# Melton Building Society

## Annual Report and Accounts 2022

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# Chair's Statement

## 2022

**"Despite many challenges, our Society has come through well during 2022"**

2022 has been a year of challenge for our Society. The first part of the year was still marked by the effects of the Covid pandemic as well as the dreadful events that unfolded in Ukraine. The second half of the year brought economic and political difficulties, including interest-rate rises and three prime ministers in as many months, as political uncertainty at home became even more apparent. However, despite these challenges, our Society has come through the year delivering a record profit, won several industry awards and enjoyed strong customer satisfaction scores.

I would like to thank all my colleagues for their outstanding efforts over the year in serving our members, stakeholders, and for supporting each other in a demanding year.

## Market conditions

The war in Ukraine has had a significant effect on the world economy, resulting in unprecedented levels of inflation reaching a peak of 11.1%* - the highest seen for decades and fuelling a cost-of-living crisis in the UK and throughout many other countries.

The Bank of England has raised interest rates eight times in 2022, resulting in borrowing costs that many mortgage customers have never previously experienced. The mini budget in September further unsettled the markets, leading to many financial institutions withdrawing their products altogether and a very uncertain period for borrowers and savers alike.

UK growth remains very weak and talk of recession continues. While the housing market has seen significant house price inflation in the first half of the year with an average rise of 13% across the country**, there has been evidence of reductions in values over the last quarter of the year, with Nationwide reporting a reduction of -2.4%**, and the volumes of transactions has reduced.

While unemployment remains low and there have been some signs of better-than-expected trading numbers in January, the economic outlook remains fragile and the cost-of-living crisis is creating challenges for both our members and our people.

## Society strategy

The Society remains true to its core purpose of supporting people onto the housing market and being a trusted provider of savings accounts. Despite economic uncertainty in 2022, the housing market remained buoyant and contributed to growth of some 15% in our mortgage assets. Our recently created business – NEXA Finance – has supported developers in building much-needed houses and we are proud to have done that alongside other Societies.

We continue to support our savers by launching market-leading deposit products including a fixed-rate bond paying 4.30% which was very well received. Our deposit balances have increased by over £65m in the year. We have listened to our members and now offer monthly as well as annual interest.

The Society is aware of the need to continue to be a relevant modern mutual. Part of that includes ensuring that our systems and processes are fit for purpose in an increasingly digital marketplace. During 2023 we will continue our digital transformation, which is essential to ensure we remain a well-governed mutual prepared for the future and relevant to a wide audience including newer savers and borrowers. This is both time consuming and costly. The investment needed will be supported by this year's increased profit.

However, we fully appreciate that digitisation is only one element of the Society's service. We know that many customers still prefer the face-to-face contact our branches provide. With this is mind, we will be opening two new branches in the year ahead – in Bourne and Stamford - as we continue to serve our community.

People are at the heart of everything we do. I am pleased to report that we have supported our own colleagues through these tough economic times. This has included an additional payment to support the increases in the cost of living, and pay rises to ensure that everyone working for the Society earns at least the Real Living Wage, which has been greatly welcomed.

The pandemic has created changes in how our colleagues work. We are refurbishing our head office to ensure it better suits the needs of a hybrid workforce. We hope that the new space will allow us to hold more member events and reinforce our position at the heart of our community.

We have been equally active in our community, with our colleagues being involved in more volunteer projects than ever. We have across the year given away more than £53,000 to community causes.

We are acutely aware of our responsibilities to the planet and have created a Green Council to encourage all our people to feed into our sustainability strategy. There is much work to do and we are starting with those areas that are within our control. Our new head office will continue to use efficient heating systems through solar panels. The old fixtures found a new home in local companies, with charities benefitting from their donations.

## The Board

Having a diverse Board is essential to innovative thinking and I am delighted to welcome Elizabeth Lockwood as our new Chair of Risk. Elizabeth comes to us from the NatWest Group and has a wealth of knowledge that will strengthen our Board experience.

We have been awarded the Women in Finance Charter as an endorsement of our work to ensure a gender-balanced Board of which we are justifiably proud.

The year ahead will continue to have its challenges as we embark on replacing our core operating systems, open new branches, and navigate what is likely to continue to be a difficult economic environment. We will be ready to support our members and colleagues.

I would like to take the opportunity to thank all our members for your ongoing support and confidence in us.

**Fiona Pollard**
**Chair**
**15 March 2023**

Sources:

1. * Office for National Statistics - CPI Annual Inflation Rate - released October 2022
2. ** Nationwide House Price Index- released November 2022

# Chief Executive's Review

## 2022

"I am proud of what we delivered in challenging times to support our members, colleagues and communities"

**I am pleased to report our results in what has been another challenging year against a backdrop of continued economic uncertainty as highlighted by Fiona in her Chair's report.  I am proud of our team of colleagues who have worked hard to ensure our members continue to receive great service and support through these difficult times.**

Highlights of the year:

- Group mortgage assets increased to a record for the Society of £556m
- Record profit levels for the Society
- Our capital position continues to remain strong
- Strong subsidiary performance delivered
- Mortgage arrears have been well managed
- A net promoter score (on customer loyalty) of +81.7% with an overall customer satisfaction score of 96.8%
- Awards for our mortgage and saving products
- Donated £53k to support local communities across both the Society and the Charitable Foundation
- Our colleagues volunteered over 800 hours in our local communities

## We are here for our members

The hard work to support our members has resulted in a number of awards which we have been proud to receive, in particular where we have repeatedly won the same award for our expertise and knowledge.  Awards include:

- Best Self Build Lender for the fourth year running in the What Mortgage Awards 2022
- Highly Commended for Best Self Build Mortgage Lending at the Personal Finance Awards 2022
- Winner of Best Local Building Society for the second year running at the Mortgage Finance Gazette Awards 2022
- Winner at the British Bank Awards for Best Savings Provider in the UK 2022

Our members have also supported our results and given us a great measure of how we are doing.  Our net promoter score, which measures the loyalty of our customer relationships, was +81.7% for 2022, an increase on our 2021 score of +79.4%. Our 2022 score compares well to the Building Society and wider Financial Services benchmark.

We continued to support our members across the year, and I am proud that we have continued to maintain our high service standard even when we moved to working remotely in November 2022 as work began refurbishing Mutual House.

We introduced our 'Tea and Talk' sessions for members, covering a broad range of topics including, scam awareness and retirement planning.  Feedback from members was positive and we aim to add more topics to our schedule in 2023.

On mortgage and savings we have retained existing members well when they come to the end of their product. We have done this by making it easier for customers and our intermediary partners to find another suitable product when needed.

We're proud to announce that we've been awarded The FairLife Charity Mark for our Mortgage and Savings products. The FairLife Charity is raising standards in finance with its fair-trading mark and improving financial education in the community. The charity awards its trademark logo - The FairLife Mark - to companies that meet its criteria of honest pricing and fair trading with customers.

## We are part of our communities

The Society has supported its wider community across the year with money being donated to our charity partners. Our Charitable Foundation has supported a broad range of local charities across the year, donating £25k including support for Leicester Children's Holidays, Hearing Dogs for Deaf People, The Farming Community Network, Belvoir Cricket & Countryside Trust, and Kesteven Rideability.

Our colleagues have also been active in the community by offering their time. In total the Society has given over 800 hours to support projects, charities and initiatives including: cleaning up the high street for the Melton in Bloom submission, volunteering at the Commonwealth Games as part of the Team England Futures programme, planting trees, litter picking in our local communities and marshalling at the Birchwood School 10k event.

We launched our new partnership with Melton and District Money Advice Centre in May 2022 to fund a qualified Educational Officer to go into schools and colleges across Leicestershire to provide financial education lessons to students. So far over 3,000 young people have attended a session.

## We have invested in our people

We stayed true to our purpose 'to build thriving communities' by focusing on job creation for people in our local areas. We welcomed 35 new colleagues to the Society including nine graduates who all played their part in supporting our members. Our people are key in offering the great experience customers have with us. Our culture and principles provide the space for colleagues to feel empowered to deliver great customer service, as recognised through independent satisfaction research during the year. Colleagues have worked hard in 2022 to maintain our branch opening hours and phone lines while keeping up these high service standards.

Given the rising inflation last year and the potential impact on our colleagues we provided a series of cost-of-living payments along with other support measures.

Encouraging a diverse and inclusive culture and workforce is also crucial to being a great employer. The Board Diversity and Inclusion policy has been reviewed and updated so that we lead from the top on the importance and value that unique differences in our colleagues bring. The Society is committed to support the progression of women into senior roles and proud to have signed up to the Women in Finance Charter. We started from a strong position on gender balance and have made excellent progress in increasing our Board diversity.

We seek to attract, develop and retain talent and aim to support colleagues through their work with the Society. This year we have prioritised leadership training and a focus on wellbeing and empowering colleagues to make the right decisions for themselves and the Society.

In 2022, we received two awards for our commitment to our colleagues. We were awarded the Living Wage Accreditation for paying the Real Living Wage across the whole Society. We also gained the 'Thriving Workplace Certification' from New Possible, which recognises organisations that give colleagues an outstanding experience and requires very high standards to achieve it. We are eager to maintain this certification in future years.

We are committed to ensuring that the Society remains a great place to work, continually looking at ways to innovate and improve. In our independent colleague surveys completed in 2022 we are cited as having a 'healthy culture' with a wellbeing score in line with the Financial Services benchmark. Also, our flexible working and opportunities to learn have resulted in nine out of 10 people recommending us as a great place to work.

## We are committed to improving the environment

As a responsible business we are obliged to operate in a way that reduces our impact on the environment. We are committed to acting as good corporate citizens, with the Board leading the Society forward to protect the legacy of the Society for many more years.

During 2022 we made good progress in protecting the planet for future generations. Two areas of work are among those now in place:

- We signed up to the United Nations' Sustainable Development Goals, a blueprint that sets clear targets to achieve a better and more sustainable future for all. We work with Support the Goals, an initiative that rates and recognises businesses for their contributions towards the global goals. We achieved a four-star rating for our efforts across the year, something only 11% of businesses have achieved.
- Society Green strategy – assessing and addressing the risks of climate change and exploring opportunities to assist our members – see our Building a Sustainable Society report.


## We have performed well

The Group reported profit before tax of £4.0m, a significant increase compared to the £1.7m reported last year and higher than originally budgeted. Profitability was helped by a number of factors, not least the favourable fair value movement on derivative instruments. Excluding the fair value gains and one-off strategic costs, profit before tax was £2.6m, an increase of £1m.

Group mortgage assets increased by £74m to £555.8m and total assets increased to £714.8m. The Group's net interest margin also increased to 1.99%, up from 1.75% in 2021, helped by strong growth in the mortgage book and rising interest rates.

The increased income generated has enabled us to continue investing towards our strategic goals. As a result of the increased investment, our management expenses ratio has increased to 1.75% from 1.59%. We remain conscious of balancing the need to invest with operating as efficiently as possible for the benefit of members.

The Group's better performance was largely driven by the Society, which recorded a profit before tax of £3.6m (2021: £1.3m). The Society advanced £134.4m (2021: £106.1m) of new mortgages during the year. Total loans and advances outstanding at the year-end increased by 15% to £484.8m (2021: £420.1m).

The Society, also has three important subsidiaries, which form the Group. They enable us to offer a broader range of products and services to be offered to existing and new customers. I am pleased with the full year performance, in particular with NEXA Finance Limited reporting strong results since its start-up in August 2019.

Further details of the Group's financial performance are provided in the Strategic Report on pages 10 to 18.

## Outlook for 2023

The continued positive response from our members and communities encourages us to continue working hard on providing the best services and products we can.

During 2023 we will execute our strategy with continued major investments planned to simplify and digitise the Society. This will help us fuse technology with the high service standards we already offer. We also aim to increase the number of branches we operate to support more communities.

The year ahead will bring challenging trading conditions and overall economic uncertainty. However, your Society is well positioned to continue to move forward, evolve and invest in benefits for today's members and future members.

We are grateful for the trust that members and our partners place in the Society. It is a responsibility we do not take lightly or for granted.

**Simon Taylor**
**Chief Executive Officer**
**15 March 2023**

# Strategic Report

**This report sets out the Group's progress against our strategic objectives. It also assesses the environment in which we operate and the principal risks faced by the Society. Please read it alongside the Chair's Statement and Chief Executive's Review.**

## Our business model

As a mutual organisation the Society is owned by its members; this is how we differ from banks. The model allows us to focus all our efforts on strength and resilience, which can help borrowers and savers achieve their financial goals.

The difference between the interest we receive from borrowers and the interest we pay to savers forms our net interest income. This income, with other income that we earn from our subsidiary businesses, covers our operating costs, impairment losses, provisions and any tax expenses.

Our mutual status means we do not pay dividends to external shareholders, so any remaining profits are reinvested in the Society for the future benefit of our members and the Society's sustainability.

## Our strategy

I am pleased with the progress on modernisation. As we approach the final year of my first three-year strategy I am very proud of the progress that has been made, in particular the continued improved financial performance and the work we are doing in our local communities.

Our technology investment is well underway as we aim to transform our core infrastructure to ensure a solid platform to build from. Over the coming years we will continue our investment in this critical area. We want to improve our digital capabilities so that customers can access our services more easily and colleagues can be more efficient.

We have also invested in the Mutual House, our Head Office. Working with Blueprint Interiors, a Leicestershire business, we are revamping the building to better accommodate our colleagues, most of whom live locally, in a more efficient work environment. We will also be able to enhance our services by opening up the improved space and inviting our members and partners regularly to workshops, events and community projects.

# Our strategic pillars

**These help support and guide the delivery of the business model for members. Two years into the three-year strategy, strong progress is being made**

## Relevance

### To ensure we remain relevant today, tomorrow and into the future

- Completed £166m in new lending, a 15% increase
- Our customer service remained consistent with a net promoter score (on customer loyalty) of +81.7% and customer satisfaction at 96.8%
- Won awards for our mortgage and savings products
- Recognised as a signatory of the Women in Finance Charter
- Proud to be awarded the Living Wage Accreditation

## Simplify/digitise

### To make it easier for all stakeholders to do more business with us and remove friction, creating simpler and more efficient customer journeys

- Transformed parts of our IT infrastructure to ensure our IT services are fit for purpose and future-proofed for our colleagues
- Reduced the number of documents needed to open a savings account
- Improved our process to help customers coming to the end of their mortgage product and wanting another mortgage from us

## Grow

### To grow our membership, assets, capability, profit and develop our people

- Strong asset growth of 14.9%
- Savings growth of 15.8%
- A 3% increase in customer numbers
- Proud to maintain our colleague engagement at 81% - with 90.5% of colleagues saying they would recommend the Society as a great place to work

## Best

### To be the best version of ourselves, best partner, best regional building society, and community partner

- Donated £53k to support local communities across both the Society and the Charitable Foundation
- Partnered with Melton and District Money Advice Centre (MADMAC) to provide financial education lessons to students. So far over 3,000 young people have attended a session.
- Maintained our sponsorship programme with Leicestershire County Cricket Club to sponsor the Family Stand, the Academy supporting players of the future, and the Women's and Girls teams
- Supported four talented young athletes in the East Midlands to help them fulfil their potential by working with the national charity SportsAid
- For another year, shown strong operational resilience by continuing to provide all services to members through the pandemic
- Balanced the needs of savers and borrowers across the year

The Group monitors and assesses its performance against the strategic objectives using a range of financial and non-financial key performance indicators (KPIs). The Group's KPIs are selected to support its strategic pillars. These KPIs, and the Society's performance against each, are:

| | | 2022 | 2021 |
|---|---|---|---|
| **Relevance** | Mortgage growth (%) | 15.4% | 17.0% |
| | Savings growth (%) | 15.8% | -8.0% |
| | Customer numbers | 43,493 | 42,090 |
| **Simplify/digitise** | Underlying management expenses (as a % of mean total assets) | 1.68% | 1.59% |
| | Average application to offer days | 25 | 28 |
| **Grow** | Underlying profit before tax (£000) | 2,581 | 1,568 |
| | Net interest margin (as a % of mean total assets) | 1.99% | 1.75% |
| | Cost Income (%) | 72.8% | 83.2% |
| | CET 1 (as a % of risk-weighted assets) | 15.3% | 16.0% |
| **Best** | Net promoter score (% score achieved) | 81.7% | 79.4% |
| | Mortgage book in arrears (% of total mortgage book) | 1.80% | 0.97% |

## Business review

The Chief Executive's review describes 2022 as a year of excellent financial performance despite continued economic uncertainty. Our financial strength has continued to improve, overall profitability has more than doubled from last year, and growth in the mortgage book has grown strongly too – by £144m (35%) over the last two years.

The following section provides information about our financial performance and the key performance indicators that support our four strategic pillars.

Profit before tax is shown on both a statutory and underlying basis. The underlying measure reflects the Board's view of the Group's underlying performance. It adjusts for fair value volatility arising from derivative financial instruments and strategic IT system investment costs which are non-recurring.

## Summary Income Statement

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Net interest income | 13,295 | 10,575 |
| Fees, commissions and other income | 894 | 776 |
| **Total underlying income** | **14,189** | **11,351** |
| Underlying management expenses | (11,258) | (9,563) |
| **Operating profit** | **2,931** | **1,788** |
| Losses on revaluation of investment property | (120) | (90) |
| Impairment on loans and advances to customers | (230) | (135) |
| Other impairments and provisions | - | 5 |
| **Underlying profit before tax** | **2,581** | **1,568** |
| Fair value gains | 1,856 | 141 |
| Strategic investment costs | (425) | - |
| **Profit before tax** | **4,012** | **1,709** |

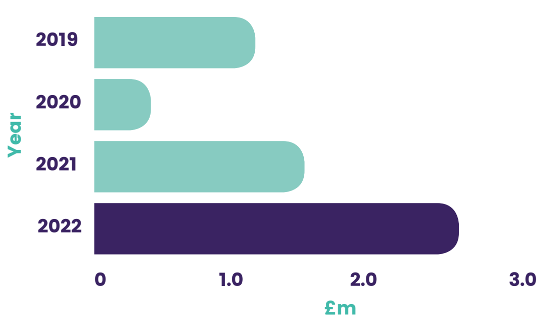
## Profit before tax

Profit is the Group's primary source of new capital and is essential to give members long-term security and allow for future growth and strategic investment. The Group's underlying profit before tax increased to £2.6m (2021: £1.6m) and statutory profit increased to £4.0m (2021: £1.7m). Performance reflects greater net interest income arising from a combination of increases in bank base rate and greater asset size offset by higher costs. The increase in both underlying and statutory profits is despite the economic challenges and reflects continuing strong progress along the Group's strategic journey.

Statutory profit after tax was £3.2m and resulted in a profit-after-tax ratio of 0.49% (2021: 0.14%); this increased reserves and supports our capital strength.

Despite the significant increase in statutory profit reported, we expect it to reduce in 2023. The significant fair value gains on derivatives are unlikely to be repeated. When combined with the expected strategic costs of transforming the Group's core systems, this will have a negative impact on reported profits. We do, however, expect underlying profit to remain strong.

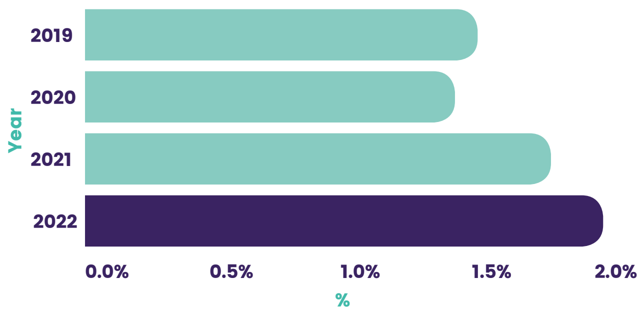
### Underlying profit before tax (£m)



## Net interest income and net interest margin

Net interest income is our primary source of income. We aim to balance the needs of our members through offering competitive rates of interest to both mortgage and saving members. Our net interest income increased by £2.7m to £13.3m, with net interest margin increasing to 1.99% (2021: 1.75%).

Net interest margin (%)




The Group's strong balance sheet growth coupled with increases to bank base rate have resulted in the improvement to net interest income for the year. The lending mix continued to be well diversified, balancing the mix of asset yield and overall mortgage credit risk.

The increase in bank base rate had a positive impact on net interest income received, primarily through the legacy derivatives we hold to hedge fixed-rate mortgage balances. As bank base rate increased, the variable leg of the derivative also increased, generating additional interest income.

These positive impacts were partially offset by the increased cost of funding as we passed on bank base-rate increases to our savers.

## Fees, commissions and other income

The Group offers home insurance, estate and financial planning, and independent mortgage advice services to members through a number of third-party relationships. Fees, commissions and other income includes commission earned on these products as well as rental income and any other fees and charges not accounted for under the effective interest rate (EIR) methodology. It also includes management fees earned through the Group's NEXA Finance subsidiary.

Society net fees and commissions totalled £0.26m (2021: £0.21m), an increase of 24%. This was driven by an increase in mortgage business completed during the year.

## Fees, commissions and other income

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Society fee and commission income | 258 | 210 |
| MBSL fee and commission income | 47 | 71 |
| Independent mortgage advice | 92 | 72 |
| NEXA Finance | 872 | 482 |
| Other income/(expense) | (375) | (59) |
| **Total** | **894** | **776** |

MBSL Lending Ltd provides mortgage finance to customers who do not meet the criteria of the Society's lending policy. MBSL fee and commission income totalled £0.05m (2021: £0.07m), the slight reduction resulting from the fall in mortgage lending during the year. MBSL advanced new loans totalling £20.6m (2021: £27.1m) with total loans and advances to customers outstanding at the year-end of £71.1m (2021: £61.9m).

Independent mortgage advice is provided through the Society's subsidiary MMBS Services Ltd, which acts as an appointed representative of the Mortgage Advice Bureau to provide customer access to over 90 lenders, comparing 1,000 mortgage products. The increase in fees during the year represents the subsidiary is continuing to establish itself, having only been set up in August 2020.

NEXA Finance connects SME property developers with funders to provide an alternative lending model to support developments. Having been launched in 2019, the subsidiary continues to grow with fee income increasing to £0.87m (2021: £0.48m) and loans under management increasing to £21.7m (2021: £15.9m).

