans and advances to customers	0	7,061	20,614	121,070	349,228	497,973
Other Financial Assets	499	0	0	0	0	499
Total assets	**138,717**	**7,165**	**21,632**	**126,126**	**349,228**	**642,868**
Shares	168,043	101,631	66,415	157,308	0	493,397
Amounts owed to credit institutions	440	0	2,000	58,500	0	60,940
Amounts owed to other customers	6,220	21,447	2,892	0	0	30,559
Derivative financial instruments	0	0	0	1,491	0	1,491
Other financial liabilities	4,604	1,257	16	15	0	5,892
Total liabilities	**179,306**	**124,335**	**71,323**	**217,314**	**0**	**592,278**

Notes to the Annual Report and Accounts (continued)

LIQUIDITY RISK (Continued)

Group 2021 **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	93,866	0	0	0	0	93,866
Loans and advances to credit institutions	6,091	0	0	0	0	6,091
Derivative financial instruments	0	0	119	902	0	1,021
Loans and advances to customers	0	16,471	19,887	103,282	297,440	437,080
Total assets	**99,957**	**16,471**	**20,006**	**104,184**	**297,440**	**538,058**
Shares	187,948	141,988	57,001	8,482	0	395,419
Amounts owed to credit institutions	18	0	0	58,500	0	58,518
Amounts owed to other customers	6,261	24,933	4,244	0	0	35,438
Derivative financial instruments	0	1	18	67	0	86
Other Financial Liabilities	4	921	0	0	0	925
Total liabilities	**194,231**	**167,843**	**61,263**	**67,049**	**0**	**490,386**

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

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	0	506,437
Amounts owed to credit institutions	440	0	2,000	58,500	0	60,940
Amounts owed to other customers	6,220	21,528	2,910	0	0	30,658
Derivative financial instruments	0	0	0	1,491	0	1,491
Other financial liabilities	4,604	1,257	16	15	0	5,892
Total financial liabilities	**179,306**	**124,823**	**72,269**	**229,019**	**0**	**605,418**

Notes to the Annual Report and Accounts (continued)

LIQUIDITY RISK (Continued)

Group and Society 2021 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	187,948	142,161	57,189	8,734	0	396,031
Amounts owed to credit institutions	18	0	0	58,500	0	58,518
Amounts owed to other customers	6,261	24,950	4,252	0	0	35,463
Derivative financial instruments	0	1	18	67	0	86
Other Financial Liabilities	4	921	0	0	0	925
Total financial liabilities	**194,231**	**168,032**	**61,459**	**67,301**	**0**	**491,023**

30. MARKET RISK

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

The Society has adopted the 'Matched Plus' approach to interest rate risk, as agreed with the PRA, which aims to manage interest rate exposures to within Board agreed limits through the use of either a natural hedge or an interest rate derivative.

The management of interest rate risk is based, inter alia, on a full statement of financial position gap analysis. The statement of financial position is subjected to a number of stress tests. On a monthly basis, these stress tests include stressing interest rates by an increase and decrease of 2%, short term increases or decreases followed by longer term flattening and steepening of interest rates and gradual movements in interest rates. In addition management review interest rate basis risk; stressing the statement of financial position by both expected and a severe stress scenarios. Both sets of results are measured against the Board's appetite for risk. The Board has set a risk appetite for market risk measured in the stressed gap analysis of £2m value of capital. The Board has set 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) also revised annually. These stress tests and their results are monitored by the ALCO and reported to the Board.

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 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	0	0	165	131,176
Loans and advances to credit institutions	6,834	0	0	208	7,042
Derivative financial instruments	104	1,019	5,056	0	6,178
Loans and advances to customers	330,833	51,767	115,373	0	497,973
Other financial assets	0	0	0	499	499
Non-financial assets	0	0	0	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	0	0	60,940
Amounts owed to other customers	30,369	0	0	190	30,559
Derivative financial instruments	0	0	1,491	0	1,491
Other financial liabilities	0	0	0	5,892	5,892
Non-financial liabilities	0	0	0	910	910
Reserves	0	0	0	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	0	0
Interest rate sensitivity gap	**71,059**	**(11,647)**	**(1,826)**	**(57,585)**	**(0)**
Changes in market value from a shift in interest rates					
Parallel shift of + 2%	(104)	170	248	0	314
Parallel shift of - 2%	104	(170)	(248)	0	(314)

Notes to the Annual Report and Accounts (continued)

MARKET RISK (Continued)