## Fair value gains/losses

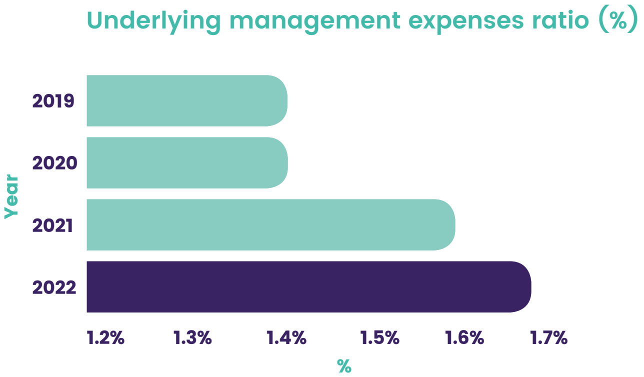
The Group uses derivative financial instruments to manage interest-rate risk arising from fixed-rate mortgages and savings products. These are held on the balance sheet at fair value, which is the value that a third party would pay for them. The movement in fair value is recognised through the Income Statement.

The net gain on derivative financial instruments was £1.86m (2021: gain of £0.14m), which reflects movements in market yield curves during the year.

## Management expenses

Management expenses comprise staff costs and all other overheads necessary for the Group's operation including depreciation and amortisation. As highlighted in last year's Business Review, we expected management expenses to increase as we progressed our strategy. This was the case as total management expenses increased by £2.1m to £11.7m (2021: £9.6m) and underlying management expenses increased by £1.7m to £11.3m. This was in part due to inflationary pressures, including cost-of-living support to all colleagues earning less than £50k but also investment in people and technology. The average number of FTE's increased from 114 to 134 and included investment in the project team to help us transform our core systems. Technology investment included continued improvements in our resilience to ensure our technology was secure and could support our future operating model.

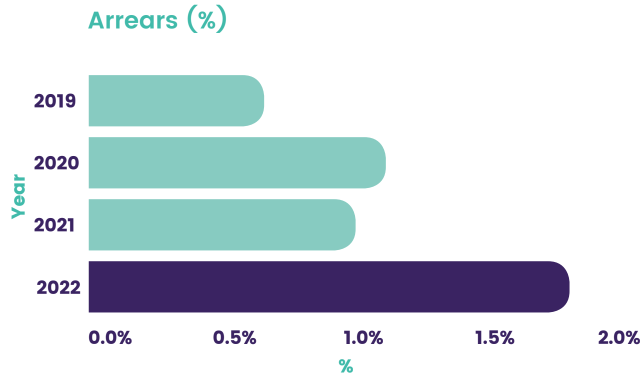
This resulted in our underlying management expenses ratio increasing from 1.59% to 1.68%.




As we invest in our new digital platform (see page 10 for further details), total management expenses are expected to increase during 2023 and 2024. We are required to recognise many of the implementation costs through the Income Statement as they are incurred rather than spread over the life of the contract. These are one-off costs, so will be excluded from the Group's underlying management expense measure so that management can focus on the Group's efficient operation.

## Impairment on loans and advances to customers

Group mortgage balances in arrears as a percentage of the book increased from 0.97% to 1.80%, while the total value of arrears increased slightly to £0.2m (2021: £0.1m).




The total number of arrears cases in the Society increased from 15 to 33, with the value of arrears increasing from £0.05m to £0.15m. The increase in the value of arrears primarily related to a few long-standing commercial loans that are now in possession and had been delayed because of Covid-19 backlogs.

Total arrears cases in MBSL Lending Ltd increased from 27 to 37 with the value of arrears increasing slightly from £0.06m to £0.07m.

Arrears have not increased significantly to date, but we expect pressure from the cost-of-living crises to begin to impact later in the year. As a result of the deteriorating economic conditions, we have increased the total impairment provision by £0.2m to capture any future expected loss. Combined, the overall Group impairment provision is £0.9m and represents 0.17% (2021: 0.14%) of the total mortgage book.

## Summary statement of financial position

| Group | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Liquid assets | 137,385 | 125,818 |
| Mortgages | 555,757 | 481,752 |
| Fixed and other assets | 21,692 | 14,734 |
| **Total assets** | **714,834** | **622,304** |
| Retail | 508,581 | 439,204 |
| Non-retail funding | 158,968 | 139,027 |
| Other liabilities | 5,476 | 3,826 |
| Reserves | 41,809 | 40,247 |
| **Total liabilities and reserves** | **714,834** | **622,304** |

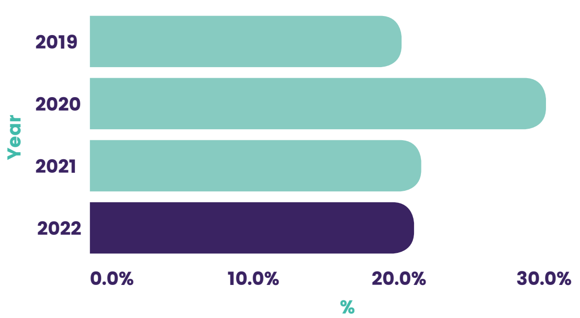
## Total assets

Group total assets increased by 14.9% or £92.5m. The growth was mainly driven by an increase in the Group's mortgage portfolio of £74m.

## Liquid assets

Liquid assets comprises cash in hand and balances held with the Bank of England, loans and advances to credit institutions, and debt securities as disclosed in the statement of financial position. We hold liquid assets to ensure the Society can meet its financial obligations under normal and stressed scenarios.

### Liquid assets ratio (%)



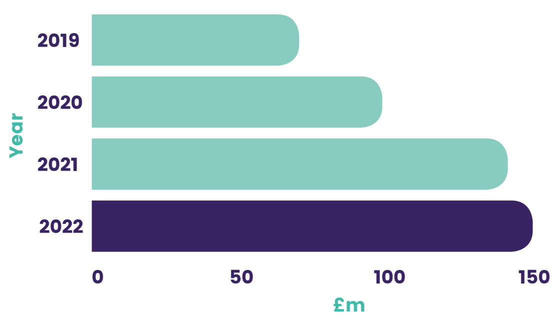

Following a reduction in the ratio last year, the level of liquid assets has remained relatively stable at 20.58% (2021: 21.76%) of shares and deposits. At 31 December total liquid assets amounted to £137.4m (2021: £125.8m) of which £117.2m was held with the Bank of England. The level of liquidity we hold remains significantly above the Board's internal assessment of its minimum requirements.

The Society's regulator, the Prudential Regulatory Authority (PRA), monitors the level of liquidity we hold through the Liquidity Coverage Ratio (LCR). At 31 December, the Society's LCR was 545% (2021: 557%) significantly above the 100% regulatory minimum.

## Mortgages

Gross lending in the year totalled £166m (2021: £147m), which is a record for the Group and resulted in mortgage book growth of 15% (2021: 17%). Growth levels continued from 2021 with a focus on prime residential lending and a strong retention performance. We retained over two thirds of customers who reached the end of their fixed or discounted product term.

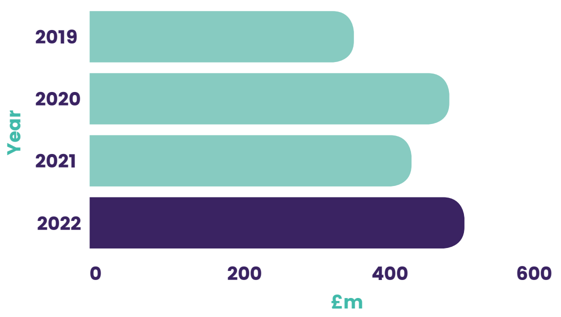
### Gross advances (£m)




The overall mortgage portfolio totalled £555.8m at 31 December (2021: £481.8m) and mainly consists of prime owner-occupied and Buy-to-Let lending, but also comprises small portfolios of impaired credit, commercial and property development loans. The prime owner-occupied book represents over two thirds of the total mortgage portfolio. It remains of very high quality with an average indexed LTV (loan-to-value ratio) of 41% (2021: 41%).

## Retail

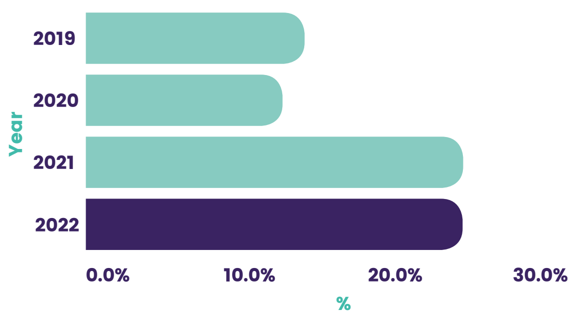
Retail savings and deposit balances continue to be the core of the Society's funding requirement. Total balances increased by £69.4m to £508.6m (2021: £439.2m) as the Society saw strong growth in new account openings supported by competitive fixed-rate products available during the year. This was evidenced by growth in our branch and postal based savings books, which increased by over 20% to £409.7m.




## Non-retail funding

It is important that the Society has a diverse funding profile and maintains access to different forms of non-retail funding. The Bank of England's Term Funding Scheme with additional incentives for SME's (TFSME) continued to provide the Group with medium term funding. At 31 December, the Group had drawn £117m (2021: £117m) from the Bank of England. Details of the security provided to the Bank of England are shown in Note 14. The security provided to the Bank also enables the Society to access other Bank liquidity facilities, including the Discount Window facility and the Indexed Long Term Repo facility.

The Society also has access to the unsecured wholesale funding market where it can get funding from other financial institutions and local authorities. At 31 December, this totalled £17.9m (2021: £5.3m). This resulted in the Group's non-retail funding ratio remaining flat at 24.71% (2021: 24.82%).




## Capital

Capital, which consists mainly of accumulated profits, is required to protect members and other stakeholders in the event of unexpected losses and to support the Society's future development. As a mutual organisation, we have no external shareholders and so are not required to maximise profits. We can focus on giving value to our members through competitively priced products and services while ensuring we achieve a sufficient surplus to maintain a robust capital position.

The Group's Common Equity Tier (CET) 1 ratio reduced from 16.0% to 15.3% during the year because of the strong mortgage book growth. This has initially reduced our CET 1 ratio but has also led to an increased level of income-generating assets on the balance sheet. In turn, these will generate increased returns to further increase the strong levels of capital already held.


Our regulatory capital position at 31 December 2022 remains robust, with capital increasing to £38.9m. When compared to the Group's Total Capital Requirement set by the PRA of £20.4m, the Group remains well above its minimum requirements. Further details of the Group's risk exposures and capital adequacy are in the Group's Pillar 3 disclosures available on the Society's website, www.themelton.co.uk

# Risks to the Group's strategy and business model

The inherent risks and uncertainties faced by the Society are similar to those involved in running any financial service business. These inherent risks and uncertainties and how the Group mitigates them are detailed in the Risk Management report on pages 41 to 49. Alongside the inherent risks detailed in the risk management report, the Group has identified the following emerging risks that may impact on its future strategy and business model:

## External economic environment

During the year the overall economic environment has deteriorated. High inflation has driven up food and energy prices and when considered alongside increasing interest rates, has resulted in household incomes being squeezed. With interest rates forecast to increase further and with the rates borrowers will pay on their mortgages, the pressure on household incomes is expected to continue, at least for the short term.

Despite our current strong credit position, as household incomes become stretched, we may see an increase in the number of forbearance and arrears cases across the Group's mortgage portfolio. Initially we manage credit risk through underwriting, which seeks to ensure that borrowers only take on debt they can afford to repay. If circumstances arise where borrowers struggle to pay their mortgage, we have a team that can support and advise them of their options. In addition, the Group's mortgage provisioning assumptions continue to reflect the uncertain economic outlook.

## Interest margin compression

As the primary source of income, there is a risk that increased competition in the mortgage and savings market impacts mortgage yields and the cost we pay for retail savings. Earlier in the year we saw evidence of a very competitive retail savings market where best rates were increasing many times a day. The Group's Assets & Liabilities Committee continues to closely monitor the economic environment, the mortgage and savings markets, the composition of the balance sheet and product pricing. We aim to ensure that the Society's product mix remains appropriate and that net interest margin remains in line with the strategic plan.

## Increasing operating expenses

Operating costs are expected to continue increasing over the short term as we enter a period of significant investment to replace our core operating systems. The investment will improve customer journeys, enhance growth prospects and deliver operating efficiencies. There is a risk that costs incurred become greater than those approved in the business case and strategic plan. Costs are monitored closely by the Board against the strategic plan. If necessary revisions will be made to ensure costs remain acceptable.

## People risk

As businesses continue to evolve their 'hybrid' working model, there is a risk that the Society is unable to attract and retain the best talent. The Society remains committed to offering a supportive and flexible working environment, encouraging development and engagement with its employees, while also offering a competitive reward package.

## Cyber risk

Cyber risk is an ever-present and increasing threat. We continue to focus on managing the Group's cyber risk to ensure the business and its members' savings and data are protected from cyber criminals. The Group continues to invest in technology to prevent and detect cyber attacks while also ensuring employees are trained to recognise cyber-security threats and manage the risks.

## Climate risk

The Group recognises that the impact of climate change risks is not just an immediate issue but that the impact of these risks will materialise over much longer time horizons. So, the Group is managing these risks not as they materialise but instead by looking ahead over longer time horizons.

**Simon Taylor**
**Chief Executive**
**15 March 2023**

# Building a Sustainable Society

Melton Building Society was founded in 1875 with a purpose to work together as a town to help each other meet their social needs but mainly a house to live in. Over the years of trading the Society has over 40,000 members and assets of £700m. It has local branches and offers online savings nationally as well as mortgages sold nationally via mortgage intermediary partners.

Our founding purpose as a mutual Society run for the good of its members is a legacy that the Board will continue to build upon for many more years. This leads to our overall sustainability objective which is:

"The Board is committed to continuing the Melton's historic legacy of social responsibility by taking proactive actions to protect the environment, provide support to the local community and ensure responsible governance of the Society."

The wider context in which we operate is rapidly changing. The 2020s are being cited as the 'decisive decade' where action needs to be taken on climate change and also social instability and environmental risks. These trends are reshaping the economy and society. They need to be resolved to deliver a better future for all.

## Society imperative

As a Society we need to take action to play our part. Change can no longer be left to market, governments or the broader civil society. To build a sustainable Society, we need some stability in the world to allow us to thrive. We are conscious that more customers want to have have relationships only with businesses that take these challenges seriously and have workable plans to support a change.

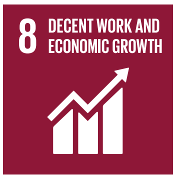
The Board also has a responsibility for ensuring the ongoing safety and soundness of the business to carry out its obligations and remain fit for purpose. The Board manages this through our risk-appetite areas: Protect financial stability, Maintain capital adequacy, Reputation protection, and Provide fair customer outcomes.

As a mutual this is our time to use our business model of purpose not profits to make changes for long-term value creation.

In 2022 we agreed to align all our sustainability activity to a framework to help us to identify and focus our efforts. The United Nations' Sustainable Development Goals (SDGs) have set out 17 goals to 'transform our world' with targets set for 2030. The goals cover a broad spectrum of issues aligned with global sustainable development.


## We are committed

We are committed to aligning our strategic efforts to five of the goals supported by our purpose and sustainability strategy where we believe we can make the greatest positive impact. In our first year we have made good progress against each goal.




- We became a Real Living Wage employer
- We continue to be a signatory to the Women in Finance Charter and achieved a 50% gender diversity in our Board


- We achieved over 800 hours of colleagues volunteering in our local communities
- We donated more than 1% of our profits to the community and our Charitable Foundation


- We gave over 3,000 young people financial education sessions through local schools and colleges
- We supported local businesses in providing money management workshops to their colleagues


- We supported our colleagues with access to a team of Mental Health Champions
- We continued to partner with local businesses where health and wellbeing are core, SportsAid, Leicestershire County Cricket Club, and the Leicestershire and Rutland Wildlife Trust


- This is a critical goal and we acknowledge and accept that the financial services industry needs to act now to help mitigate, and support the management of risks posed by present and future climate change. The risks are wide reaching and will affect all areas of society. So we have been enhancing our capabilities and embedding processes that monitor and manage climate-change risk, see more detail below.

## Climate risk

Climate risk presents a risk to the Society and its members. Within our overall strategy of maintaining our modern and mutual ethos, we continually assess the environment in which we operate and make adaptations to meet the needs of our customers and communities.

The Group considers climate change to be a material risk with a widespread impact, both positive and negative. We recognise that physical and transitional risks associated with climate change will have various implications for our operations, longer-term product strategy, members, colleagues and suppliers. Climate change therefore features appropriately in our strategy review cycle.

Our strategic approach covers several principal areas to ensure we further understand and adapt to the risks and opportunities brought about by climate change. These areas are:

| Principal areas | Delivered to date | Future focus |
|---|---|---|
| Governance | - Governance framework established to oversee climate-related financial risks<br>- Introduced an internal green charter<br>- Established a Green Council | - Establish a clear timeline for reaching net zero |
| Risk management | - Climate change policy introduced<br>- Evolved an assessment of physical and transitional risks | - Embed climate risk metrics into committee reporting |
| Metrics and targets | - Established our base data carbon emission reporting<br>- First set of climate metrics reported in the Annual Report & Accounts | - Establish strategy to reduce and offset emissions<br>- Evolve reporting and frequency of metrics |
| Scenario analysis | - Established more timely assessment for scenario analysis | - Evolve use and sophistication of scenario analysis throughout the business and within the ICAAP |
| Members | - Developed sustainability content for members on the website | - Introduce green products to help customers adopt a more sustainable approach to their finances and improve the energy efficiency of their homes |
| Operations | - Solar panels fitted to Head Office | - Rolling out an Electric Vehicle salary sacrifice scheme to colleagues |
| Training and culture | - Rolled out climate training to all colleagues | - Colleagues to get more involved in climate-related matters, including supporting activities in the community |

## Metrics and targets

We have adopted a range of metrics and targets to help us understand the potential future impact of climate change on the Group and also understand the impact the Group has on the climate.

Our key metrics and targets adopted are detailed below.

## Physical risk metrics

The Group recognises that the impact of climate-change risks is not just an immediate issue but will have effects that will materialise over much longer timescales.

So, the Group aims to manage these risks not as they materialise but instead by looking ahead over longer time horizons.

We have modelled the impacts of a range of scenarios on our mortgage portfolio, assessing the number of properties exposed to current and potential climate risks by 2050. The scenario disclosed below is the high-emission scenario (Representative Concentration Pathway (RCP) 8.5). The table below shows that to date we do not have significant climate related financial risks within our mortgage portfolio.

| Risk | | 2022 | | RCP 8.5 2050 | |
|---|---|---|---|---|---|
| | | No. of properties | % of mortgage book | No. of properties | % of mortgage book |
| River flooding | High | 105 | 2.3% | 169 | 3.5% |
| | Med | 99 | 1.9% | 35 | 0.7% |
| | Low | 4,415 | 95.8% | 4,415 | 95.8% |
| Surface flooding | High | - | - | 20 | 0.4% |
| | Med | 21 | 0.4% | 1 | 0.0% |
| | Low | 4,598 | 99.6% | 4,598 | 99.6% |
| Coastal flooding | High | 101 | 2.0% | 111 | 2.2% |
| | Med | 1 | 0.0% | 2 | 0.1% |
| | Low | 4,517 | 98.0% | 4,506 | 97.7% |
| Subsidence | High | - | - | - | - |
| | Med | 610 | 17.1% | 771 | 20.8% |
| | Low | 4,009 | 82.9% | 3,848 | 79.2% |
| Landslide/Coastal erosion | High | 53 | 1.9% | 58 | 2.0% |
| | Med | 466 | 11.8% | 713 | 16.9% |
| | Low | 4,100 | 86.3% | 3,848 | 81.1% |

## Transition risk metrics

Transitionary financial risk is assessed through analysis of the Group's mortgage portfolio by Energy Performance Certificate (EPC) rating. We get current EPC information from records in the EPC register or by using information from neighbouring properties. Potential EPC ratings reflect the highest feasible EPC band for each property by doing improvements that reduce emissions.

| EPC rating | 2022 | | Potential | |
|---|---|---|---|---|
| | No. of properties | % of mortgage book | No. of properties | % of mortgage book |
| A | 20 | 0.5% | 621 | 13.8% |
| B | 779 | 16.0% | 2,038 | 40.0% |
| C | 820 | 16.5% | 1,244 | 25.9% |
| D | 1,757 | 32.7% | 264 | 6.2% |
| E | 683 | 15.8% | 85 | 2.2% |
| F | 166 | 5.5% | 22 | 0.9% |
| G | 52 | 2.0% | 3 | 0.0% |
| Unrated | 342 | 11.0% | 342 | 11.0% |
| **Total** | **4,619** | **100%** | **4,619** | **100%** |

The results indicate that our mortgage portfolio is mainly spread over the middle ranges of EPC ratings. Only a few properties have an F and G rating, the most inefficient. There is potential for significant upgrade to the energy efficiency of our portfolio.

## Carbon emissions

Carbon emissions fall into three categories as described below:

| Group | Description | Example |
|---|---|---|
| Scope 1 | Direct emissions from owned or controlled assets | Natural gas consumed by the Society's offices for heating. |
| Scope 2 | Indirect emissions from purchased energy | Purchased electricity for Group premises. |
| Scope 3 | Indirect emissions which occur as a result of Group operations. | Water consumption, business travel and employee commuting. |

The Group is committed to working towards net zero emissions by 2050 in line with the Government target. To help plot our pathway to net zero we have commenced capturing carbon emission data to allow us to measure and target reductions in carbon emissions. The table below shows the basline data from which future emissions data can be compared to.

## Carbon emissions data

| Scope | Emissions (tCo2) |
|---|---|
| **Scope 1** | |
| Natural gas | 47.2 |
| Company vehicles | 28.0 |
| Refrigerant | 21.8 |
| **Scope 2** | |
| Electricity | 119.5 |
| **Total scope 1 and 2 emissions** | **216.5** |
| **Scope 3** | |
| Water consumption | 0.5 |
| Gas and electricity | 38.1 |
| Business travel | 19.5 |
| Employee commuting | 215.7 |
| **Total scope 3 emissions** | **273.8** |
| **Total emissions** | **490.3** |

Scope 3 data is restricted to emissions generated by the Group. It does not include any emissions across our supply chain or emissions generated from our mortgage portfolio.

Over the short term we plan to target reductions in our scope 1 and scope 2 emissions along with considering purchasing carbon offsets to reduce our overall net carbon output.

# Meet our Board

## Non - Executive Directors

### **Fiona Ann Pollard** - Chair of the Board

I was appointed to the Board of Directors on 9 October 2014 having had a career in investment banking with various financial institutions including NatWest and Goldman Sachs. I sit on a number of Boards including Monument Bank and Visit England – the national tourist board. I also run my own events company and like to renovate beautiful old buildings. I am married with four children and live in the west country.

### **Judith Mortimer Sykes** - Chair of Remuneration & Nominations Committee and Senior Independent Director

I was appointed to the Board of Directors on 1 May 2021. I am an experienced Non-Executive Director having worked on a range of boards in the past decade, including a 9-year term with Harpenden Building Society. At Melton, I am Vice Chair and Senior Independent Director with the responsibility of Whistleblowing Champion. I am Chair of the Remuneration & Nominations Committee and a member of Audit Committee.

My work in financial services spans over 40 years with an executive career in corporate banking at Bank of America in the 1980s, followed by 18 years at Nationwide Building Society on both the commercial and retail side, including six years as Head of Lending Control.

I am married with one daughter and live in Northamptonshire.

### **Elizabeth Lockwood** - Chair of the Risk Committee

I was appointed to the Board of Directors on 1 July 2022 and am Chair of the Risk Committee. I was appointed to the Board of Directors of NEXA Finance on 6 October 2022. Alongside my Non-Executive role at Melton, I sit on the Board of Directors of Cambridge & Counties Bank. I also volunteer as an external expert member of the Audit and Risk Committee for Samaritans and am a qualified executive coach and therapeutic counsellor.

I joined the Melton Board after 25 years in banking as a risk management specialist, spending 15+ years covering corporates and financial institutions at Deutsche Bank in the UK before holding a number of senior and executive risk roles in commercial, retail and private banking at RBS/ NatWest in the subsequent decade.

I am married with two adult children and a rescued Belgian shepherd dog and live in Surrey.

### **Simon Thomas**

I am a Chartered Accountant and trained with Price Waterhouse. I have over 30 years' experience in financial services and retired from my most recent role as Group CFO of Provident Financial Group PLC in March 2020.

Before that, I was Group CFO of Just Group PLC, a FTSE 250 financial services Company, for approximately 12 years. I also spent 10 years at Nationwide, where I started working in the financial systems area and ultimately became their Group Financial Controller.

I am married with one son and live in Surrey.

### **Jonathan Farrington** - Chair of Audit & Compliance Committee

I was appointed to the Board on 1 March 2018 and serve as Chair of Audit. I have worked in the oil, pharmaceutical and retail sectors including Mobil Oil Corp and Alliance Boots plc. I served as Group Chief Executive of the Dr Max Group in Central Europe, Finance Director of Boots Retail International and Group Director of Corporate Development (Europe, Middle East and Africa) for Alliance Boots, working internationally for over 20 years and spending time living overseas.

I am based in the East Midlands, and I am married with three children. As well as being a company director, I am an investor and corporate finance advisor to various entities.

### **Sue Douthwaite**

I was appointed to the Board of Directors on 1 May 2021 and Chair of Nexa Finance Ltd on 1 January 2022.

My background is as a Chartered Banker and I have enjoyed an extensive career in financial services working in Retail, Corporate and SME Banking. Previous roles include Managing Director of Santander Business in Santander UK, and Head of SME Strategy for Virgin Money.

I have been involved in transformational fintech projects and alliance partnerships in the UK and Europe and the successful delivery of new operating models, systems and culture.

Other roles include The Chair of the NHS Business Services Authority, and Non-Executive Director of British Business Investments Ltd. I am also Chair of the International Advisory Board for Queen's University Management School, Queen's University Belfast.

## Executive Directors

### **Simon Taylor** - Chief Executive Officer

I joined the Society in June 2020 as Chief Executive and I have worked in financial services for over 30 years. Previously I was Chief Operating Officer for the Nottingham Building Society for almost eight years. I have held a number of senior roles at Lloyds and Barclays and was a Regional Director for Lloyds Banking Group before joining the Building Society Sector.

I am an Associate of the Chartered Institute of Bankers, I hold an MBA and am an alumnus in Advanced Strategic Management from Kellogg North-Western Business School in Chicago.

### **Andy Lumby** - Chief Financial Officer

I joined the Society in July 2021 as Chief Financial Officer. I am a chartered accountant and started my career with PricewaterhouseCoopers before moving into the mutual sector. I have over 19 years' experience in financial services and have held a number of senior finance positions at building societies, including Head of Finance at Nottingham Building Society and Finance Director at Tipton & Coseley Building Society.

I am responsible for the Society's Finance and Treasury management functions along with implementation of our financial strategies.

I am married with one daughter and live in Leicestershire.

# Directors' Report

**The Directors are pleased to present the Annual Report and Accounts of the Society and its subsidiary undertakings (together, the 'Group') for the year ended 31 December 2022. The Directors' Report should be read alongside the Chair's Statement, Chief Executive's Review and Strategic Report.**

## Business review

The review of the business for the year ended 31 December 2022, including the Business Objectives and Key Performance Indicators, is contained in the Strategic Report.

## Financial risk management objectives and policies

The Group operates in a business environment that contains financial risks. To mitigate them, the Board has implemented a clearly defined risk management framework, details of which are provided in the Risk Management report.

## Principal risks and uncertainties

The principal risks and uncertainties faced by the Group and our approach to managing them can be found in the Risk Management report on pages 41 to 49.

## Capital and reserves

The Group reported a profit before tax for the year of £4.0m (2021: £1.7m). The Group profit after tax transferred to general reserves was £3.2m (2021: £0.9m).

Gross capital at 31 December 2022 was £41.8m (2021: £40.2m), being 6.26% of total shares and borrowings (2021: 6.96%). Free capital at 31 December 2022 was £35.8m (2021: £35.2m), being 5.36% of total shares and borrowings (2021: 6.08%).

The Capital Requirements (Country-by-Country Reporting) Regulations 2013 place certain reporting obligations on financial institutions that are within the scope of CRD IV. The regulations aim to provide clarity on the source of the Society's income and the location of its operations. The annual reporting requirements as at 31 December 2022 are shown in Note 31 of the annual accounts.

## Mortgage arrears

At 31 December 2022, the Group had 3 (2021: nil) mortgage loans 12 months or more in arrears, with total amounts outstanding of £929,000 (2021: £nil).

At 31 December 2022, the Group held 4 (2021: 3) properties in possession.

## Political donations and gifts

The Group has not made any political donations or gifts in the year (2021: £nil).

## Creditor payment policy

The Society does not follow a code or standard on prompt payment practices. But it seeks to pay its trade creditors within agreed payment terms for fulfilment by the suppliers of their contractual obligations. The creditor days were 28 days at 31 December 2022 (2021: 17 days).

## Going concern and viability

The Directors have prepared detailed four-year forecasts of the Group's profitability, capital, funding and liquidity positions that take account of its current position, strategic plans and principal risks as set out in the Risk Management report. Forecasts have also been prepared to assess the impact on the Group's business and its profitability, capital, funding and liquidity positions when operating under stressed but plausible conditions. The forecasts reflect the uncertain economic environment including a severe economic downturn arising from the current cost of living challenges and the crises in Ukraine. The detailed assumptions adopted in accordance with this scenario include those used by the Bank of England to test the capital adequacy of firms in the UK banking system.

The Directors considered a four-year forecast period to be appropriate. Beyond that time horizon, assessment of the impact of changes in the economic, technological and regulatory environment is considerably less certain.

The Group's capital and liquidity positions have been assessed through the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP). Within these assessments, severe but plausible stresses have been applied that consider a range of factors including a fall in house prices, an increase in unemployment, changes in interest rates and circumstances that give rise to additional funding outflows. The Directors' assessment is that the Group's capital and liquidity resources are sufficient to withstand the stresses.

As a result:

- The Directors are satisfied that the Group has adequate resources to continue in business for a period of at least twelve months from the date of approval of the accounts. Accordingly, the accounts continue to be prepared on a going concern basis; and
- The Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period covered by the forecasts.

## Directors' responsibilities regarding the Annual Report and Accounts, incorporating the Director's Report, the annual accounts and the Annual Business Statement.

The Directors are responsible for preparing the Annual Report and Accounts incorporating the Directors' Report, the annual accounts and the Annual Business Statement, in line 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 our Group and Society annual accounts in line with UK-adopted international accounting standards in conformity with the requirements of the Building Societies Act 1986.

The Group and Society annual accounts must by law follow UK-adopted international accounting standards in conformity with the requirements of the Building Societies Act 1986 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 the Act to annual accounts giving a true and fair view are references to their achieving a fair presentation.

The Directors consider that the Annual Report and Accounts are fair, balanced and understandable, when taken as a whole, and that they provide the information necessary for members to assess the Society's and Group's performance, business model and strategy.

In preparing these 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 line with UK-adopted international accounting standards in conformity with the requirements of the Building Societies Act 1986; and
- Prepare the annual accounts on the going concern basis unless it is inappropriate to presume that the group and society will continue in business.

In addition to the annual accounts, the Act requires the Directors to prepare, for each financial year, an Annual Business Statement and Directors' Report, each containing prescribed information about the Group's business.

## 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 line 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. They have general responsibility for taking such steps as are reasonably open to them to safeguard the Group's assets and to prevent and detect fraud and other irregularities.

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

## Directors

The following persons served as Directors of the Society during the year:

### Non-Executive Directors

A J Capps (retired 30 September 2022)

S M Douthwaite

J G Farrington

E A Lockwood (appointed 1 July 2022)

F A Pollard – Chair

J A Mortimer Sykes – Senior Independent Director

S G Thomas

### Executive Directors

S J Taylor – Chief Executive

A J Lumby – Chief Financial Officer

None of the Directors had any beneficial interest in the shares or debentures of any connected undertaking of the Society as the end of the financial year.

## Post balance sheet events

There are no post balance sheet events to report.

The Board continues to monitor the events in the Ukraine, which has increased economic uncertainty. Energy prices are already affected, as are businesses with trade both to and from Russia.  The Group has no interests that are directly impacted by the conflict although the longer-term financial consequences for members are unknown.

## Disclosure of information to the 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 Group's auditor is unaware; and each Director has taken all the steps they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

## Auditor

The External Auditor, BDO LLP, has indicated its willingness to continue in office. Accordingly a resolution for its re-appointment will be proposed at the Annual General Meeting.

## Acknowledgements

The Directors wish to record their appreciation of the dedication and commitment of all members of staff during what has proved to be a successful year despite the economic challenges.

The Directors would also like to thank all members and suppliers for their continued support.

**Fiona Pollard**
**Chair**
**15 March 2023**

# Corporate Governance Report

**The Board of Directors is committed to best practice in corporate governance. The Financial Reporting Council updated the UK Corporate Governance Code in July 2018 that the Prudential Regulation Authority, the Society's regulator, expects building societies to have regard to. The Board supports its general principles, and this report sets out how the Society has regard to the principles of the Code as they apply to a building society and its subsidiary entities (together referred to as "Group").**

## Board Leadership and Company Purpose

**Code Principles:**

- 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 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.
- 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.
- 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 Board should ensure that 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 principal functions of the Board are to determine the Society's strategy, risk appetite and policies, to establish guidelines within which the business is managed, and to review business performance and its management. The Board has a general duty to ensure that the Society operates in line with its Rules, complies with relevant legislation and regulation, maintains proper accounting records, and adopts effective systems of business control that are documented, followed and audited. In addition to their duties under the Code all Directors are fully aware of their duties under common law.

The Board comprises Directors who have skills and experience gained and developed in diverse institutions, both shareholder and mutually owned, at varying levels of seniority. To support the proficiency with which individual Board members are able to fulfil their duty to act in a manner most likely to promote the longer-term success of the Group, Directors are given comprehensive training during induction. They are subject to continuous oversight of their CPD activities. The relevance and focus of information provided in Board papers is regularly reviewed.

Each year the Board holds a strategy planning day to set and review the Group's longer-term targets, consistent with its purpose, values, and culture, and to establish strategic initiatives to fulfil those targets. Every three years, the Board establishes independent reviews of its effectiveness in conducting its business and in promoting a culture to support its strategic initiatives. The annual strategic process is informed by prior assessment of current industry trends, economic and market conditions, opportunities provided by technological developments, and scanning for product, design, or delivery innovation in the marketplace. This allows the Group to design its strategic business model with full awareness of the environment in which it operates. The Group's successful core business model is based on specialism in niche market areas where it can leverage its strength in individual and bespoke underwriting to deliver optimum margin returns consistent with its stated risk appetite. However, the Board has also recognised that diversification of income streams is essential to avoid the risk of over-reliance on mainstream lower-margin residential mortgage business, an area that is currently subject to increased competitive pressure from new entrants. The risk management framework and the operation of regulatory requirements, regarding levels of liquidity and capital, serve to ensure that the longer-term business model is both sustainable and maintained on a prudent basis.

The Board has formally reviewed its mission and values statements during the year and the main way by which it assesses whether its culture promotes those values is via periodic externally facilitated Board effectiveness reviews, periodic colleague surveys, the discussions of the employee representative colleague forum and, from time to time, via a thematic review by Internal Audit. When these processes identify actions for improvement, these are formally recorded and the outcomes monitored. The Board is committed to promoting its culture with appropriate investment in, and rewarding of, its workforce, including through (i) continuous learning and development activity which it monitors through regular review of CPD logs. It has invested in a new learning management system and, it will hold digital logs and records of learning activity, including for those employees subject to formal training and competency schemes; and through (ii) fair and equal pay, for which it commissioned an independent benchmarking study in 2019 to ensure pay levels were fairly and appropriately aligned with the market. Through its oversight of the operation of the Remuneration and Nominations Committee, the Board ensures that pay and employment conditions are consistent with, and support, both the Society's values and the attainment of its longer-term objectives. All bonus schemes combine financial and non-financial measures with targets aligned to these strategic objectives. Payments are subject to a power of veto by the Risk Committee before to being recommended for Board approval by the Remuneration and Nominations Committee. Further details are provided in the Directors' Remuneration Report.

Within the boundaries of budgetary constraint, which the Board continually assesses, and having regard to the regulatory framework in which it operates and to the requisite level of competence and expertise of key personnel engaged in specific lines of business, the Board ensures it has the necessary resource to meet its objectives. The Board has established a comprehensive risk management framework, which embraces (i) the continual identification and measurement of risk, including the emerging risk of climate change, and (ii) the setting of controls, to manage those risks effectively, the effectiveness of which is reviewed by a longer-term assurance plan supported by internal and independent auditing activity. Further details are provided in the 'Audit, Risk and Internal Control' section below.

The Group engages with members via the AGM, the distribution of the Annual Report and Accounts, including providing summary financial information, and through post-sales surveys and use of independent web-based media. The Group has signed up to Smart Money People as a medium for direct customer engagement and feedback. This may be accessed at: https://smartmoneypeople.com/melton-mowbraybuilding-society-reviews/products

The Group supports our local community through both financial and non-financial commitments. Examples during 2022 have included, provision of a donation so that an Education Officer can deliver financial education sessions in local schools and colleges; a donation to the Leicestershire and Rutland Wildlife Trust to pay for Education Officers to go into schools to teach children how to protect the natural world and wildlife around them; colleagues working hard to complete litter-picking in local community areas and revive and tidy up key areas to prepare for the judging of Melton in Bloom; and the delivery of sessions with the local Police for our members to share knowledge on scam awareness. This support is supplemented by colleagues volunteering and branch-based initiatives aimed at engaging at a local level with community stakeholders.

The Group engages with its workforce through a colleague forum. This representative cross-section of the workforce meets once a year, having the opportunity to voice concerns to the Executive team. Presentations are regularly made to all colleagues to ensure they are informed of Group progress. The Group conducts an anonymous colleague survey that is facilitated by an external company to ensure independence and anonymity at least once a year. The Group completes interim 'pulse' surveys to obtain feedback on specific topics across the year with responses published to all colleagues relating to issues raised and agreed actions.

In addition to submitting of regulatory returns, the Group engages with its regulators by means of structured annual visits, and by keeping them informed on an ongoing basis of key Group developments and issues.

Board discussions and decision making focus mainly on the interests of savings and mortgage customers as a whole, such customers being the members of the Society. The Board ensures that the interests of the Society and its members are promoted through compliance with regulatory and legal requirements. Regulators' expectations regarding their requirements are communicated generally through supervisory statements and guidance and feedback on specific Society performance, including recommended actions. Details are reported to the Board, following an annual onsite Supervisory visit. Workforce concerns and issues are communicated to the Board through a colleague forum, which is representative of the whole workforce.

Colleagues are encouraged to raise issues and concerns in confidence with their line manager or, if that is not appropriate, with a member of the Executive, with anonymity guaranteed when requested. The Board has approved a Speak-Up policy. If the issue relates to a matter of public concern, including damage to the Group's reputation, a colleague may, in line with the Group's Whistleblowing Policy, refer the issue to the Group's Whistleblowing Champion, or to an external authority provided for that purpose. For matters which require formal investigation, and which may involve disciplinary action, the Group uses an independent employment consultant. All such matters are reported to the Board.

The Board considers potential conflicts of interest when significant new contracts are entered into with third or connected parties, or when such contracts are subject to significant variation. Review of potential conflicts of interest is a standing Board meeting agenda item.

In line with the principles of openness and transparency, Directors are encouraged to challenge and raise issues of concern at Board meetings that are fully minuted. On termination of their tenure, Directors participate in an exit interview where they may raise issues of concern, which are then reported to the Board. In line with regulatory requirements, Directors who undertake regulated functions maintain a handover certificate that can be used when they cease to be responsible for those functions. They are obliged to set out issues of concern in line with this process. A Private Minute Book is held by the Society Secretary where matters of concern about the running of the Society would (in such instance as they arise) be recorded.

## Division of Responsibilities

**Code Principles:**

- 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 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.
- 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.
- 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 terms of reference of the Board and of its Audit and Compliance, Risk and Remuneration and Nominations Committees, which set out their respective responsibilities, are available on the Society's website: www.themelton.co.uk

The Board ordinarily comprises of Executive Directors and Non-Executive Directors, with clear demarcation of responsibilities and accountabilities between each group, reflected in the job descriptions of the individual members of each group. Before appointment, an assessment is made of a Non-Executive Director's time commitments, other than those to the Society, to ensure that they can devote sufficient time to Society business. Non-Executive Directors are required to inform the Board of changes in their commitments and circumstances, so that this can be kept under continual review. The Board does not permit Directors to take on additional external commitments without its prior approval. A Board Skills and Competency framework is maintained so that continuing recruitment of Directors promotes the capacity of the governing body to provide constructive challenge, strategic guidance, and specialist input. A critical element of the skills matrix is that the Non-Executive Directors have sufficient relevant knowledge and experience to constructively challenge the Executive Directors and the wider Executive Team.

All the Non-Executive Directors who have served during the year have been independent during their period of service. Over half of the Board membership comprises Non-Executive Directors who are independent. Non-Executive Directors lead and have the primary role in the appointment and removal of Executive Directors. At each Board meeting the Non-Executive Directors review the performance of management, including Executive Directors, against agreed performance targets, which are summarised through a range of KPIs and metrics. The Chair holds regular meetings throughout the year with Non-Executive Directors without Executive Directors present.

The Board appoints an independent Non-Executive Director, to be the Senior Independent Director and, accordingly, to act as a sounding board for the Chair and to serve as an intermediary for the other Directors and for Society members. The Senior Independent Director holds a NED only meeting without the Chair being present to discuss their feedback and views on the Chair's performance. This includes an assessment of effective leadership as well as getting the views of the Executive Directors to enable her to conduct the annual appraisal of the Chair's performance.

The job descriptions of the Chair, Chief Executive and Senior Independent Director, which set out their respective responsibilities, are available on request. The roles of Chair and Chief Executive are performed by different individuals. It is not proposed that the current Chief Executive should become Chair of the Board in the future. A document, approved by the Board, is held in the Board Manual setting out the division of responsibilities between the Chair and Chief Executive. The current Chair, Fiona Ann Pollard, was independent on appointment.

The Board's operations are subject to independent review by an external assessor, normally on a triennial basis, and to an annual on-site review by the Prudential Regulation Authority. Such reviews variously address the extent to which the Board has the policies, processes, information, time, and resources it needs to function effectively and efficiently.

Each Director has access to external legal advice in respect of corporate governance matters. The appointment of external legal advisers is a matter for the whole Board.

## Board and Committee Membership Attendance Record

The table below shows the attendance of each Director at the relevant Board and Board committee meetings. The number to the left is the number of meetings attended; the number to the right is the number of meetings the Director was eligible to attend during 2022.

| Name | Board | Risk | Audit & Compliance | Remuneration & Nominations |
|---|---|---|---|---|
| A J Capps | 8/8 | 4/4 | - | - |
| S M Douthwaite | 12/12 | 6/6 | 3/3 | 4/4 |
| J G Farrington | 11/12 | 2/2 | 4/5* | - |
| E A Lockwood | 6/6 | 4/4* | - | - |
| A J Lumby | 12/12 | - | - | - |
| J A Mortimer Sykes | 12/12 | - | 5/5 | 4/4* |
| F A Pollard | 12/12* | 4/4 | - | 4/4 |
| S J Taylor | 12/12 | - | - | - |
| S G Thomas | 11/12 | 6/6 | 5/5 | - |

* Denotes Chair of the Board or committee at 31 December 2022

## Composition, Succession and Evaluation

**Code Principles:**

- 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 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.
- 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.

A succession plan for key Board and senior management positions is maintained and subject to continuous update with at least one full annual review. The plan is supported by a Board Skills and Competency framework which (i) identifies development needs to enhance the competence and knowledge of nominated internal candidates, (ii) helps establish objective criteria as to skills, knowledge, and experience against external candidates may be assessed, and which (iii) aids the continuous monitoring of the combination of skills, knowledge and experience of the Board, its committees and executive management. The Board places emphasis on skills and competence in meeting its specific recruitment needs and, subject to meeting these criteria, new appointments to key Board and senior management positions aim to promote diversity, in the widest sense, in the overall leadership and running of the Society.

With specific regard to gender diversity in senior Society roles, significant progress has been made since 2021 when the Society signed up to the Treasury's Women in Finance Charter that focuses on the leadership teams of firms. This reaffirmed that diversity and inclusion are key to our strategic aims, priorities and objectives. Under the Charter we have now formed one senior leadership group category that comprises the Board of Directors, our Executive Team and Senior Management Team (Senior Leadership Team). Under the Charter we must propose gender targets for each category and we set a target to achieve 50% female membership for the category. At the end of 2022 female representation in our Senior Leadership Team category was 37%.

While recruiting at Board level the committee aims for gender balance on the longlist and shortlist, recognising the skills and competencies required by the Board at that time.

The average tenure of Non-Executive Directors in service at the end of the year was 3.1 years.