Group 2021 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	93,702	0	0	164	93,866
Loans and advances to credit institutions	5,821	0	0	270	6,091
Derivative financial instruments	0	119	902	0	1,021
Loans and advances to customers	292,356	38,754	105,970	0	437,080
Non-financial assets	0	0	0	3,111	3,111
Total assets	**391,879**	**38,873**	**106,872**	**3,545**	**541,169**
Shares	378,221	7,791	8,477	930	395,419
Amounts owed to credit institutions	58,518	0	0	0	58,518
Amounts owed to other customers	35,351	0	0	87	35,438
Derivative financial instruments	1	18	67	0	86
Other financial liabilities	0	0	0	925	925
Non-financial liabilities	0	0	0	1,138	1,138
Reserves	0	0	0	49,645	49,645
Total liabilities and reserves	**472,091**	**7,809**	**8,544**	**52,725**	**541,169**
Impact of derivative instruments	124,500	(32,500)	(92,000)	0	0
Interest rate sensitivity gap	**44,288**	**(1,436)**	**6,328**	**(49,180)**	**(0)**
Changes in market value from a shift in interest rates					
Parallel shift of + 2%	(198)	17	(105)	0	(286)
Parallel shift of - 2%	198	(17)	105	0	286

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 2022, 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 2022 the Society had received £4,600k (2021: provided £270k) 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 ICAAP process (Internal Capital Adequacy Assessment Process) 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 2022 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. There have been no material changes in the Society's management of capital during the year. At 31 December 2022 the Group had CET1 (Common Equity Tier 1) capital of £53m (2021:£49m) 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 £53m (2021:£49m).

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 2022: £115K (2021: £114k).

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 23 and 24 in the Directors' remuneration report.

Group and Society All figures £'000	2022	2021
Key management personnel compensation	**880**	710

Transactions with key management personnel and their close family members

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

Group & Society	2022 £'000	2022 Number of people	2021 £'000	2021 Number of people
Deposits, share accounts and investments				
Net movement in the year	52		27	
Balance at 31 December	232	10	180	12

Key management personnel and members of close family received £1.7k of interest in total (2021: £1.2k) 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 2022 there were no outstanding secured mortgage loans (2021: nil) 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 2022, 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 credit institutions and investments firms in the EU to disclose annually, specifying by Member State in which it has an establishment, 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 6.

Group **All figures £'000**	**2022**	**2021**
Turnover	15,441	13,423
Profit before tax	4,495	5,001
Corporation tax paid	891	666

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 2022 has been prepared on the following basis:

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

Turnover represents total 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 and Term Funding Scheme with additional incentives for SMEs. Borrowings from the scheme are shown in note 25.

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

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

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

Annual Business Statement

1. STATUTORY RATIOS AND OTHER PERCENTAGES

Group	2022	2021	Statutory limit
Lending limit			
Proportion of business assets not in the form of loans fully secured on residential property	6.4%	2.4%	25.0%
Funding limit			
Proportion of shares and borrowings not in the form of shares held by individuals	15.9%	19.5%	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	2022	2021
As a percentage of shares and borrowings		
Gross capital	9.2%	10.1%
Free capital	8.9%	9.9%
Liquid assets	23.6%	20.4%
As a percentage of mean total assets		
Profit after taxation	0.6%	0.8%
Management expenses (Group)	1.8%	1.6%
Management expenses (Society)	1.8%	1.6%
As a percentage of total assets at year end		
Return on assets	0.6%	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 2022 and 2021 year-end total assets.

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

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

Annual Business Statement (continued)

3. INFORMATION RELATING TO THE DIRECTORS

Director	Occupation / Professional Qualification	Other Directorships	Year of Birth	Date of Appointment
Nicholas Fielden	Finance Director & Chartered Accountant	Market Harborough Mortgages Ltd	1965	09-12-13
Lindsay Forster	Company Director	Shepper	1974	01-07-19
Jonathan Fox	Company Director		1965	01-09-15
Iain Kirkpatrick	Company Director	Market Harborough Mortgages Ltd Millbarn 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 Coach Mentoring Ltd	1961	01-01-18
Zoe Shapiro	Company Director		1969	01-02-16
David Stunell	Company Director & Corporate Treasurer	Hounte Ltd Asset and Liability Management Association Ltd King & Shaxson Ltd King & Shaxson Asset Management Ltd	1958	01-12-20
Michael Thomas	Company Director & Corporate Treasurer & Chartered Accountant	AST Language Services Ltd Market Harborough Mortgages Ltd	1964	10-07-13
Nala Worsfold	Company Director & 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 Finance Director has a notice period of 6 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. Mark Robinson gave notice in 2021 of his intention to retire in 2022 and the Board agreed to make a non-pensionable payment to him in return for extending his notice period by six months. He retired in September 2022. In addition, and in order to help provide a smooth transition for the incoming Chief Executive, Nicholas Fielden will receive a payment provided he is still in post once Iain Kirkpatrick, the new Chief Executive has 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
Annie Cossar	Customer Experience Director	None

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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