The Board has established a Remuneration and Nominations Committee, whose responsibilities include the regular review of the succession plan, the supporting Board Skills and Competency framework, and leading and overseeing the process for recruitment, using the approach and methods described above. All members of the committee are independent Non-Executive Directors, and they receive professional services input from an experienced specialist HR Advisor to the Board who is invited to provide professional support and advice to the committee. The committee is chaired by a Non-Executive Director who is not the Chair of the Board.

The Board and its committees conduct an annual review of their effectiveness. Board reviews, which include consideration of the Board's composition, diversity, and collaborative characteristics, are undertaken every three years by external independent consultants and, between reviews, by means of structured questionnaire-based self-assessment. Committee reviews are done by structured questionnaire-based self-assessment, except when external Board reviews are done when the Board review is combined with that of one of its three committees. Individual Directors are subject to annual appraisal, which assesses their contribution to the effective running of the Board.

All Non-Executive Directors must resign after the completion of nine years' service and, ordinarily, on reaching 70 years of age, if earlier. Subject to the passing of a Board resolution, Non-Executive Directors may serve beyond completion of their nine years' service or beyond 70 years of age. The Board's assessment will consider whether a Non-Executive Director remains independent in character and judgement, can commit enough time to the role, and continues to demonstrate capability and relevant knowledge.

All Board Directors are proposed for election at the AGM following their appointment. The Board resolved in 2021 that from 2022 all Directors be proposed for election or re-election annually in line with the UK Corporate Governance Code principle on the Election of Directors.

## Audit, Risk and Internal Control

**Code Principles:**

- 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 Board should present a fair, balanced and understandable assessment of the company's position and prospects.
- 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.

The Audit & Compliance Committee report on pages 38 to 40 provides details of its activities in relation to ensuring the independence and effectiveness of internal and external audit functions. It also details how the committee satisfies itself on the integrity of the financial statements and whether they provide a fair, balanced, and understandable assessment of the Group's position.

The Directors' report on page 28 to 31 details the responsibilities of the Directors in preparing the financial statements. These include ensuring suitable accounting policies are followed, that a true and fair view of the Group's financial position is provided, and that the Group's business is a going concern.

The Board, assisted by the Risk Committee, is responsible for establishing the Group's Risk Management Framework to manage and oversee risk. The Risk Management report on pages 41 to 49 provides further details on the Risk Management Framework and how the Group manages risks including details of the Group's principal risks.

## Remuneration

**Code Principles:**

- Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values, and be clearly linked to the successful delivery of the company's long-term strategy.
- A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established. No director should be involved in deciding their own remuneration outcome.
- Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.

The Remuneration & Nominations Committee is responsible for developing remuneration policy and considering the level and make-up of Directors remuneration. Details of how the Remuneration & Nominations Committee has regard to the Code Principles on remuneration is explained in the Directors' Remuneration report on pages 50 to 54.

**Fiona Pollard**
**Chair**
**15 March 2023**

# Audit and Compliance Committee Report

**The Board has established an Audit and Compliance Committee (the Committee), comprising independent Non-Executive Directors, excluding the Chair of the Board, including members with competence relevant to the sector in which the Group operates, including skills and experience gained in regulated financial services entities.**

The committee meets five times a year, with one meeting devoted to the review and approval of the Annual Report & Accounts. Executive Directors and senior management, representatives of the Group's Compliance function, Internal Auditors and External Auditor attend by invitation. These meetings conclude with a closed session between the committee members and the Internal and External Auditor without the Executive Directors and senior management present.

The Terms of Reference of the committee, which are published on the Society's website at www.themelton.co.uk, include the following roles and responsibilities:

- Monitoring the integrity of the Financial statements of the Group, any formal announcements relating to the Group's financial performance, and reviewing significant financial reporting judgements contained in them;
- Providing an opinion to the Board on whether the Annual Report and Accounts, taken as a whole, provides a true and fair view and whether it is balanced, understandable, and provides the information necessary for members to assess the Group's position and performance, business model and strategy;
- Reviewing the Group's internal financial controls and internal control and risk management systems;
- Monitoring and reviewing the effectiveness of the Group's outsourced Internal Audit Function;
- Conducting the tender process and making recommendations to the Board, about the appointment, reappointment and removal of the External Auditor. Approving management's proposal for the remuneration and terms of engagement of the External Auditor.
- Reviewing and monitoring the External Auditor's independence and objectivity;
- Reviewing the effectiveness of the external audit process, taking into consideration relevant UK professional and regulatory requirements;
- Developing and implementing policy on the engagement of the External Auditor to supply non-audit services, ensuring there is prior approval of non-audit services, considering the impact this may have on independence, taking into account the relevant regulations and ethical guidance in this regard, and reporting to the Board on any improvement or action required;
- Reporting to the Board on how it has discharged its responsibilities; and
- Monitoring the Group's compliance with appropriate codes of governance having due regard to evolving best practice.

It should be noted that effective 1 January 2023 the committee's responsibility to monitor and review the effectiveness of the Society's Compliance function transfers to the Society's Risk Committee.

## Financial reporting

The responsibilities of the Directors regarding the preparation of the Group's Annual Report and Accounts are set out in the Statement of Directors' Responsibilities. The Audit and Compliance Committee discharges its responsibilities through:

- Advising the Board on whether the Annual Report and Accounts, when taken as a whole are true and fair, balanced and understandable and provide the necessary information necessary for Members to assess the Group's position and performance, business model and strategy;
- Reviewing the appropriateness of the accounting policies adopted in the preparation of the financial statements;
- Reviewing the fairness and reasonableness of material judgements and estimates made in the preparation of the financial statements;
- Reviewing the appropriateness of the adoption of the going concern basis in the preparation of the financial statements.

The committee confirms it has reviewed the Annual Report and Accounts and accounting policies and recommend that, taken as a whole, they are true and fair, balanced and understandable and provide the necessary information for Members to assess the Group's position and performance, business model and strategy.

The committee has also reviewed the appropriateness of continuing to adopt the going concern basis of accounting and the longer-term viability of the Group and has advised the Board accordingly. Related Disclosures are set out in the Directors' Report.

The Audit and Compliance Committee considered the following areas of significant judgement and estimates relating to the financial statements:

- Assessment of impairment provisioning methodology and of the appropriateness of the level of loan impairment provisions, which are recognised using the methodology set out in the Accounting Policies in Note 1 of the Annual Report and Accounts. The committee reviewed the key assumptions and judgements contained in the Society's provisioning model, including Probability of Default and Loss Given Default calculations under different economic scenarios, and the related disclosure in the Annual Report and Accounts. The review included consideration of the low level of impairment data available, the quality of the underlying mortgage portfolios, the current cost-of-living challenges and the overall level of impairment provision;
- Assessment of the appropriateness of the estimates and accounting treatment of effective interest income recognition: interest income on the Group's mortgages is measured under the effective interest rate method as set out in the Accounting Policies in Note 1 of the Annual Report and Accounts. The committee reviewed the approach taken, including the estimate of mortgage product lives and profiles based on actual customer behaviour and management's judgement; and
- Based on the findings of an independent actuarial report and on review and challenge of key assumptions, an assessment of the appropriateness of the carrying value of the Pension Scheme asset.

## Internal controls

The Group operates in a business environment that contains significant risks, including financial risks. To mitigate these risks, the Board has responsibility for determining risk management processes, including the design, operation and monitoring of risk management and internal control systems across all areas of the organisation. More detailed information about the risk management framework is set out in the Risk Management report on pages 41 to 49.

The committee reviews the adequacy and effectiveness of the risk management and internal control systems, including compliance with legal and regulatory requirements, throughout the year to ensure they remain appropriate. It also ensures the Group has sufficient resources to meet the above objectives. The Risk and Compliance function provides second-line support and assurance to the Group, independent of first-line management, alongside advice on risk mitigation, including the design of internal control procedures. Internal Audit also provides independent assurance to the Board on the effectiveness of the internal control framework through the committee. The areas of internal control which were reviewed by the committee during 2022 were:

- Conduct and compliance related issues;
- Prudential regulation related issues;
- Annual Internal Audit plan;
- Combined Assurance Plan;
- Control weaknesses identified by the external auditor in relation to the financial reporting process; and
- Status of control issues raised in internal audit reports, including risk rating and age of outstanding issues.

The Audit and Compliance Committee's annual review of the Group's internal-control and risk management systems concluded that internal controls and risk management systems are adequate and operating effectively. In addition, Mazars LLP (as internal auditor) confirmed that an effective internal control framework had been maintained throughout the year.

## Internal Audit

The Group's Internal Audit function is outsourced to Mazars LLP. During the year the committee monitored the effectiveness of Internal Audit and the programme of Internal Audit work, reviewed and approved the internal audit charter, approved the audit plan and budget, and confirmed that appropriate resources were in place to execute the plan effectively.

In line with the Combined Assurance Plan, which is approved annually by the Audit and Compliance Committee, the following areas were reviewed by Internal Audit during the year:

- Regulatory reporting;
- Nexa Finance Ltd lending and arrears management;
- IT controls;
- Treasury management;
- Operational resilience;
- Recovery plan;
- Lending and arrears management; and
- Financial crime

The Audit and Compliance Committee monitors the independence of the function by ensuring that no other personal or business relationships exist with the Group and also undertakes an annual review of the effectiveness of the function.

## External Audit

The committee is responsible for assessing the effectiveness of the annual audit process, for monitoring the independence and objectivity of the External Auditor and making recommendations to the Board in relation to the appointment or reappointment of the External Auditor.

The committee undertakes a formal annual effectiveness review of the External Auditor. The EU Directive and Regulation on Audit Reform relating to public interest entities sets requirements relating to mandatory audit firm rotation and audit tendering and use of the auditor for non-audit services. Under these requirements, the Group is required to put the external audit out to tender at least every 10 years and change the External Auditor every 20 years following a tender process. This exercise was completed during 2019 with BDO LLP being appointed as the External Auditor.

The Group has a policy for the use of external auditors for non-audit work and would not consider the appointment of the external auditor for the provision of non-audit services where it might impair their independence. All material non-audit services require committee's approval to ensure that auditor objectivity and independence is safeguarded.

Details of the fees paid to the External Auditor for audit and non-audit services are set out in Note 6 of the Annual Report and Accounts.

## Effectiveness of Audit & Compliance Committee

As outlined in the Corporate Governance report, each Board sub-committee undertakes an annual assessment exercise to monitor its effectiveness. The process involved each committee member considering how the committee performs its role, resources available and whether it had performed in line with its Terms of Reference. The committee concluded that it continued to operate effectively.

**Jonathan Farrington**
**Chair of Audit & Compliance Committee**
**15 March 2023**

# Risk Management Report

## Financial risk management objectives and policies

The Group operates in an environment that contains a range of financial and non-financial risks. The objective is to manage these risks so that the financial impact remains within stated risk appetite while delivering strategic objectives and protecting members' interests.

The Board is responsible for setting the risk culture and ensuring that an effective risk management framework is in place that supports and directs financial security and promotes fair outcomes for all. This is clearly stated in both the Group's Enterprise Risk Management Framework and Risk Appetite Policy, which are outlined below.

## Enterprise Risk Management Framework

The Group has adopted an Enterprise Risk Management Framework (ERMF), which means that all risks across all business areas are considered and managed under one structured framework. ERMF procedures are designed to ensure compliance with applicable rules and regulations, support decision-making, assist in having efficient operations and support the delivery of a successful strategy.

The ERMF is underpinned by additional risk policies and frameworks that state policy and risk limits in more detail for specific risk categories. The ERMF is one of the ways risk appetite is implemented and executed throughout business areas.

Principal risk documents include:

- Risk Appetite Policy;
- Lending Policy;
- Conduct & Culture Framework;
- Financial Risk Management Policy;
- Remuneration Policy; and
- SM&CR Framework.

These are reviewed on a regular basis with the key components amended and approved by either the Board or a Board sub-committee.

The risk management framework is supported by the Group's three lines of defence approach with risk responsibilities extending throughout all business areas and functions.

## Three lines of defence model

### 1 Risk Ownership

Responsible for the day-to-day running of the Group, including employees and management and responsible for the identification and management of risks

### 2 Risk Oversight

Responsible for establishing the procedures for managing risk and responsible for the oversight and challenge of risk management conducted by the first line

### 3 Independent Review

Responsible for the independent review and oversight of the effectiveness of risk management across the Group, providing risk assurance to the Board

## Risk appetite

Risk appetite is a core part of the Group's ERMF and clearly defines the amount and type of risks the Group is willing to take to meet its strategic and financial objectives.

It is created alongside the Group Strategy and ensures that the business has clear guidelines and boundaries on its risk-taking and business activities. It does this by:

- Providing a clear framework in which the strategy is executed and the business operates;
- Providing clear thresholds that aim to prevent excessive risk-taking and support the Group's strategy by preventing strategic drift; and
- Protecting the Group and mitigating against severe external economic impacts.

The Group's Risk Appetite Framework is outlined in the Group's Risk Appetite Policy, which is reviewed and approved by the Board annually, on the recommendation of the Board Risk Committee.

Risk appetite limits are regularly monitored and reported, with any limit breaches reported to Board Risk Committee. in the first instance, with further notifications as appropriate. Overall, risk appetite metrics, including current position and trends, are monitored through the standard reporting cycle.

## Risk governance

The Group has a formal governance framework for managing the identification, assessment, treatment and monitoring of risk across the Group. It incorporates the Board, which is supported by the Audit & Compliance Committee, Risk Committee and Remuneration & Nominations Committee. In addition, the Group operates two executive committees that report directly to the Board committees: Assets & Liabilities Committee (ALCo), and Executive Committee (ExCo). There are four other Executive appointed committees which report directly into ExCo and ALCo. Details of the roles and responsibilities of the Board and Senior Executive Committees are outlined in the next section.

## Board Risk Committee

The committee is responsible for the oversight and challenge of risk strategy and management across the Group, including reviewing the effectiveness of the Second Line Risk function The purpose of the committee is to ensure that the overall approach to the identification, assessment, management, and mitigation of risk is appropriate and undertaken in an integrated manner. The committee will, as required, review and recommend to the Board, risk strategy, policies and risk limits in accordance with the overall risk appetite of the Group. From the 1 January 2023 the committee will also oversee Compliance and Financial Crime related matters that were previously overseen by the Audit and Compliance Committee.

In addition, the Risk Committee also considers the emergence of new risks which are identified principally through consideration of the changing economic market and through 'horizon scanning' reports from the Chief Risk Officer, including significant changes in regulatory requirements. The Principal Risks and Uncertainties to which the Group is exposed are outlined on pages 44 to 49. The committee membership consists of Non-Executive Directors only.

## Audit and Compliance Committee

The committee is responsible for monitoring and reviewing the integrity of the Group's financial statements and accounting policies. It also oversees the effectiveness of the Group's control functions and policies, including: the Group's internal controls and risk management systems; the Compliance function; the internal and external audit functions; and the Group's AML and anti-fraud policies. As detailed above, from the 1 January 2023, oversight of Compliance and Financial Crime related activities will transfer to the Risk Committee, with this committee becoming the Audit Committee. The committee membership consists of Non-Executive Directors only.

## Remunerations and Nominations Committee

The Committee is responsible for overseeing the development and implementation of remuneration policies along with oversight of Board governance and composition of the Board. The committee reviews the balance, composition and size of the Board to ensure it is appropriate and contains the necessary skills and experience required to effectively operate the Group. The Committee membership consists of Non-Executive Directors only.

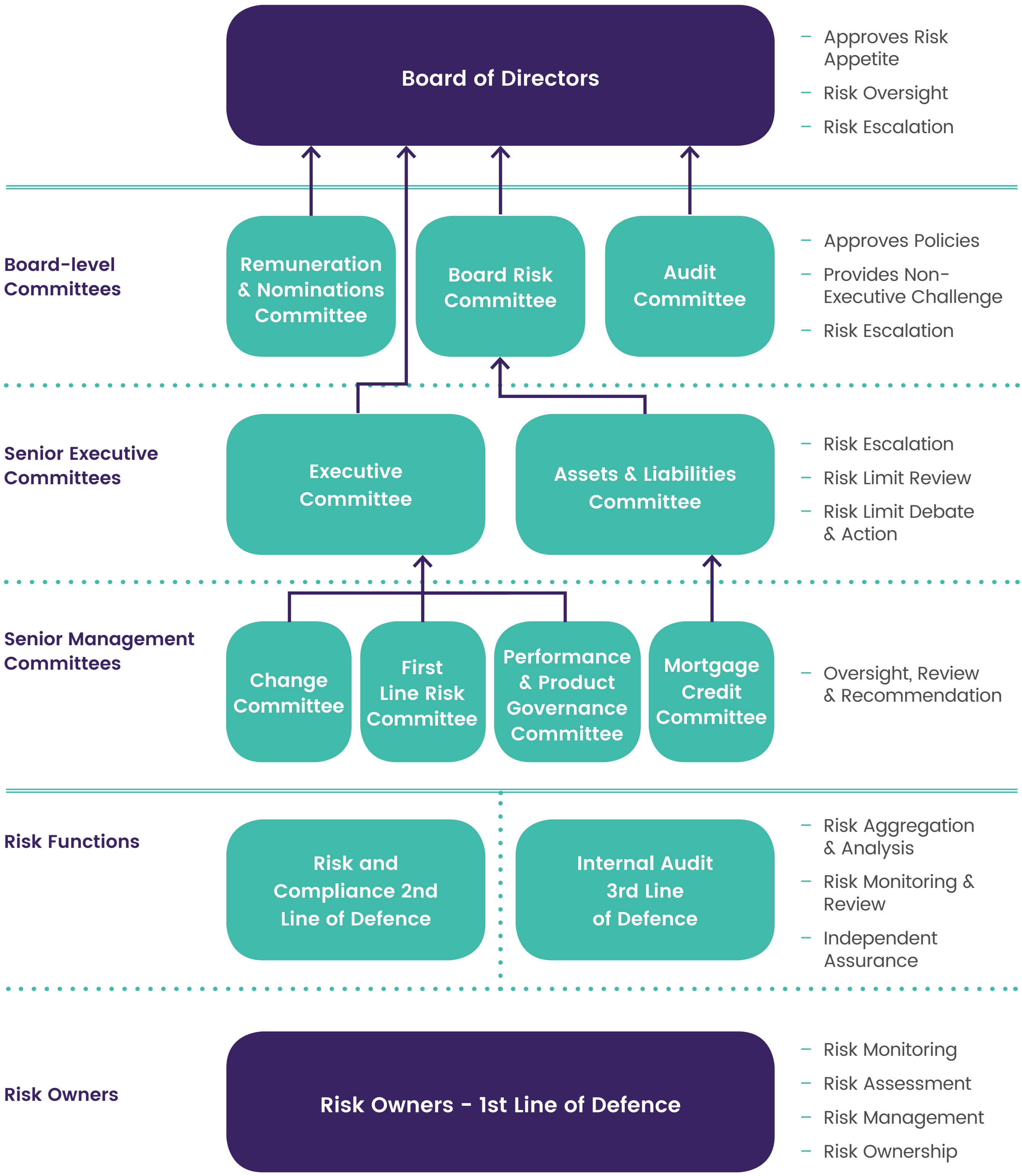
## Executive Committee

The committee is mainly responsible for the execution of the Board agreed strategy which includes ensuring the Group's risk management and control frameworks are operating effectively and resourced for current and future business demands. The committee exercises oversight by assessing and monitoring of conduct, operational and business risk across the Group. The committee members are Executive Directors and senior management.

## Assets and Liabilities Committee

The committee is primarily responsible for the oversight of balance sheet and financial risk management including credit risk, liquidity risk, interest rate risk, pension obligation risk and certain business risks. The committee membership consists of Executive Directors and senior management.

# Risk Governance Framework: Committee Structure and Three Lines of Defence



## Principal risks and uncertainties

The risks of the Group evolve depending on the economic cycle and the Group's prevailing risk profile and appetite. In the context of the business developments set out in the Chief Executive's review, and in line with its ongoing risk assessment, the Group has identified the following principal risks:

| Principal risk | Sub-categories | Key controls and mitigating factors |
|---|---|---|
| **Credit Risk:**<br><br>**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 of liquid assets with treasury counterparties.** | Secured Loans<br><br>Concentration | Mortgage credit risk and concentration risk is controlled through a Board approved Risk Appetite Policy and Lending Policy, which have explicit limits. Exposures are carefully controlled, with monitoring at Credit Committee and ALCo and oversight provided by Board Risk Committee.<br><br>All mortgage applications are assessed with reference to the credit and underwriting criteria set out in the Group's Lending Policy. Whilst the Group's Lending Policy is reviewed annually as a minimum, it is actively assessed on an ongoing basis to consider impact from external or internal events. For example, lending criteria was reviewed and refined as COVID-19 restrictions were relaxed and current focus is on managing the risks emerging from the inflationary environment and cost of living pressures.<br><br>The risk profile of the Group's mortgage portfolios remains strong with an average balance weighted LTV of 40.5% (2021: 41.0%) for its residential portfolio and 62.0% (2021: 60.0%) for its commercial portfolio. The Group also has external Mortgage Indemnity Guarantee insurance for mortgages >75% LTV for a period of seven years from inception.<br><br>The Group recognises that the personal and financial circumstances of our borrowers can be affected by deteriorating economic conditions, including cost-of-living challenges and unplanned events. When this happens, we apply a formal policy directed towards forbearance and fair treatment of customers. The Group has a number of forbearance measures to assist those borrowers including agreeing a reduced monthly payment, transfer to interest-only payments or an extension of the mortgage term to reduce the borrowers' financial pressures. We expect borrowers to resume normal payments when they can.<br><br>During the year arrears levels have increased slightly to 1.80% (2021: 0.97%) but remain low compared to historical levels. Further details of the Group's arrears analysis can be found on page 126. |
| | Treasury Counterparty | Counterparty credit risk is controlled through the Board approved Financial Risk Management Policy and Risk Appetite Policy. The policies set out limits to restrict exposures to Treasury counterparties and industry sectors. Monitoring of treasury positions is performed by the Finance function with regular oversight by ALCo and Risk Committee. As at the end of 2022 95.5% (2021: 97.8%) of the Group's liquidity portfolio was invested with counterparties with an external credit rating of AA- or better. |

| Principal risk | Sub-categories | Key controls and mitigating factors |
|---|---|---|
| **Climate Change Risk:**<br><br>the risk of losses from the impact of Climate Change. Losses could arise from the deterioration in an asset's value (physical risk); or the impacts from a disorderly transition to a lower carbon economy (transitional risk). | | The Group considers climate change to have widespread impact, cutting across all existing principal risks, including Operational, Credit, Strategic and Business.<br><br>A climate change action plan has been created to progress and formulate the Group's strategic approach to climate change and path to net zero. It covers several principal areas to ensure we adapt to the risks and opportunities of climate change. These principal areas are outlined below:<br><br>• **Governance** – The Group has put in place a clear governance framework to oversee climate related financial risks. This is set out in the Group's Climate Change Policy.<br><br>• **Risk management** – Climate change risks are managed through the Group's Enterprise Risk Management Framework, supported by the Climate Change Policy.<br><br>• **Metrics and targets** – The Board has agreed a set of metrics and targets to provide proportionate management information on the Group's climate change risks. This will mature as the Group's understanding of these risks evolves and will feed into future disclosures.<br><br>• **Scenario analysis** – The Group performs scenario analysis across its mortgage portfolio to assess potential climate-related financial risks and to help inform its strategy and risk appetite. Details of these risks can be found on page 22.<br><br>The primary physical risk to the Group is the impact of climate change on the value of its mortgage portfolio. This is reviewed as part of the Group's capital stress testing and concluded that, based on current exposures, the potential exposure to climate related losses is immaterial.<br><br>Transitional risk is harder to quantify. One of the main impacts identified through scenario analysis is the potential financial risk from legislation requiring homes to transition to an improved energy efficiency category, as measured by the industry standard energy performance rating (EPC).<br><br>• **Members** – The Group aims to educate and assist our members to make better informed decisions, and to offer products that help them adopt a more sustainable approach to their finances and maximise the energy efficiencies of their homes.<br><br>• **Operations** – The Group wants to reduce inefficient energy consumption and waste where possible, and to better understand the impact of climate change on our supplier relationships. The Group's Principal Office is fitted with solar panels and further improvements to our carbon footprint are in place as part of the Head Office refurbishment.<br><br>• **Training and culture** – All staff have been trained on the importance of climate change risks. The Group has also established a Green Council which is made up of staff from all levels of the organisation. The Council's purpose is to champion the Group's Green Strategy and to assess and take forward climate or green related initiatives. It will also be a key part of establishing the Group's plan to net zero. |

| Principal risk | Sub-categories | Key controls and mitigating factors |
| --- | --- | --- |
| **Operational Risk:**<br><br>**the risk of loss arising from inadequate or failed internal processes, the actions of people, the Group's IT systems and fraud, including cyber-crime and financial crime.** | People<br><br>Information Security<br><br>Business Continuity & Crisis Management<br><br>Third Parties<br><br>Business Change<br><br>Financial Crime<br><br>IT & Cyber | The Group has an Enterprise Risk Management Framework that sets out how risks are identified, measured, mitigated, and controlled.  This is supported by other policies and frameworks including Risk Appetite Policy; Business Continuity Policy; Data Security Policy; Operational Resilience Policy and Tolerance Statements; Third Party and Supplier Policy; Change Management Framework; Incident Management Framework; Climate Change Policy; and Financial Crime Policy.<br><br>During 2022, the Group continued to roll out additional modules to its new Governance, Risk and Compliance system.  The system has strengthened the management of operational risk by providing a single source to document all risks and established controls, together with management and monitoring of any further actions required.<br><br>The Group has a clear Board-approved IT and technology strategy.  Improving Operational Resilience and maintaining a good level of service for members is a key element of the Group's business strategy. During the year the Group has embarked on a major technology transformation project that will significantly enhance its digital capabilities and customer journeys. Focus to date has been on establishing requirements and ensuring the appropriate team and governance structure is in place to manage the project within risk appetite.<br><br>The management of cyber risk is a continued focus for the Group, with investment in security measures and controls to ensure they remain appropriate to protect both the Group and members' assets and data.<br><br>Exposure to operational risk is managed through the First Line Risk Committee, monitored by the Executive Committee and overseen by the Board Risk Committee. |

| Principal risk | Sub-categories | Key controls and mitigating factors |
| --- | --- | --- |
| **Conduct Risk:**<br><br>**the risk of detrimental outcomes to customers derived from staff interaction throughout the product lifecycle.** | Sales Suitability<br><br>Products and Services<br><br>Customer Treatment | The Conduct and Culture Framework sets out the Group's high-level expectations and values on conduct and culture. This is supported by other key policies such as: Vulnerable Customers Policy; and Assisting Customers in Financial Difficulty Policy.<br><br>The Board has set risk appetite limits in relation to Conduct risk. All conduct-related metrics are monitored regularly by the designated risk owners and reviewed by First Line Risk Committee. This ensures that the Group is alerted to and can take, timely action in relation to any potential customer detriment.<br><br>The Performance and Product Governance Committee ensures that products are designed and monitored to ensure fair customer outcomes.<br><br>The Executive Committee reviews conduct risk metrics, ensuring adequate controls implemented and that these are effective in delivering fair customer outcomes. Oversight is provided by the Board Risk Committee. |
| **Prudential Risk:**<br><br>**the specific risks in relation to the financial and capital adequacy of the Group including:**<br><br>**Funding & Liquidity: 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.** | Funding & Liquidity | The Group ensures it maintains adequate liquid assets having regard to both the amount and the quality, to mitigate the risk that its liabilities cannot be met as they fall due, both in business-as-usual and stressed scenarios. The Board-approved Financial Risk Management Policy sets out the key liquidity limits.<br><br>Adherence to the policy limits is managed by the Group's Finance department and monitored each month by ALCo, with additional oversight by the Risk Committee.<br><br>The Board undertakes a full review of liquidity adequacy at least once a year, referred to as the Internal Liquidity Adequacy Assessment Process (ILAAP). This includes the assessment of the quantity and quality of liquid assets that the Group should hold to mitigate the liquidity risks to which it is exposed, under both normal and stressed conditions.<br><br>The Groups also complies with the requirements for the Liquidity Coverage Ratio (LCR), which measures the amount of high-quality liquidity held in relation to net stressed 30-day cash outflows. This is reported monthly to the Group's regulator, the Prudential Regulation Authority (PRA). |

| Principal risk | Sub-categories | Key controls and mitigating factors |
|---|---|---|
| **Interest Rate: 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.** | Interest Rate Risk | The Board-approved Financial Risk Management Policy sets out the key interest rate risk limits. The limits are based on capital at risk due to the mismatch of assets and liabilities re-pricing in defined time periods. The Group uses vanilla derivative financial instruments to help manage the mismatches.<br>Management of interest rate risk is undertaken by the Group's Finance department with monitoring performed by ALCo and oversight by the Risk Committee.<br>Details of the Group's interest rate sensitivity and the use of derivatives for hedging purposes are set out in Note 29 of the annual accounts. |
| **Pension Obligation: the risk to profit due to the Society having to make significant contributions to the Society's defined benefit pension scheme.** | Pension Obligation Risk | The Group continues to implement measures to reduce its pension scheme liabilities and protect the pension surplus for the benefit of pension scheme members and the long-term interests of Society members.<br>The risk is monitored by the ALCo.<br>Details of the Group's pension scheme, including the cost to the Society for the year and the updated scheme valuation on 31 December 2022, are set out in Note 8 of the annual accounts. |
| **Capital Adequacy: the risk that the Group does not have sufficient capital resources to cover unexpected or extreme losses.** | Capital Adequacy | Capital Adequacy is one of the Board's four core objectives and forms an overarching boundary condition to most material risks.<br>The Board has no appetite for breaching the minimum regulatory capital requirements. As such it has set minimum internal thresholds to manage this effectively.<br>An Internal Capital Adequacy Assessment Process (ICAAP) is carried out at least once a year to test and assess the Group's ability to maintain sufficient capital levels under differing stressed scenarios.<br>The Group also has a Board-approved Recovery Plan in place which provides the Group with plausible options to improve its capital position should its capital adequacy be threatened for any reason. |

| Principal risk | Sub-categories | Key controls and mitigating factors |
|---|---|---|
| **Strategic Risk:**<br><br>**the risk of loss or reduction in profitability due to failure to achieve business/strategic objectives.** | Strategy & Business Model | The Group manages this risk by having a long-term focus on a sustainable business model that encompasses carefully developed and detailed business plans and policies. These include the maintenance of a diverse range of products and services to suit customers' needs.<br><br>The Group reviews its long-term strategy on an annual basis, ensuring that it continues to meet both the needs of the Group and its members. The Group also carries out horizon scanning, and monitors the external economic environment to ensure that it reacts appropriately to changing conditions that may impact its strategic goals.<br><br>The Board oversees and monitors business performance against the approved strategic objectives. The Executive Team manages the execution of the Board-approved strategy.<br><br>Monthly reporting is provided to the Board on Strategic Key Risk Indicators. |

**Elizabeth Lockwood**
**Chair of Risk Committee**
**15 March 2023**

# Director's Remuneration report

**The Board has established a Remuneration and Nominations Committee ('the Committee') that comprises three Non-Executive Directors, including the Chair of the Board and is supported by a non-member HR Advisor to the Board. This report describes how the Society complies with the FCA's Remuneration Code for dual-regulated firms and explains how the Group has regard to the principles of the UK Corporate Governance Code 2018 ('the Code') on remuneration (pay and benefits).**

## Remuneration Policy

**Code Principle P:**

- Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values and be clearly linked to the successful delivery of the company's long-term strategy.

The committee is chaired by Judith Mortimer Sykes, a Non-Executive Director and the Society's Vice Chair and Senior Independent Director. Its key purpose is to ensure that the Group Remuneration Policy supports the achievement of the business strategy by rewarding the right behaviours and outcomes consistent with the Society's risk appetite and the long-term interests of its members.

The Group Remuneration Policy has a number of key principles relevant to the Code:

- Attract and retain directors and senior managers with the right skills and competences by offering a fair and competitive total reward benchmarked against the external market;
- Recognise the importance of total reward including benefits and flexible working in attracting, engaging and retaining a diverse and talented workforce;
- Recognise the business benefits of promoting diversity and inclusion;
- Reward colleagues based on both the Group and individual performance with a focus on demonstrating the right behaviours in carrying out their performance;
- Ensure good and effective risk management and promote the highest standards of professional conduct; and
- Take into account the Group's strategic and business plans ensuring that the objectives and long term interests, including strengthening its capital base, are not compromised.

The Group has a clear strategy, vision and mission. It encourages four key values for all colleagues: respect for the individual; trust matters; everyone should have a sense of belonging; and we all strive to achieve. These values underpin everything that we do to support the culture of the Group and are reflected in their remuneration and benefits package. In assessing the performance of Directors, culture and values are an explicit component of annual appraisals. This includes an affirmation by individuals that they are acting in accordance with the fit and proper conditions required by regulation and an attestation that prescribed responsibilities are fully understood and evidenced as having been fulfilled.

The remuneration of individual Directors is detailed on pages 53 and 54.

# The level and components of remuneration

## Executive Directors' remuneration

Executive Directors' remuneration reflects the Director's specific responsibilities, experience and performance. It comprises a number of elements: basic salary, pension, annual bonus and other taxable benefits as detailed below:

| Component | Level | Basis |
|---|---|---|
| **Basic salary** | Set annually following review by the Remuneration and Nominations Committee. | Based on job specific responsibilities using financial services market benchmarking for similar roles. |
| **Pension** | Contribution of 10% of base salary (before salary sacrifice) for all colleagues or paid as a cash allowance as an alternative. | Executive Directors are invited to join the Group's defined contribution scheme. |
| **Annual bonus** | The annual bonus will only be awarded if the minimum threshold criteria are achieved, linked to delivery of the Group's strategic objectives.<br><br>On target performance will result in a bonus award of 20% of base salary with the ability to earn up to a maximum of 30% for over performance.<br><br>50% of any bonus awarded in the year is deferred for three years. | Variable pay is linked to the delivery of the Group's strategic objectives with both financial and non-financial targets alongside individual performance to safeguard against poor conduct or risk-taking outside the Group's agreed risk appetite.<br><br>The Board Risk Committee has a power of veto over any variable remuneration payments. They may be reduced or withdrawn if there is an item of material importance or relevance that significantly influences on the Society's regulatory status, financial performance or financial statements. |
| **Other benefits** | The Group provides other taxable benefits including a car allowance and healthcare provision. | Set at a level considered appropriate for each Executive Director by the Committee in line with market practice. |

Both Executive Directors are employed on permanent service contracts. The Chief Executive has a service contract terminable by the Society giving 12 months' notice or by the individual giving 6 months' notice. The Chief Financial Officer's service contract requires 6 months' notice from either party. There are no special terms in the event of amalgamation, transfer of engagements or transfer of business where employment is to be terminated.

## 2022 Performance and awards

The Chair's Statement, Chief Executive's Review and Strategic Report on pages 4 to 18 describe 2022 as a year of strong financial performance and strategic progression against a background of continued uncertain public health and economic environments.

It is in this context that performance-related pay awards to Executive Directors have been determined and are detailed in this report.

## Non-Executive Directors

The Chair and other Non-Executive Directors each receive an annual fee for their services. It reflects the time commitment and responsibilities of their roles and is in line with those paid by other Societies of a similar size and structure. Fees are structured that NEDs with the additional responsibility of chairing a board committee or chairing a subsidiary board are paid an additional fee. They do not receive any salary, performance incentives or pension.

Non-Executive Directors are reimbursed for reasonable expenses incurred during the course of their work on Group business.

The Society's Rules limit Non-Executive Director remuneration to 2.5 times the annual salary of the lowest paid full-time clerical employee.

## The Procedure for Determining Remuneration

**Code Principle Q**:

- A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established. No director should be involved in deciding their own remuneration outcome.

**Code Principle R**:

- Directors should exercise independent judgement and discretion when authorizing remuneration outcomes, taking account of company and individual performance, and wider circumstances.

The Remuneration and Nominations Committee meets at least four times each year and reports its key decisions directly to the Board. The committee reviews the Group Remuneration Policy, including Director Remuneration frameworks annually.

The overall level of remuneration of Executive Directors is considered by the Committee. In setting remuneration, the Committee takes account of the salaries, fees and benefits offered within similar financial organisations (including other Building Societies) to ensure that the salary and benefits packages offered align with those available in the marketplace and enable the attraction and retention of Directors of high calibre and diversity in line with the business strategy. The Committee uses the services of independent consultants, third-party surveys and peer-group benchmarking to ensure remuneration levels are appropriate and in line with the external market. The Committee has authority to override formulaic remuneration outcomes when considering the performance of the Society, both regulatory and financial. The Committee will, before its recommendation to the Board for approval of any payments, refer to the Risk Committee to ascertain whether that committee wishes to exercise its power of veto.

The Chief Executive appraises the individual performance of the Chief Financial Officer and other members of his executive team and makes recommendations to the Committee. The performance of the Chief Executive is appraised by the Chair of the Board with input from fellow board members.

The determining measures, targets and rules of the Group's Executive Incentive Plan and Bonus Scheme for colleagues are aligned to each other. Quarterly update sessions with all team members ensure all colleagues are made aware of how Executive team members, remuneration aligns to the Group's wider pay policy generally. The Group's Remuneration Policy is available to view on the Society's website.

Members of the committee are unable to determine their own remuneration. Remuneration of the Chair of the Board is considered by the Chair of the Remuneration and Nominations Committee together with the Society's Chief Executive The remuneration of the Non-Executive Directors is considered by the Chair of the Board following proposals made by the Executive Directors. Fees are approved by the Board on the recommendation of the committee.

| Non-Executive Directors (audited) | 2022 Total fees £'000 | 2021 Total fees £'000 |
|---|---|---|
| A J Capps (retired 30 September 2022) | 25 | 40 |
| A L Craft (retired 30 September 2021) | - | 29 |
| S M Douthwaite (appointed 1 May 2021) | 34 | 17 |
| J G Farrington | 34 | 37 |
| E A Lockwood (appointed 1 July 2022) | 14 | - |
| J A Mortimer Sykes (appointed 1 May 2021) | 34 | 20 |
| F A Pollard | 45 | 40 |
| K O Romney (retired 28 April 2021) | - | 8 |
| S G Thomas (appointed 1 May 2021) | 27 | 17 |
| **Total** | **213** | **208** |

| Executive Directors (audited) 2022 | Salary £'000 | Annual Bonus[1] £'000 | Benefits £'000 | Other £'000 | Sub-total £'000 | Pension Contributions[2] £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| S J Taylor | 245 | 37 | 34 | - | 316 | - | 316 |
| A J Lumby | 154 | 23 | 11 | - | 188 | 19 | 207 |
| **Total** | **399** | **60** | **45** | **-** | **504** | **19** | **523** |

| Executive Directors (audited) 2021 | Salary £'000 | Annual Bonus[1] £'000 | Benefits £'000 | Other[3] £'000 | Sub-total £'000 | Pension Contributions[2] £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| S J Taylor | 239 | 36 | 35 | - | 310 | - | 310 |
| S E Gant (resigned 23 April 2021) | 38 | - | 3 | - | 41 | 6 | 47 |
| A J Lumby (appointed 1 July 2021) | 73 | 12 | 5 | 13 | 103 | 8 | 111 |
| **Total** | **350** | **48** | **43** | **13** | **454** | **14** | **468** |

[1] The annual bonus figure reflects the amounts awarded in the year which have not been deferred. The remaining element, which is subject to deferral, will be disclosed in the year of payment.

[2] S J Taylor, with agreement from the Society, took his pension contributions as cash.

[3] A J Lumby received £13,000 in compensation for the variable pay forfeited from his previous employer following his resignation.

The unpaid deferred elements of the annual bonus scheme are detailed below:

| Executive Director | Due in April 2025 Earned in 2021 £'000 | Due in April 2026 Earned in 2022 £'000 | Total Deferred £'000 |
|---|---|---|---|
| S J Taylor | 36 | 37 | 73 |
| A J Lumby | 12 | 23 | 35 |

**Judith Mortimer Sykes**
**Chair of Remuneration & Nominations Committee**
**15 March 2023**

# Independent auditor's report

## to the members of Melton 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 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 Melton Building Society (the 'Society') and its subsidiaries (the "Group") for the year ended 31 December 2022 which comprise the Group and Society Income Statement, the Group and Society Statement of Comprehensive Income, the Group and Society Statement of Financial Position, the Group and Society Statement of Changes in Members' Interests, the Group and Society Cash Flow Statement 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 and Compliance committee.

*Independence*

Following the recommendation of the Audit and Compliance committee, we were appointed by the Members of the Society on 19 August 2019 to audit the financial statements for the year ending 31 December 2019 and subsequent financial periods. We were re-appointed by the Members of the Society on 27 April 2022 to audit the financial statements for the year ended 31 December 2022 and subsequent financial periods The period of total uninterrupted engagement including retenders and reappointments is 4 years, covering the years ending 31 December 2019 to 31 December 2022. We remain independent of the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Society.

### Conclusions relating to going concern

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

- Obtaining the Directors' assessment of going concern which includes the going concern assumptions applied in the financial statements;
- Assessing the capital and liquidity of the Group and Society by reviewing the Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Adequacy Assessment Process (ILAAP) and capital adequacy ratio with the assistance of our internal regulatory experts.
- Assessing the appropriateness of the assumptions and judgements made in the base case and stress tested forecasts, including reverse stress test scenarios, used to support the going concern assessment by considering the consistency of the forecasts with our understanding of the business, as well as looking at the historic accuracy of the forecasts by comparing with actual results.

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 or 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.

| | | | |
|---|---|---|---|
| **Coverage** | 100% (2021: 100%) of Group profit before tax<br>100% (2021: 100%) of Group interest receivable<br>100% (2021: 100%) of Group total assets | | |
| **Key audit matters** | | 2022 | 2021 |
| | Revenue Recognition (Effective Interest Rate adjustment) | ✔ | ✔ |
| | Impairment provision on loans and advances | ✔ | ✔ |
| **Materiality** | *Group financial statements as a whole*<br>£418,000 based on 1% of Net Assets (2021:  £305,000 based on 0.75% 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.

The Group is made up of the Society and its wholly owned subsidiaries. The significant components are the Society and MBS Lending Limited. These two components were subject to full scope audits performed by the Group audit team. The non-significant components are MMBS Services Limited and Nexa Financia Limited. Full scope audits have been performed for these components by the Group audit 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.

| Key audit matter | | How the scope of our audit addressed the key audit matter |
|---|---|---|
| **Revenue recognition- Effective Interest Rate adjustment**<br><br>The Group's accounting policies are detailed on page 69 with detail about judgements in applying accounting policies and critical accounting estimates on page 75. | The Group has an effective interest rate asset included in the Statement of Financial Position of £0.7m (2021: £0.4m) which reflects upfront  fees that are integral to the effective interest rate as well as accrued interest income.<br><br>Both are spread over the behavioural life of the loans and advances using the effective interest rate method resulting in an effective interest rate adjustment within the Income Statement.<br><br>The Group uses a EIR software tool to ensure accuracy of the EIR modelling.<br><br>The Group's mortgage interest income is recognised on an effective interest rate ("EIR") method in accordance with the requirements of the applicable accounting standards.<br><br>Significant management judgement is required to determine the expected cash flows for Group's loans and advances within these models.<br><br>The key assumption in the EIR models are the expected behavioural life redemption profiles of the mortgages due to the impact on timing and quantum of expected future cash flows and the directly attributable fees and costs.<br><br>Error within the EIR models itself or bias in key assumptions applied could result in the material misstatement of revenue.<br><br>For these reasons revenue recognition was considered to be a key audit matter. | We assessed whether the revenue recognition policies adopted by the Group are in accordance with requirements of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers. This included assessment of the types of fees being spread within the effective interest rate models.<br><br>We tested the completeness and accuracy of data and key model inputs feeding into the EIR models by agreeing samples of fees and income back to the source documents.<br><br>We assessed the accuracy of the model output through recalculating the year-end effective interest for a sample of loans, and agreed all key inputs relevant to the cash flows back to supporting evidence such as the fees, the contractual interest rate, maturity and year-end balance<br><br>We challenged the reasonableness of the loan behavioural life assumptions used by management based on the Group's historical data, recent loan performance and product type.<br><br>We challenged management on the allocation of loans to the Group's behavioural life assumption groupings, assessing whether these were appropriate based on the type of product.<br><br>Key observations:<br><br>Based on our audit work performed, we have not identified any indicators that the assumptions included in the EIR models are unreasonable. |

| Key audit matter | | How the scope of our audit addressed the key audit matter |
|---|---|---|
| **Impairment provision on loans and advances**<br><br>The Group's accounting policies are detailed on page 69 with detail about judgements in applying accounting policies and critical accounting estimates on page 75.<br><br>Refer to note 15 for Impairment provision on loans and advances. | The Group holds £0.9m of impairment provisions at year-end (2021: £0.7m).<br><br>The Group accounts for the impairment of loans and advances to customers using an expected credit loss ("ECL") model.<br><br>Estimating the loan loss provision requires significant management judgement and estimate in determining the value and timing of expected future cash flows.<br><br>The majority of the ECL balance is driven by Stage 3 loans therefore the risk of misstatement derives from the incompleteness of stage 3 loans. The risk of misstatement is deemed present due to the difference between the 1-year probability of default and the lifetime probability of default, the inclusion of recovery strategy of Stage 3 loans and associated assumptions, and the assessment of collateral valuation under stressed conditions.<br><br>The key inputs which could have a material impact on the loan loss provision includes the valuation of collateral, staging of loans based on the significant increase in credit risk criteria, the incorporation of forward-looking economic assumptions, probability of default, loss given default and expose at default. | We assessed the Group's provisioning methodology and determination of what constitutes a Significant Increase in Credit Risk against the requirements of applicable accounting standards.<br><br>We evaluated the appropriateness of the selection and source of the information used by the Group to determine Probability of default (PDs), Loss given default (LGDs) and Exposure at default (EADs) by considering the requirements of the applicable accounting standard and by agreeing a sample of the model inputs back to underlying systems or the actual outcomes of the Group.<br><br>With the support of an internal expert, we assessed the appropriateness of the PD model used.<br><br>We evaluated the completeness and accuracy of data and key assumption inputs feeding into the expected credit loss model through reconciliation to underlying records, including sampling to underlying source data.<br><br>We tested the appropriateness of the key assumptions within this model such as impairment triggers, indexed property valuations, probability of defaults and discount periods, through a combination of independent recalculations and agreeing inputs to external data sources where applicable.<br><br>We considered the appropriateness of the source and type of macroeconomic variables. We assessed the reasonability of multiple economic scenarios used and weighting by considering the number of scenarios selected compared to market practices and through performing sensitivity analysis.<br><br>We tested the accuracy and completeness of the significant increase in credit risk criteria which drive the allocation between stages, and re-calculated a sample of these allocations.<br><br>We have assessed the completeness of post model adjustments for the year end by considering whether macro -economic factors such as increased inflation within the domestic economy has been adequately taken into consideration.<br><br>For a sample of Stage 3 loans, we considered the accuracy and completeness of forward looking multiple economic scenarios and the valuation of collateral to determine the loss given default.<br><br>On a sample basis, we verified that the collateral valuation is supported by an independent appraiser and evaluated the appraiser's qualification.<br><br>We assessed the adequacy and appropriateness of disclosures for compliance with the applicable accounting standards.<br><br>**Key observations:**<br><br>Based on our audit work performed, we consider the key assumptions and judgements made in calculating the impairment provision for loans and advances to be reasonable. |

### 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<br>£m | 2021<br>£m | 2022<br>£m | 2021<br>£m |
| **Materiality** | £418,000 | £305,000 | £397,000 | £295,000 |
| **Basis for determining materiality** | 1% of Net Assets | 0.75% of Net Assets | 95% of Group materiality | 95% 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 a main driver for the Group as well as the purpose of the Group which is to optimise rather than maximise profits.<br><br>We used 1% of Net Assets for 2022, constituting an increase of 0.25% as a result of our increased understanding of the Society and our underlying risk assessment factors. | | This has been limited to a percentage of Group financial statement materiality | This has been limited to a percentage of Group financial statement materiality |
| **Performance materiality** | 293,000 based on 70% of materiality | 213,000 based on 70% of materiality | 277,000 based on 70% of materiality | 206,000 based on 70% of materiality |
| **Basis for determining performance materiality** | On the basis of our risk assessment together with our assessment of the overall control environment and expected total value of known and likely misstatements, based on past experience, our judgement was that overall performance materiality for the Group and Society should be 70% (2021: 70%) of materiality. | | | |

*Component materiality*

We set materiality for components of the Group based on 95% of Group materiality dependent on the size and our assessment of the risk of material misstatement of that component. Component materiality for MBS Lending Limited has been set at £215,000 (2021: £33,000). We further applied performance materiality levels of 70% of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

*Reporting Threshold*

We agreed with the Audit and Compliance Committee that we would report to them all individual audit differences in excess of £12,000 (2021:£6,000). 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.

| | |
|---|---|
| **Annual business statement and directors' report** | In our opinion, based on the work undertaken in the course of the audit:<br>- The annual business statement and the directors' report have been prepared in accordance with the requirements of the Building Societies Act 1986;<br>- 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<br>- 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.<br>In the light of the knowledge and understanding of the Society and its environment obtained in the course of the audit, we have not identified any material misstatements in the directors' report. |
| **Matters on which we are required to report by exception** | We have nothing to report in respect of the following matters in relation to which the Building Societies Act 1986 requires us to report to you if, in our opinion:<br>- adequate accounting records have not been kept by the Society; or<br>- the financial statements are not in agreement with the accounting records; or<br>- we have not received all the information and explanations we require for our audit. |

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

In our opinion the information given on page 140 for the financial year ended 31 December 2022 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

### Responsibilities of directors

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

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

## Auditor's responsibilities for the audit of the financial statements

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

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

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

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

We gained an understanding of the legal and regulatory framework applicable to the 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 Building Societies Act 1986, Prudential Regulation Authority ("PRA") and Financial Conduct Authority ("FCA") regulations, pension legislation and tax legislation.

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

We assessed the susceptibility of the financial statements to material misstatement, including fraud and considered the fraud risk areas to be management override of control, revenue recognition in relation to the EIR accounting estimate, and loan loss provisioning.

Our procedures in response to the above included:

- obtaining an understanding of the control environment that the Group has in place for monitoring compliance with laws and regulations;
- 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.
- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with the relevant laws and regulations discussed above;
- making enquiries in respect of known or suspected fraud of management, internal audit and the Audit Committee;
- 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 agreeing them to supporting documentation, and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business; 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 and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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

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

## Use of our report

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

**Ariel Grosberg (Senior Statutory Auditor)**
**For and on behalf of BDO LLP, Statutory Auditor**
**London, UK**
**15 March 2023**

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

BDO UNITED KINGDOM

# Income Statements

## for the year ended 31 December 2022

| | Notes | Group 2022 £'000 | Society 2022 £'000 | Group 2021 £'000 | Society 2021 £'000 |
|---|---|---|---|---|---|
| Interest receivable and similar income | 2 | 19,972 | 18,829 | 13,879 | 12,893 |
| Interest payable and similar charges | 3 | (6,677) | (6,677) | (3,304) | (3,304) |
| **Net interest income** | | **13,295** | **12,152** | **10,575** | **9,589** |
| Other finance income | 8 | 128 | 128 | 93 | 93 |
| Fees and commissions receivable | 4 | 1,287 | 532 | 955 | 408 |
| Fees and commissions payable | | (509) | (274) | (418) | (198) |
| Other operating income | 4 | 99 | 724 | 146 | 633 |
| Other operating expense | 4 | (111) | (577) | - | (313) |
| Net gains from derivative financial instruments | 5 | 1,856 | 1,856 | 141 | 141 |
| **Total net income** | | **16,045** | **14,541** | **11,492** | **10,353** |
| Administrative expenses | 6 | (11,177) | (10,205) | (9,239) | (8,466) |
| Depreciation and amortisation | 17, 18 | (506) | (399) | (324) | (233) |
| **Operating profit before impairment losses and provisions** | | **4,362** | **3,937** | **1,929** | **1,654** |
| Loss on revaluation of investment property | 19 | (120) | (120) | (90) | (90) |
| Impairment provisions on loans and advances | 15 | (230) | (209) | (135) | (220) |
| Provision for liabilities | 26 | - | - | 5 | 5 |
| **Operating profit and profit before tax** | | **4,012** | **3,608** | **1,709** | **1,349** |
| Tax expense | 10 | (765) | (661) | (841) | (802) |
| **PROFIT FOR THE FINANCIAL YEAR** | | **3,247** | **2,947** | **868** | **547** |

Profit for the financial year arises from continuing operations.

Both the profit for the financial year and total comprehensive income for the year are attributable to the members of the Society.

# Statements of comprehensive income

## for the year ended 31 December 2022

| | Notes | Group 2022 £'000 | Society 2022 £'000 | Group 2021 £'000 | Society 2021 £'000 |
|---|---|---|---|---|---|
| Profit for the financial year | | 3,247 | 2,947 | 868 | 547 |
| **Items that will not be re-classified to the income statement** | | | | | |
| Remeasurements of defined benefit obligations | 8 | (2,111) | (2,111) | 396 | 396 |
| Tax on items that will not be re-classified | | 528 | 528 | (99) | (99) |
| **Items that may subsequently be re-classified to the income statement** | | | | | |
| Debt securities: net change in fair value | 12 | (136) | (136) | (114) | (114) |
| Tax on items that may subsequently be re-classified to the income statement | | 34 | 34 | 33 | 33 |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **1,562** | **1,262** | **1,084** | **763** |

The notes on pages 69 to 140 form part of these accounts.

# Statements of financial position

## as at 31 December 2022

| | Notes | Group 2022 £'000 | Society 2022 £'000 | Group 2021 £'000 | Society 2021 £'000 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Liquid assets | | | | | |
| Cash in hand and balances with the Bank of England | | 117,636 | 117,636 | 108,100 | 108,100 |
| Loans and advances to credit institutions | 11 | 15,535 | 15,143 | 12,575 | 12,332 |
| Debt securities | 12 | 4,214 | 4,214 | 5,143 | 5,143 |
| Derivative financial instruments | 13 | 9,786 | 9,786 | 1,193 | 1,193 |
| Loans and advances to customers | 14 | 555,757 | 484,807 | 481,752 | 420,056 |
| Investments in subsidiary undertakings | 16 | - | 70,421 | - | 61,295 |
| Intangible assets | 18 | 371 | 266 | 482 | 275 |
| Investment properties | 19 | 1,235 | 1,235 | 1,520 | 1,520 |
| Property, plant and equipment | 17 | 5,659 | 5,230 | 4,600 | 4,166 |
| Other assets | 20 | 934 | 675 | 427 | 334 |
| Deferred tax asset | 21 | 132 | 79 | 108 | 26 |
| Retirement benefit asset | 8 | 3,575 | 3,575 | 6,404 | 6,404 |
| **TOTAL ASSETS** | | **714,834** | **713,067** | **622,304** | **620,844** |

| | Notes | Group 2022 £'000 | Society 2022 £'000 | Group 2021 £'000 | Society 2021 £'000 |
|---|---|---|---|---|---|
| **LIABILITIES** | | | | | |
| Shares | 22 | 508,581 | 508,581 | 439,204 | 439,204 |
| Amounts owed to credit institutions | 23 | 131,880 | 131,880 | 118,244 | 118,244 |
| Amounts owed to other customers | 24 | 27,088 | 27,088 | 20,783 | 20,783 |
| Derivative financial instruments | 13 | 1,291 | 1,291 | 190 | 190 |
| Current tax | | 361 | 327 | 120 | 142 |
| Deferred tax | 21 | 1,607 | 1,585 | 2,128 | 2,081 |
| Other liabilities and accruals | 25 | 2,217 | 2,251 | 1,388 | 1,398 |
| **TOTAL LIABILITIES** | | **673,025** | **673,003** | **582,057** | **582,042** |
| **RESERVES** | | | | | |
| General reserves | | 42,329 | 40,504 | 40,545 | 39,020 |
| Revaluation reserve | | (435) | (355) | (315) | (235) |
| Fair value reserve | | (85) | (85) | 17 | 17 |
| **TOTAL RESERVES ATTRIBUTABLE TO MEMBERS OF THE SOCIETY** | | **41,809** | **40,064** | **40,247** | **38,802** |
| **TOTAL LIABILITIES AND RESERVES** | | **714,834** | **713,067** | **622,304** | **620,844** |

The notes on pages 69 to 140 form part of these accounts.

These accounts were approved by the Board of Directors on 15 March 2023 and were signed on its behalf by:

**F A Pollard**
Chair

**S J Taylor**
Chief Executive

**A J Lumby**
Chief Financial Officer

# Statements of changes in members' interests

## for the year ended 31 December 2022

| | General reserves £'000 | Revaluation reserve £'000 | Fair Value reserve £'000 | Total £'000 |
|---|---|---|---|---|
| **Group 2022** | | | | |
| Balance as at 1 January 2022 | 40,545 | (315) | 17 | 40,247 |
| Profit for the year | 3,367 | (120) | - | 3,247 |
| Other comprehensive income for the year (net of tax) | | | | |
| Net losses from changes in fair value | - | - | (102) | (102) |
| Remeasurement of defined benefit obligations | (1,583) | - | - | (1,583) |
| Total other comprehensive income | (1,583) | - | (102) | (1,685) |
| Total comprehensive income / (expense) for the year | 1,784 | (120) | (102) | 1,562 |
| **Balance as at 31 December 2022** | **42,329** | **(435)** | **(85)** | **41,809** |
| | | | | |
| **Society 2022** | | | | |
| Balance as at 1 January 2022 | 39,020 | (235) | 17 | 38,802 |
| Profit for the year | 3,067 | (120) | - | 2,947 |
| Other comprehensive income for the year (net of tax) | | | | |
| Net losses from changes in fair value | - | - | (102) | (102) |
| Remeasurement of defined benefit obligations | (1,583) | - | - | (1,583) |
| Total other comprehensive income | (1,583) | - | (102) | (1,685) |
| Total comprehensive income / (expense) for the year | 1,484 | (120) | (102) | 1,262 |
| **Balance as at 31 December 2022** | **40,504** | **(355)** | **(85)** | **40,064** |

| | General reserves £'000 | Revaluation reserve £'000 | Fair Value reserve £'000 | Total £'000 |
|---|---|---|---|---|
| **Group 2021** | | | | |
| Balance as at 1 January 2021 | 39,290 | (225) | 98 | 39,163 |
| Profit for the year | 958 | (90) | - | 868 |
| Other comprehensive income for the year (net of tax) | | | | |
| Net losses from changes in fair value | - | - | (81) | (81) |
| Remeasurement of defined benefit obligations | 297 | - | - | 297 |
| Total other comprehensive income / (expense) | 297 | - | (81) | 216 |
| Total comprehensive income / (expense) for the year | 1,255 | (90) | (81) | 1,084 |
| **Balance as at 31 December 2021** | **40,545** | **(315)** | **17** | **40,247** |
| | | | | |
| **Society 2021** | | | | |
| Balance as at 1 January 2021 | 38,086 | (145) | 98 | 38,039 |
| Profit for the year | 637 | (90) | - | 547 |
| Other comprehensive income for the year (net of tax) | | | | |
| Net losses from changes in fair value | - | - | (81) | (81) |
| Remeasurement of defined benefit obligations | 297 | - | - | 297 |
| Total other comprehensive income / (expense) | 297 | - | (81) | 216 |
| Total comprehensive income / (expense) for the year | 934 | (90) | (81) | 763 |
| **Balance as at 31 December 2021** | **39,020** | **(235)** | **17** | **38,802** |

# Cash Flow Statements

## for the year ended 31 December 2022

| | Group 2022 £'000 | Society 2022 £'000 | Group 2021 £'000 | Society 2021 £'000 |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Profit before tax | 4,012 | 3,608 | 1,709 | 1,349 |
| Depreciation and amortisation | 506 | 399 | 324 | 233 |
| Revaluation of investment properties | 120 | 120 | 90 | 90 |
| Loss on disposal of property, plant and equipment | 16 | 16 | - | - |
| Loss on disposal of intangible assets | 34 | 34 | - | - |
| Net gain/loss on derivative financial instruments including unrealised accrued interest | (2,122) | (2,122) | (128) | (128) |
| Increase in impairment of loan and advances | 230 | 209 | 76 | 161 |
| **Total** | **2,796** | **2,264** | **2,071** | **1,705** |
| | | | | |
| **Changes in operating assets and liabilities** | | | | |
| Increase in other assets | (509) | (340) | (52) | (55) |
| Increase in other liabilities | 888 | 913 | 123 | 357 |
| Decrease in provisions for liabilities | - | - | (5) | (5) |
| Increase in loans and advances to customers | (79,844) | (70,569) | (71,250) | (51,960) |
| Increase / (decrease) in shares | 69,616 | 69,616 | (38,021) | (38,021) |
| Increase in amounts owed to credit institutions and other customers | 19,941 | 19,941 | 74,655 | 74,655 |
| Decrease in retirement benefit asset | 718 | 718 | 630 | 630 |
| Taxation paid | (504) | (464) | (306) | (239) |
| **Net cash from operating activities** | **13,102** | **22,079** | **(32,155)** | **(12,933)** |

| | Group 2022 £'000 | Society 2022 £'000 | Group 2021 £'000 | Society 2021 £'000 |
|---|---|---|---|---|
| **Cash flows from investing activities** | | | | |
| Purchase of debt securities | (1,000) | (1,000) | (1,000) | (1,000) |
| Disposal and maturity of debt securities | 1,793 | 1,793 | 12,372 | 12,372 |
| Purchase of property, plant and equipment | (1,376) | (1,376) | (175) | (175) |
| Purchase of intangible assets | (128) | (128) | (285) | (218) |
| Proceeds from sale of investment property | 165 | 165 | - | - |
| (Increase) in loan to subsidiary undertakings | - | (9,126) | - | (19,487) |
| **Net cash from investing activities** | **(546)** | **(9,672)** | **10,912** | **(8,508)** |
| | | | | |
| **Cash flows from financing activities** | | | | |
| Principle lease payments | (60) | (60) | - | - |
| **Net cash from financing activities** | **(60)** | **(60)** | **-** | **-** |
| | | | | |
| Net increase / (decrease) in cash and cash equiva-lents | 12,496 | 12,347 | (21,243) | (21,441) |
| Cash and cash equivalents at 1 January | 120,675 | 120,432 | 141,918 | 141,873 |
| **Cash and cash equivalents at 31 December** | **133,171** | **132,779** | **120,675** | **120,432** |

Interest received was £20.0m (2021: £13.9m) and interest paid was £6.7m (2021: £3.3m).
For the purposes of the cash flow statements, cash and cash equivalents comprise the following balances with less than 90 days maturity:

| | | | | |
|---|---|---|---|---|
| Cash in hand and balances with the Bank of England | 117,636 | 117,636 | 108,100 | 108,100 |
| Loans and advances to credit institutions repayable in not more than 3 months | 15,535 | 15,143 | 12,575 | 12,332 |
| | **133,171** | **132,779** | **120,675** | **120,432** |

# Notes To The Accounts

## 1. Principal accounting policies

The principal accounting policies applied in the preparation of these annual accounts are set out below.

### a) 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 in conformity with those parts of the Building Societies (Accounts and Related Provisions) Regulations 1998 and the Building Societies Act 1986.

The annual accounts are prepared under the historical cost convention as modified by debt securities measured at Fair Value through Other Comprehensive Income (FVOCI) assets, derivative financial instruments classified as Fair Value through Profit & Loss (FVTPL) and investment properties which are measured using the revaluation model and carried at fair value.

The annual accounts are presented in pounds Sterling, and except where otherwise indicated, have been rounded to the nearest thousand.

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

### b) Going Concern

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

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

### c) Changes in accounting policy and future accounting developments

There are no new standards that are expected to have a significant impact on the Group.

### d) Basis of consolidation

A subsidiary is an entity controlled by the Society. Control exists when the Society is exposed, or has rights to variable returns from its involvement with an entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and de-consolidated from the date that control ceases. All entities have accounting periods ending 31 December.

The Group accounts consolidate the assets, liabilities and results of the Society and all of its subsidiaries, eliminating intercompany balances and transactions. The results of subsidiary undertakings acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date that ownership ceases.

Acquisitions of businesses are accounted for using the acquisition method. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Income Statement.

## 1. Principal accounting policies (continued)

When an acquisition is achieved in stages, as is the case with taking control of an associated undertaking, the previous non-controlling equity interest held in the entity is re-measured at fair value at the acquisition date and any gain or loss arising is recognised in the Income Statement. The normal acquisition method of accounting is then applied, with the cost of acquisition and fair value of the previous equity interest compared to the fair value of the Group's share of the identifiable net assets acquired to give the value of any goodwill or gain on acquisition.

In the Society, investments in subsidiary undertakings are carried at cost less any provisions for impairment.

### e) Interest income and expense

Interest income and interest expense for all interest bearing financial instruments are recognised in interest receivable or interest payable using the effective interest rates of the financial assets or financial liabilities to which they relate. The effective interest rate is the rate that discounts the expected future cash flows, over the expected life of the financial instrument, to the net carrying amount of the financial asset or liability. Any changes to the expected life assumptions of the financial instruments are recognised through interest receivable or payable and reflected in the carrying value of the financial asset or liability.

Interest income is recognised on the gross loan balance before provisions for non-impaired (Performing and Underperforming) loans, and on the net loan balance after provisions for loans that have become impaired (Non-performing) subsequent to initial recognition. If the asset is no longer impaired, then the calculation of interest income reverts to the gross basis.

The key assumptions used in the effective interest rate calculation and sensitivities are outlined in Note 1(s).

### f) Fees and commissions receivable and payable

Fees which are an integral part of the effective interest rate of a financial instrument are recognised as an adjustment to the effective interest rate and recorded in interest receivable or payable. For mortgage products, this includes application and completion fees received, cashback incentives, mortgage indemnity guarantee (MIG) costs and procuration fees paid.

Other fees, commissions and costs are recognised as follows:

- Transaction based fees relating to mortgages and savings products that are not included in the effective interest rate calculation, are recognised when the transaction takes place.
- Introducer commission received from third party product providers following the introduction of customers is recognised at the point at which the customer enters into an arrangement with the provider. Annual renewal commission received relating to third party product providers is recognised in the period to which it relates.
- Administration and servicing fees received by the Society from subsidiaries relating to services provided on an ongoing basis are recognised in the period to which the service relates.

### g) Derivative financial instruments and hedge accounting

All derivatives are held for risk management purposes. Derivatives are measured at fair value in the Statement of Financial Position.

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 relationship between the hedging instruments and hedged items is formally documented, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. An assessment is made, both at 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.

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 and are measured at fair value in the Statement of Financial Position. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Fair values are obtained by applying quoted market rates to a discounted cash flow model. Changes in the fair

## 1. Principal accounting policies (continued)

value of derivatives are recognised immediately in the Income Statement (Fair Value through Profit & Loss) 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.

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 hedged 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. Any gain or loss made on sale or termination of a hedging derivative is recognised immediately in the Income Statement.

Changes in the fair value of derivatives that do not qualify for hedge accounting are recognised immediately in the Income Statement in the period in which they arise.

### h) Financial assets

Financial assets comprise cash, loans and advances to credit institutions, debt securities, derivative financial instruments and loans and advances to customers. The Group classifies non-derivative financial assets as measured at either amortised cost, FVOCI or FVTPL depending on the business model for managing the assets and the contractual cash flow characteristics. Management determines the classification of financial assets at initial recognition.

#### *i) Amortised Cost*

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as FVTPL;

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payment of principal and interest (SPPI)

Assets held at amortised cost are initially recognised at fair value, which is the fair value of the consideration paid to originate the asset including any directly attributable costs, and subsequently measured at amortised cost using the effective interest rate method.

The following financial assets are classified as amortised cost:

- Cash in hand and balances with the Bank of England;
- Loans and advances to credit institutions; and
- Loans and advances to customers

#### *ii) Fair Value through Other Comprehensive Income (FVOCI)*

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as FVTPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

Debt securities are measured at FVOCI.

FVOCI assets are initially recognised at fair value, which is the fair value of the consideration paid to originate the asset including any directly attributable costs, and subsequently measured at fair value with gains and losses recognised in Other Comprehensive Income except for impairment losses which are recognised in the Income Statement. The fair values of FVOCI assets are based on quoted prices. Interest income is recognised in the Income Statement using the effective interest rate method.

Upon sale or maturity of the asset, the cumulative gains and losses recognised in Other Comprehensive Income are reclassified from Other Comprehensive Income to the Income Statement.

## 1. Principal accounting policies (continued)

### *iii) Fair Value through Profit & Loss (FVTPL)*

Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL.

Derivative financial instruments are recognised as FVTPL.

### *Business model assessment*

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes the stated policies and objectives for the portfolio and the operation of those policies in practice, how the performance of the portfolio is evaluated and reported to management, the risks that affect the performance of the business model and how they are managed, and the frequency and volume of assets sales and reasons for them.

### *SPPI assessment*

In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instrument. This includes assessing whether the instrument contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition, such as contingent events or leverage features.

### *Modifications of financial assets and liabilities*

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset have substantially changed. If the cash flows have substantially changed then the original asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs.

If the cash flows of a financial asset measured at amortised cost or FVOCI have not substantially changed then the revised carrying amount of the financial asset is calculated using the original effective interest rate. If the cash flows are modified when the borrower is in financial difficulties and this involves the waiving of cash flows, then the Group considers whether a portion of the asset should be written off before the modification occurs.

### *Write-off*

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering the asset (either partially or in full). This is generally the case when the Group determines that the borrower does not have the assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. Recoveries of amounts previously written off are included within 'impairment losses on loans and advances' within the Income Statement.

## i) Financial liabilities

All non-derivative financial liabilities including shares and deposits, held by the Group are recognised initially at fair value, being the amount received, net of discounts and directly attributable costs incurred.

Financial liabilities are subsequently measured at amortised cost with interest payable recognised in the Income Statement using the effective interest rate method.

## j) Impairment of financial assets

The Group recognises loan loss provisions on all financial assets held at amortised cost and FVOCI using a forward-looking expected credit loss (ECL) model.

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 ECLs requires an assessment of forward looking economic assumptions which are determined on a probability-weighted basis.

A three stage approach to impairment is used:

- Stage 3: Credit risk has increased such that losses are incurred or the asset is considered credit impaired ('Non-performing assets');
- Stage 2: A significant increase in credit risk (SICR) has occurred since origination ('Underperforming assets'); and
- Stage 1: No significant increase in credit risk since origination ('Performing assets').

## 1. Principal accounting policies (continued)

The Group has characterised a financial asset as Non-performing when it meets any of the following criteria:

- Loan is greater than or equal to 3 months in arrears; or
- Borrower is deceased or declared bankrupt.

The Group has characterised a financial asset as Underperforming when it meets any of the following criteria:

- A significant increase in the likelihood of default by the borrower since origination of the loan as evidenced by an external credit score;
- Is greater than or equal to 1 month in arrears (but less than 3 months in arrears);
- Forbearance has been applied to the loan, such as granting an interest-only period, a reduced monthly payment or a full payment holiday;
- Interest Only Term Expiry;
- Buy-to-Let loans that are forecast to have an Interest Coverage Ratio below Group internal policy limits at product term expiry; or
- Other evidence of potential impairment, such as evidence that the borrower or counterparty is in financial difficulty.

All other financial assets are classified as Performing. Provisions for Performing assets are based on an ECL over a 12 month period, being that portion of the ECL that is possible within the 12 months from the reporting date. Provisions for Non-performing and Underperforming assets are based on an ECL over the assets expected life.

In determining ECLs, the Group has considered four economic scenarios, based on different house price index and unemployment assumptions, and weighted these according to their likely occurrence. The scenarios include a Central scenario, based on the current economic environment, an Upside scenario, a Downside scenario and a Severe downturn scenario based on that used by the Bank of England to test the capital adequacy of firms within the UK banking system.

The PD, LGD and economic scenario assumptions are subject to periodic reassessment, on at least an annual basis. PD and LGD assumption are assessed using actual arrears and loss experience for validation purposes, while economic scenario assumptions are based on external data where possible to ensure the scenarios are unbiased. Sensitivity analysis is undertaken to assess the significance of assumptions used. As a result, the following areas are considered to be key assumptions:

- Future economic forecasts, particularly relating to changes in house prices;
- The weighting given to the different economic scenarios; and
- The extent to which the borrower credit score can reduce before it is considered to constitute a significant increase in credit risk.

In addition, additional provisions may be made on an individual basis where there are significant emerging impairment characteristics, further evidence of impairment or where the standard provision calculations do not reduce the carrying value of the mortgage asset to the expected recoverable amount.

The Group reviews the external credit ratings of its liquid assets, which include Cash in hand and balances with the Bank of England, Loans and advances to credit institutions and debt securities at each reporting date. Those assets which are investment grade or higher are considered to have a low credit risk and therefore assumed to have not had a significant increase in credit risk since initial recognition.

The key assumptions used in the loan loss provision calculation and sensitivities are outlined in Note 1(u)(ii).

### k) Forbearance

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 such borrowers including agreeing a reduced monthly payment, transfer to interest only payments or extension of the mortgage term. Forbearance measures are only provided to borrowers following a full assessment of their circumstances. Accounts on which forbearance has been provided are monitored and borrowers are expected to resume normal payments, including any increase to repay the mortgage at the end of the agreed term, once they are able. Loans that receive forbearance may only be classified as up-to-date once six months' normal payments have been received.

## 1. Principal accounting policies (continued)

### l) Derecognition of financial assets and liabilities

Financial assets are derecognised when the contractual right to receive the cash flows from the financial asset expires or where substantially all the risks and rewards of ownership have been transferred.

Financial liabilities are derecognised only when the obligation is discharged, cancelled or has expired.

### m) Intangible assets – computer software

Computer software which is not an integral part of the related hardware is recorded as an intangible asset. The identifiable and directly associated external and internal costs of acquiring and developing software are capitalised where the software is controlled by the Group, and where it is probable that future economic benefits that exceed its cost will flow from its use over more than one year.

Intangible assets are held at cost with amortisation charged to the Income Statement on a straight-line basis over the estimated useful life of 3 to 5 years. Intangible assets are subject to regular impairment reviews. Costs associated with maintaining software are recognised as an expense when incurred.

### n) Property, plant and equipment

Additions and improvements to office premises and equipment, including costs directly attributable to the acquisition of the asset, are capitalised at cost. The costs, less estimated residual values of assets, are depreciated on a straight-line basis over their estimated useful economic lives as follows:

- Office equipment - 3 to 8 years straight line basis.
- Motor vehicles - 30% per annum reducing balance basis.
- Freehold buildings - 50 years straight line basis.
- Refurbishment of premises - 5 to 10 years straight line basis.
- Freehold land is not depreciated.

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

### o) Investment properties

Investment properties are properties held for long-term rental yields and capital appreciation. Investment properties are carried in the Statement of Financial Position at fair value, representing open market value determined annually by an external valuer. Changes in fair values are recorded in the Income Statement and transferred to the Revaluation Reserve.

### p) Employee benefits

The Group operates a pension scheme consisting of a defined benefit section in respect of members' service up to its curtailment on 30 September 2008 and a defined contribution section which commenced on 1 October 2008.

The assets of the defined benefit section are measured at market value at each Statement of Financial Position date and the liabilities are measured using the projected unit valuation method, by a qualified actuary, discounted using a corporate bond rate. The resultant pension scheme surplus is recognised as an asset in the Statement of Financial Position and represents the total of future economic benefits that will flow to the Group.

The Group has an unconditional right to a refund which will be utilised through funding Employer contributions to the defined contribution section.

Net interest, comprising interest income on plan assets less interest costs on scheme liabilities, and other expenses relating to the defined benefit pension scheme are recognised in the Income Statement. Actuarial gains or losses, that is gains or losses arising from differences between previous actuarial assumptions and actual experience, are recognised in Other Comprehensive Income.

For the defined contribution section, contributions are recognised as an employee benefit expense in the Income Statement when they are due, in accordance with the rules of the scheme.

### q) Leases

A leased asset under IFRS 16 is recognised in the Statement of Financial Position as a separate right-of-use asset and a matching lease liability, measured at the value of future lease payments discounted at the marginal cost of funding. Depreciation of the asset on a straight-line basis over the term of the lease and an interest expense on the lease liability at the

## 1. Principal accounting policies (continued)

marginal cost of funding, are recognised in the Income Statement. Where leases contain options and break clauses, the term of the lease is adjusted to reflect the expected lease term.

Right-of-use assets are included in Property, plant and equipment and lease liabilities are included in Other liabilities.

### r) Taxation

Income tax on the profit or loss for the year comprises current tax 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 within the Statement of Comprehensive Income.

Current tax is the expected tax payable on the taxable income for the year, using the tax rate which applies to the accounting period, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided in full, using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are recognised gross 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.

Deferred tax is determined using tax rates that have been substantively enacted by the year end date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

### s) Provisions and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Contingent liabilities are potential obligations that arise from past events and whose existence will be confirmed only by uncertain future events. Contingent liabilities are disclosed but not recognised in the Statement of Financial Position.

### t) Cash and cash equivalents

For the purposes of the cash flow statement, cash compromises cash in hand and loans and advances to credit institutions repayable on demand. Cash equivalents compromise highly liquid investments that are convertible into cash with maturities of 90 days or less.

### u) Accounting assumptions and estimates

The Group makes assumptions and estimates that affect the reported amounts of assets and liabilities. The assumptions and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### *i) Employee benefits*

The Group operates a defined benefit pension scheme. Significant assumptions have to be exercised in estimating the value of the scheme liabilities, and hence of its net surplus, including areas as future interest rates, inflation rates and mortality rates. The Board receives advice from an external qualified actuary in making these judgements.

The assumptions used in the valuation of scheme liabilities and key sensitivities are outlined in Note 8.

#### *ii) Impairment losses on loans and advances to customers*

In determining whether an impairment loss should be recorded, the Group is required to incorporate several assumptions and estimates into its modelling, changes in which could affect the carrying amounts of financial assets. Impairment provisions are calculated using historical arrears experience, modelled credit risk characteristics and expected cashflows. Estimates are applied to determine prevailing market conditions (e.g. interest rates and house prices), customer behaviour (e.g. default rates) and the length of time expected to complete the sale of properties in possession.

The Group's impairment models incorporate four macroeconomic forecasts (central, upside, downside and severe downside), each comprising a number of economic variables considered to be key credit risk drivers.

## 1. Principal accounting policies (continued)

The following table details the weightings applied to the IFRS 9 macroeconomic scenarios, along with the sensitivity to the total impairment provision arising from the application of a 100% weighting to each scenario and a 10% increase to each scenario (an equivalent 10% reduction being applied to the central scenario).

| 2022<br>Scenario | Weighting | Increase/(decrease) in provision with 100% scenario weighting £'000 | Increase/(decrease) in provision with 10% increase in scenario weighting £'000 |
|---|---|---|---|
| Central | 45% | (225) | - |
| Upside | 10% | (295) | (7) |
| Downside | 30% | (40) | 18 |
| Severe downside | 15% | 951 | 118 |

| 2021<br>Scenario | Weighting | Increase/(decrease) in provision with 100% scenario weighting £'000 | Increase/(decrease) in provision with 10% increase in scenario weighting £'000 |
|---|---|---|---|
| Central | 45% | (230) | - |
| Upside | 15% | (283) | (5) |
| Downside | 25% | 86 | 32 |
| Severe downside | 15% | 829 | 106 |

Each macroeconomic forecast includes a number of economic variables, including the forecast of future house price inflation and assumptions used to identify a significant increase in credit risk. The sensitivity of the provision calculations to the key assumptions in the current and prior year is as follows:

| Assumption | Sensitivity | Increase/(decrease) in provision 2022 £'000 | Increase/(decrease) in provision 2021 £'000 |
|---|---|---|---|
| HPI | + 10% | (188) | (211) |
| HPI | - 10% | 308 | 293 |
| Change in borrowers credit scores to constitute a significant increase in credit risk | + 20% | (2) | (11) |
| Change in borrowers credit scores to constitute a significant increase in credit risk | - 20% | 46 | 24 |

At 31 December 2022, the Group has recognised post model adjustments to reflect ongoing uncertainties not included in modelling. This required the use of management judgement and estimation to determine the level of adjustment to be recognised. This is detailed in note 15.

## 1. Principal accounting policies (continued)

### *iii) Effective interest rate*

The Effective Interest Rate (EIR) method uses significant accounting estimates in relation to the expected life of the mortgages and the expected Standard Variable Rate of interest (SVR) which will apply at the end of the initial product term. These factors determine the assumed period and rate at which customers pay SVR which is a key estimate to the EIR calculation.

During the year, an adjustment was applied to these estimates to reduce the expected time customers will be paying SVR compared to previous assumptions. As a result of these changes, a charge of £146,000 has been recognised in the Income Statement to reflect these changes to accounting estimate.

An increase/decrease of 1 month in the expected life of mortgages results in a £0.03m increase (£nil decrease) in the carrying value of mortgages in the Statement of Financial Position at the year-end and a corresponding change to income.

### *iv) Fair value of derivatives and financial assets*

The Group employs the following techniques in determining the fair value of its derivatives and financial assets:

- Derivative financial instruments – calculated by discounted cash flow models using yield curves that are based on observable market data.

A 1% upwards (1% downwards) parallel shift in the yield curve results in a £2.6m increase (£2.7m decrease) in the total net fair value of derivative financial instruments at the year-end.

## 2. Interest receivable and similar income

| | Group 2022 £'000 | Society 2022 £'000 | Group 2021 £'000 | Society 2021 £'000 |
|---|---|---|---|---|
| On loans fully secured on residential property | 16,554 | 12,939 | 13,439 | 10,756 |
| On other loans | 1,185 | 1,185 | 415 | 415 |
| On other loans to subsidiary undertakings | - | 2,472 | - | 1,697 |
| On debt securities | 40 | 40 | 53 | 53 |
| On other liquid assets | 1,638 | 1,638 | 122 | 122 |
| Net interest income / (expense) on derivatives | 555 | 555 | (150) | (150) |
| | **19,972** | **18,829** | **13,879** | **12,893** |

Interest on loans fully secured on residential property includes interest accrued on impaired residential mortgages assets: Group £154,000 (2021: £195,000) and Society £64,000 (2021: £84,000).

Interest on other loans includes interest accrued on impaired residential mortgages assets: Group £47,000 (2021: £67,000) and Society £47,000 (2021: £67,000).

Interest on debt securities includes £40,000 (2021: £53,000) in respect of income from fixed income securities.

## 3. Interest payable and similar charges

| | Group & Society 2022 £'000 | Group & Society 2021 £'000 |
|---|---|---|
| On shares held by individuals | 4,762 | 3,190 |
| On other shares | 13 | 12 |
| On deposits and other borrowings | 1,972 | 102 |
| Net interest income on derivatives | (76) | (3) |
| Other interest | 6 | 3 |
| | **6,677** | **3,304** |

## 4. Other operating income

| | Group 2022 £'000 | Society 2022 £'000 | Group 2021 £'000 | Society 2021 £'000 |
|---|---|---|---|---|
| Other operating income includes: | | | | |
| Rent receivable on investment property | 74 | 74 | 191 | 191 |
| Operating expenses on investment property | - | - | (3) | (3) |
| Other | 25 | 650 | (42) | 445 |
| | **99** | **724** | **146** | **633** |

'Other' income within the Society includes administration and servicing fees charged or recharged during the year to or from its subsidiaries MBS Lending Limited a charge of £603,000 (2021: £472,000), Nexa Finance Limited a recharge of £14,000 (2021: a charge of £24,000) and MMBS Services Limited a charge of £8,000 (2021: £8,000).

'Other operating expense' within the Society includes management fees paid to its subsidiary Nexa Finance Limited of £504,000 (2021: £313,000).

Fees and commissions receivable for the Group include mortgage related fees of £861,000 (2021: £698,000), commission income of £59,000 (2021: £61,000) and other sundry income of £367,000 (2021: £196,000).

Fees and commissions receivable for the Society include mortgage related fees of £393,000 (2021: £284,000), commission income of £36,000 (2021: £43,000) and other sundry income of £103,000 (2021: £81,000).

Fees and commissions are recognised at the time the transaction takes place.

## 5. Net gains from derivative financial instruments

| | Group & Society 2022 £'000 | Group & Society 2021 £'000 |
|---|---|---|
| Derivatives in designated fair value hedge relationships | 7,349 | 1,130 |
| Adjustments to hedged items in fair value hedge accounting relationships | (5,400) | (989) |
| Derivatives not in designated fair value hedge relationships | (93) | - |
| | **1,856** | **141** |

The Society has elected to continue applying IAS 39 'Financial Instruments' for derivatives designated as hedging instruments in qualifying hedging relationships.

## 6. Administrative expenses

| | Group 2022 £'000 | Society 2022 £'000 | Group 2021 £'000 | Society 2021 £'000 |
|---|---|---|---|---|
| Staff costs: | | | | |
| Wages and salaries | 5,504 | 4,959 | 4,683 | 4,228 |
| Social security costs | 570 | 509 | 427 | 382 |
| Pension costs: | | | | |
| Expenses related to the defined benefit section | 105 | 105 | 110 | 110 |
| Contributions to the defined contribution section | 741 | 655 | 613 | 537 |
| Other administrative expenses | 4,257 | 3,977 | 3,406 | 3,209 |
| | **11,177** | **10,205** | **9,239** | **8,466** |
| Other administrative expenses include: | | | | |
| Remuneration of the Auditors and their associates (excluding VAT): | | | | |
| Statutory Audit of the Annual Report and Accounts | 228 | 228 | 147 | 147 |
| Statutory Audit of the financial statements of subsidiaries | 71 | - | 46 | - |
| Other assurance services | 19 | 19 | 15 | 15 |

## 7. Employees

| | Group 2022 | Society 2022 | Group 2021 | Society 2021 |
|---|---|---|---|---|
| The average number of persons employed during the year was: | | | | |
| Full time | 97 | 91 | 82 | 77 |
| Part time | 37 | 34 | 32 | 30 |
| | **134** | **125** | **114** | **107** |
| | | | | |
| Central administration | 114 | 105 | 96 | 89 |
| Branches | 20 | 20 | 18 | 18 |
| | **134** | **125** | **114** | **107** |

## 8. Retirement benefit obligations

The Melton Mowbray Building Society Staff Pension and Life Assurance Scheme contains a defined benefit section and a defined contribution section.

### (a) Defined benefit section

| | Group & Society 2022 £'000 | Group & Society 2021 £'000 |
|---|---|---|
| **Defined benefit pension scheme asset** | **3,575** | **6,404** |

The Group defined benefit section was closed to future accrual with effect from 30 September 2008. The assets of the scheme are held separately from those of the Group in an independently administered fund. The Society does not expect to contribute to its defined benefit section in the next financial year.

A full actuarial valuation of the defined benefit section was carried out by the Scheme Actuary as at 31 December 2020 and updated to 31 December 2022 by an independent actuary, allowing for the actuarial method and assumptions prescribed under IAS 19 'Employee Benefits'. The scheme assets include no property occupied by, or other assets used by, the Society.

In December 2022 an agreement was reached to transfer to Just Group Plc the remaining pension liabilities in the defined benefit scheme with the exception of any additional liabilities arising from GMP equalisation. The Group disposed of assets totalling £4.5m in exchange for transferring the long term risk of managing the liability through the purchase of annuities. The premium paid resulted in an investment loss of £1.5m. The transaction has resulted in a decrease in the defined benefit pension scheme asset and a corresponding entry through the statement of other comprehensive income for 2022.

## 8. Retirement benefit obligations (continued)

| Principal actuarial assumptions at the Statement of Financial Position date (expressed as weighted averages): | Group & Society 2022 | Group & Society 2021 |
|---|---|---|
| Discount rate | 4.99% | 2.00% |
| Future increases of pensions in payment, split: | | |
| Inflation linked (RPI) up to 5% | 3.20% | 3.30% |
| Inflation linked (CPI) up to 3% | 2.60% | 2.60% |
| Mortality: | | |
| Actuarial tables used | S3PA Year of Birth Projected using CMI 2021 M / F subject to 1.25% / 1.25% minimum improvement rate for males / females | S3PA Year of Birth Projected using CMI 2020 M / F subject to 1.25% / 1.25% minimum improvement rate for males / females |
| Male / female life expectancy from age 60 at year end date | 25.0 / 27.5 | 25.0 / 27.8 |
| Male / female life expectancy from age 60 at year end date plus 20 years | 26.5 / 29.0 | 26.5 / 29.2 |

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.

| Principal actuarial assumptions | Change in assumption | Group & Society 2022 £'000 | Group & Society 2021 £'000 |
|---|---|---|---|
| Discount rate | + 0.1% | (170) | (331) |
| | - 0.1% | 173 | 339 |
| | | | |
| Price inflation | + 0.1% | 168 | 319 |
| | - 0.1% | (172) | (325) |
| | | | |
| Mortality | + 1 year | 443 | 909 |
| | - 1 year | (446) | (894) |

## 8. Retirement benefit obligations (continued)

| | Group & Society 2022 £'000 | Group & Society 2021 £'000 |
|---|---|---|
| The amounts recognised in the Statement of Financial Position are as follows: | | |
| Fair value of scheme assets | 17,326 | 27,239 |
| Present value of funded obligations | (13,751) | (20,835) |
| **Retirement benefit asset** | **3,575** | **6,404** |
| | | |
| The amounts recognised in the Income Statement are as follows: | | |
| Current service cost | 23 | 19 |
| Non-investment related expenses | 82 | 91 |
| Contributions to the defined contribution section | 741 | 613 |
| Service cost | 846 | 723 |
| Net interest on the defined benefit asset | (128) | (93) |
| **Total recognised in the Income Statement** | **718** | **630** |

Service costs are recognised within administrative expenses whilst net interest on the defined benefit asset is disclosed as Other finance income. There was £nil past service cost incurred in 2022 (2021: £nil). The total provision of £95,000 relates to the estimated cost of Guaranteed Minimum Pension equalisation between male and female members of the scheme.

| | | |
|---|---|---|
| The amounts recognised in Other Comprehensive Income are as follows: | | |
| Remeasurement (increase) of defined benefit obligation | (6,804) | (1,247) |
| Return loss on plan assets, excluding amounts included in net interest on the net defined benefit asset | 8,915 | 851 |
| **Total recognised in Other Comprehensive Income** | **2,111** | **(396)** |

The cumulative amount recognised outside the Income Statement in Other Comprehensive Income at 31 December 2022 is an actuarial loss of £4,147,000 (2021: £2,036,000).

## 8. Retirement benefit obligations (continued)

| | Group & Society 2022 £'000 | Group & Society 2021 £'000 |
|---|---|---|
| Changes in the present value of the defined benefit obligations are as follows: | | |
| Opening defined benefit obligation | 20,835 | 22,379 |
| Current service cost | 23 | 19 |
| Interest cost | 409 | 309 |
| Remeasurement arising from changes in demographic assumptions | (104) | 372 |
| Remeasurement arising from changes in financial assumptions | (7,506) | (1,971) |
| Remeasurement arising from experience | 806 | 352 |
| Benefits paid | (712) | (625) |
| **Closing defined benefit obligation** | **13,751** | **20,835** |
| | | |
| Changes in the fair value of scheme assets are as follows: | | |
| Opening fair value of scheme assets | 27,239 | 29,017 |
| Interest income | 537 | 402 |
| Actual return on plan assets, excluding interest income | (8,915) | (851) |
| Contributions to the defined contribution section | (741) | (613) |
| Benefits paid | (712) | (625) |
| Non-investment related expenses and other payments | (82) | (91) |
| **Closing fair value of scheme assets** | **17,326** | **27,239** |

The trustees have agreed with the Society that it can use the surplus to fund Employers contributions to the defined contribution scheme.

## 8. Retirement benefit obligations (continued)

Amounts for the current and previous periods are as follows:

| Group & Society | 2022 £'000 | 2021 £'000 | 2020 £'000 | 2019 £'000 | 2018 £'000 |
|---|---|---|---|---|---|
| Scheme assets | 17,326 | 27,239 | 29,017 | 30,162 | 29,137 |
| Defined benefit obligation | (13,751) | (20,835) | (22,379) | (21,511) | (20,490) |
| **Surplus** | **3,575** | **6,404** | **6,638** | **8,651** | **8,647** |
| | | | | | |
| Experience adjustments on scheme liabilities | 806 | 352 | (305) | (245) | 416 |
| Experience adjustments on scheme assets | (8,915) | (851) | (710) | 1,453 | (1,048) |

The duration of the scheme obligations as at 31 December 2022 was 13 years (2021: 16 years).

| The major categories of scheme assets as a percentage of total scheme assets are as follows: | Group & Society 2022 | Group & Society 2021 |
|---|---|---|
| Bonds | 11% | 16% |
| Annuities | 80% | 57% |
| Gilts | 0% | 26% |
| Cash | 9% | 1% |

The movement in asset categories has been driven by the transaction with Just Group Plc detailed on page 81. All bonds have quoted market prices in active markets.

### (b) Defined contribution section

The Group operates a defined contribution pension section of the scheme which opened on 1 October 2008. The assets of the scheme are held separately from those of the Group in independently administered funds.

The Group provides the option for all staff to sacrifice part of their salary in exchange for the Group making additional pension contributions on their behalf. The pension cost for the year, representing contributions payable by the Group including those made under salary sacrifice arrangements are shown below. There were no contributions payable by the Group outstanding at the year-end.

| | Group 2022 £'000 | Society 2022 £'000 | Group 2021 £'000 | Society 2021 £'000 |
|---|---|---|---|---|
| **Pension cost for the year** | **741** | **655** | **613** | **537** |

## 9. Directors' emoluments

Directors' remuneration totalling £736,000 (2021: £676,000) is shown as part of the Directors' Remuneration Report on pages 53 and 54.

## 10. Tax expense

### (a) Analysis of charge for the year in the Income Statement

| | Group 2022 £'000 | Society 2022 £'000 | Group 2021 £'000 | Society 2021 £'000 |
|---|---|---|---|---|
| UK corporation tax on profits for the year | 747 | 648 | 416 | 350 |
| Adjustment in respect of prior years | 1 | 1 | 9 | 9 |
| Total current tax | 748 | 649 | 425 | 359 |
| Deferred tax movement | 50 | 41 | 439 | 433 |
| Adjustment in respect of prior years | (33) | (29) | (23) | 10 |
| **Tax expense for the year in the Income Statement** | **765** | **661** | **841** | **802** |

### (b) Analysis of charge for the year in Other Comprehensive Income

| | Group 2022 £'000 | Society 2022 £'000 | Group 2021 £'000 | Society 2021 £'000 |
|---|---|---|---|---|
| UK corporation tax on profits for the year | - | - | - | - |
| Total current tax | - | - | - | - |
| Deferred tax movement | (562) | (562) | 66 | 66 |
| **Tax expense for the year in Other Comprehensive Income** | **(562)** | **(562)** | **66** | **66** |

## 10. Tax expense (continued)

### (c) Factors affecting total tax charge for the year in the Income Statement

The total tax charge for the year in the Income Statement differs to the standard rate of corporation tax in the UK of 19.00% (2021: 19.00%). The differences are explained below:

| | Group 2022 £'000 | Society 2022 £'000 | Group 2021 £'000 | Society 2021 £'000 |
|---|---|---|---|---|
| **Profit before tax** | **4,012** | **3,608** | **1,709** | **1,349** |
| Profit before tax multiplied by the UK standard rate of tax of 19.00% (2021: 19.00%) | 762 | 686 | 325 | 256 |
| Effects of: | | | | |
| Expenses not deductible for tax purposes | 42 | 24 | 26 | 18 |
| Losses claimed from fellow group companies | - | (15) | - | - |
| Effect of changes to tax rate on deferred tax | 9 | 10 | 473 | 477 |
| Deferred tax charged to other comprehensive income | - | - | 3 | 3 |
| Adjustment in respect of prior years | (32) | (28) | (15) | 19 |
| Other movements | (16) | (16) | 29 | 29 |
| **Tax expense for the year** | **765** | **661** | **841** | **802** |

## 11. Loans and advances to credit institutions

| | Group 2022 £'000 | Society 2022 £'000 | Group 2021 £'000 | Society 2021 £'000 |
|---|---|---|---|---|
| Amounts Repayable on demand | 15,535 | 15,143 | 12,575 | 12,332 |
| | **15,535** | **15,143** | **12,575** | **12,332** |

## 12. Debt securities

| | Group & Society 2022 £'000 | Group & Society 2021 £'000 |
|---|---|---|
| UK Government Gilts | 3,212 | 4,144 |
| UK bank and building society certificates of deposit | 1,002 | 999 |
| | **4,214** | **5,143** |

Movements during the year of debt securities are analysed as follows:

| | Group & Society 2022 £'000 | Group & Society 2021 £'000 |
|---|---|---|
| At 1 January | 5,143 | 16,629 |
| Additions | 1,000 | 1,000 |
| Disposals and maturities | (1,793) | (12,372) |
| Net losses from changes in fair value recognised in Other Comprehensive Income | (136) | (114) |
| **At 31 December** | **4,214** | **5,143** |

## 13. Derivative financial instruments

| | Notional amount £'000 | Fair values - Assets £'000 | Fair values - Liabilities £'000 |
|---|---|---|---|
| **Group & Society 2022** | | | |
| Unmatched derivatives - Interest rate swaps | 35,500 | 67 | (156) |
| Derivatives designated as fair value hedges - Interest rate swaps | 231,500 | 9,719 | (1,135) |
| **Total recognised derivative assets/(liabilities)** | **267,000** | **9,786** | **(1,291)** |

## 13. Derivative financial instruments (continued)

| | Notional amount £'000 | Fair values - Assets £'000 | Fair values - Liabilities £'000 |
|---|---|---|---|
| **Group & Society 2021** | | | |
| Unmatched derivatives - Interest rate swaps | 7,500 | - | (5) |
| Derivatives designated as fair value hedges - Interest rate swaps | 97,750 | 1,193 | (185) |
| **Total recognised derivative assets/(liabilities)** | **105,250** | **1,193** | **(190)** |

All derivative financial instruments are interest rate swaps held for risk management purposes and are all over-the-counter and bilaterally agreed.

By using derivative financial instruments to hedge exposures to changes in interest rates, the Group also exposes itself to credit risk of the derivative counterparty, which is not offset by the hedged item. The Group minimises counterparty credit risk in derivative instruments by entering into transactions with high-quality counterparties, subject to counterparty swap limits. No derivative instruments are subject to initial margin requirements. Agreements covering variation margin are in place with all swap counterparties where collateral is posted to mitigate the risk of loss through counterparty failure. However these are subject to market value limits which have not been triggered and therefore no collateral has been provided or received in respect of any derivative instruments held at the end of the year.

Derivatives transactions are entered into under International Swaps and Derivatives Association (ISDA) master netting agreements. The ISDA arrangements do not meet the criteria for offsetting assets and liabilities in the Statement of Financial Position because the right of set off is enforceable only following a default event by the Group or the counterparty. In addition, the Group and its counterparties do no intend to settle obligations on a net basis.

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 in offsetting changes in the fair value of the hedged item.

The Group establishes a hedge ratio by aligning the par amount of the fixed-rate loan or note 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 0.8;
- 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.

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 losses from derivative financial instruments.

At the end of the year, the Group held the following interest rate swaps as hedging instruments in fair value hedges of interest rate risk.

## 13. Derivative financial instruments (continued)

| | Maturity | | |
|---|---|---|---|
| | Less than 1 year £'000 | 1-5 years £'000 | More than 5 years £'000 |
| **Group & Society 2022** | | | |
| **Hedge of loans and advances** | | | |
| Nominal amount | 47,250 | 143,750 | - |
| Average fixed rate | 0.37% | 2.38% | - |
| | | | |
| **Hedge of shares** | | | |
| Nominal amount | 27,000 | 13,500 | - |
| Average fixed rate | 4.82% | 3.38% | - |
| | | | |
| **Group & Society 2021** | | | |
| **Hedge of loans and advances** | | | |
| Nominal amount | 10,250 | 87,000 | - |
| Average fixed rate | 0.61% | 0.42% | - |
| | | | |
| **Hedge of shares** | | | |
| Nominal amount | 4,000 | 4,000 | - |
| Average fixed rate | (0)% | 0.07% | - |

## 13. Derivative financial instruments (continued)

### Fair value hedges

The amounts relating to items designated as hedging instruments and hedge ineffectiveness were as follows:

| | Notional amount £'000 | Carrying amount | | Line item in the statement of financial position where the hedging instrument is included | Change in fair value used for calculating hedge ineffectiveness £'000 | Ineffectiveness recognised in profit and loss £'000 | Line item in profit and loss that includes hedge ineffectiveness |
|---|---|---|---|---|---|---|---|
| | | Assets £'000 | Liabilities £'000 | | | | |
| **Group & Society 2022** | | | | | | | |
| Interest rate swaps - hedge of loans and advances | 191,000 | 9,510 | (727) | Derivative financial instruments | 7,387 | 1,812 | Net gains from derivative financial instruments |
| Interest rate swaps - hedge of shares | 40,500 | 210 | (408) | Derivative financial instruments | (38) | 44 | Net gains from derivative financial instruments |
| **Group & Society 2021** | | | | | | | |
| Interest rate swaps - hedge of loans and advances | 97,250 | 1,193 | (16) | Derivative financial instruments | 1,316 | 159 | Net gains from derivative financial instruments |
| Interest rate swaps - hedge of shares | 8,000 | - | (174) | Derivative financial instruments | (186) | (18) | Net gains from derivative financial instruments |

## 13. Derivative financial instruments (continued)

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

| | Carrying amount | | Accumulated amount of fair value hedge adjustments on the hedged items included in the carrying amount of the hedged item | | Line item in the statement of financial position in which the hedged item is included | Change in value used for calculating hedge ineffectiveness £'000 | Accumulated amount of fair value hedge adjustments remaining in the statement of financial position for any hedged items that have ceased to be adjusted for hedging gains and losses |
|---|---|---|---|---|---|---|---|
| | Assets £'000 | Liabilities £'000 | Assets £'000 | Liabilities £'000 | | | |
| **Group & Sox** | 213,235 | - | (7,173) | 452 | Loans and advances to customers | (5,639) | - |
| Shares | - | 41,535 | 1 | (387) | Shares | 239 | - |
| **Group & Society 2021** | | | | | | | |
| Loans and advances | 99,684 | - | (1,113) | 1 | Loans and advances to customers | (1,157) | (4) |
| Shares | - | 7,787 | - | (147) | Shares | 168 | - |

## 14. Loans and advances to customers

| | Group 2022 £'000 | Society 2022 £'000 | Group 2021 £'000 | Society 2021 £'000 |
|---|---|---|---|---|
| Loans fully secured on residential property | 548,196 | 477,045 | 469,797 | 407,913 |
| Loans fully secured on land | 15,209 | 15,328 | 13,764 | 13,891 |
| | **563,405** | **492,373** | **483,561** | **421,804** |
| | | | | |
| Provisions for impairment losses on loans and advances (see Note 15) | (927) | (845) | (697) | (636) |
| Fair value adjustment for hedged risk | (6,721) | (6,721) | (1,112) | (1,112) |
| | **555,757** | **484,807** | **481,752** | **420,056** |

Mortgage assets held by the Society included items with a carrying value of £181,205,000 (2021: £151,990,000) that were pledged to the Bank of England as collateral.

## 15. Provisions for impairment losses on loans and advances

A summary of the Group's loan and advances and associated provisions for impairment are detailed in the table below:

| | Loans and advances to customers £'000 | Impairment Provision £'000 | Provision Coverage % |
|---|---|---|---|
| **Group 2022** | | | |
| Stage 1 | 521,945 | 190 | 0.0% |
| Stage 2 | 35,125 | 146 | 0.4% |
| Stage 3 | 6,335 | 591 | 9.3% |
| | **563,405** | **927** | **0.2%** |
| Loan commitments - stage 1 | 60,912 | - | - |
| Loan commitments - stage 2 | 493 | - | - |
| **Society 2022** | | | |
| Stage 1 | 459,965 | 174 | 0.0% |
| Stage 2 | 28,362 | 95 | 0.3% |
| Stage 3 | 4,046 | 576 | 14.2% |
| | **492,373** | **845** | **0.2%** |
| Loan commitments - stage 1 | 55,549 | - | - |
| Loan commitments - stage 2 | 493 | - | - |
| **Group 2021** | | | |
| Stage 1 | 463,923 | 88 | 0.0% |
| Stage 2 | 13,985 | 29 | 0.2% |
| Stage 3 | 5,653 | 580 | 10.3% |
| | **483,561** | **697** | **0.1%** |
| Loan commitments - stage 1 | 49,669 | - | - |
| Loan commitments - stage 2 | 171 | - | - |
| **Society 2021** | | | |
| Stage 1 | 408,601 | 80 | 0.0% |
| Stage 2 | 9,637 | 4 | 0.0% |
| Stage 3 | 3,506 | 552 | 15.7% |
| | **421,804** | **636** | **0.2%** |
| Loan commitments - stage 1 | 42,319 | - | - |
| Loan commitments - stage 2 | 171 | - | - |

## 15. Provisions for impairment losses on loans and advances (continued)

The tables below provide analysis of the movements in the gross loans and advances exposures and provisions for impairment losses on loans and advances:

| | Stage 1 £'000 | Stage 2 £'000 | Stage 3 £'000 | Total £'000 |
|---|---|---|---|---|
| **Group 2022** | | | | |
| Loans and advances to customers | | | | |
| Balance at 1 January | 463,923 | 13,985 | 5,653 | **483,561** |
| Transfer to Stage 1 | 6,054 | (5,567) | (487) | - |
| Transfer to Stage 2 | (18,539) | 18,890 | (351) | - |
| Transfer to Stage 3 | (841) | (607) | 1,448 | - |
| Net remeasurement of loss allowance | (13,326) | 12,716 | 610 | - |
| New financial assets originated or purchased | 155,822 | 9,110 | 190 | **165,122** |
| Redemptions and repayments | (84,474) | (686) | (118) | **(85,278)** |
| **Balance at 31 December** | **521,945** | **35,125** | **6,335** | **563,405** |
| | | | | |
| **Society 2022** | | | | |
| Loans and advances to customers | | | | |
| Balance at 1 January | 408,661 | 9,637 | 3,506 | **421,804** |
| Transfer to Stage 1 | 4,206 | (3,844) | (362) | - |
| Transfer to Stage 2 | (14,706) | 14,706 | - | - |
| Transfer to Stage 3 | (697) | (252) | 949 | - |
| Net remeasurement of loss allowance | (11,197) | 10,610 | 587 | - |
| New financial assets originated or purchased | 136,586 | 8,328 | - | **144,914** |
| Repayments and redemptions | (74,085) | (213) | (47) | **(74,345)** |
| **Balance at 31 December** | **459,965** | **28,362** | **4,046** | **492,373** |

## 15. Provisions for impairment losses on loans and advances (continued)

| | Stage 1 £'000 | Stage 2 £'000 | Stage 3 £'000 | Total £'000 |
|---|---|---|---|---|
| **Group 2022** | | | | |
| Impairment provision | | | | |
| Balance at 1 January | 88 | 29 | 580 | 697 |
| Transfer to Stage 1 | 15 | (13) | (2) | - |
| Transfer to Stage 2 | (4) | 7 | (3) | - |
| Transfer to Stage 3 | - | - | - | - |
| Net remeasurement of loss allowance | 35 | 71 | 16 | 122 |
| New financial assets originated or purchased | 90 | 55 | - | 145 |
| Financial assets that have been derecognised | (34) | (3) | - | (37) |
| **Balance at 31 December** | **190** | **146** | **591** | **927** |
| | | | | |
| **Society 2022** | | | | |
| Impairment provision | | | | |
| Balance at 1 January | 80 | 4 | 552 | 636 |
| Transfer to Stage 1 | 2 | (2) | - | - |
| Transfer to Stage 2 | (2) | 2 | - | - |
| Transfer to Stage 3 | - | - | - | - |
| Net remeasurement of loss allowance | 49 | 42 | 24 | 115 |
| New financial assets originated or purchased | 77 | 50 | - | 127 |
| Financial assets that have been derecognised | (32) | (1) | - | (33) |
| **Balance at 31 December** | **174** | **95** | **576** | **845** |

The movement in the provision during the year is mainly due to change in assumptions in the economic environment, being house price index, GDP and unemployment, and growth in the mortgage book.

The amounts shown in the Income Statement for impairment provisions on loans and advances is made up as follows:

| | Group 2022 £'000 | Society 2022 £'000 |
|---|---|---|
| Increase in loss provision | 230 | 209 |
| Provision utilised | - | - |
| **Charge to the Income Statement** | **230** | **209** |

## 15. Provisions for impairment losses on loans and advances (continued)

| | Stage 1 £'000 | Stage 2 £'000 | Stage 3 £'000 | Total £'000 |
|---|---|---|---|---|
| **Group 2021** | | | | |
| Loans and advances to customers | | | | |
| Balance at 1 January | 384,231 | 21,972 | 6,104 | **412,307** |
| Transfer to Stage 1 | 10,613 | (10,314) | (299) | - |
| Transfer to Stage 2 | (4,824) | 5,146 | (322) | - |
| Transfer to Stage 3 | (540) | (843) | 1,383 | - |
| Net remeasurement of loss allowance | 5,249 | (6,011) | 762 | - |
| New financial assets originated or purchased | 145,835 | 1,189 | - | **147,024** |
| Redemptions and repayments | (71,392) | (3,165) | (1,213) | **(75,770)** |
| **Balance at 31 December** | **463,923** | **13,985** | **5,653** | **483,561** |
| | | | | |
| **Society 2021** | | | | |
| Loans and advances to customers | | | | |
| Balance at 1 January | 350,162 | 15,597 | 4,081 | **369,840** |
| Transfer to Stage 1 | 8,256 | (8,155) | (101) | - |
| Transfer to Stage 2 | (3,596) | 3,702 | (106) | - |
| Transfer to Stage 3 | (417) | (134) | 551 | - |
| Net remeasurement of loss allowance | 4,243 | (4,587) | 344 | - |
| New financial assets originated or purchased | 119,143 | 750 | - | **119,893** |
| Repayments and redemptions | (64,887) | (2,123) | (919) | **(67,929)** |
| **Balance at 31 December** | **408,661** | **9,637** | **3,506** | **421,804** |

## 15. Provisions for impairment losses on loans and advances (continued)

| | Stage 1 £'000 | Stage 2 £'000 | Stage 3 £'000 | Total £'000 |
|---|---|---|---|---|
| **Group 2021** | | | | |
| Impairment provision | | | | |
| Balance at 1 January | 95 | 68 | 458 | **621** |
| Transfer to Stage 1 | 16 | (16) | - | **-** |
| Transfer to Stage 2 | (2) | 14 | (12) | **-** |
| Transfer to Stage 3 | - | (15) | 5 | **-** |
| Net remeasurement of loss allowance | (66) | (18) | 91 | **107** |
| New financial assets originated or purchased | 56 | 2 | - | **58** |
| Financial assets that have been derecognised | (11) | (6) | (72) | **(89)** |
| **Balance at 31 December** | **88** | **29** | **580** | **697** |
| | | | | |
| **Society 2021** | | | | |
| Impairment provision | | | | |
| Balance at 1 January | 67 | 12 | 396 | **475** |
| Transfer to Stage 1 | 7 | (7) | - | **-** |
| Transfer to Stage 2 | (1) | 2 | (1) | **-** |
| Transfer to Stage 3 | - | (1) | 1 | **-** |
| Net remeasurement of loss allowance | (33) | (1) | 224 | **190** |
| New financial assets originated or purchased | 50 | 1 | - | **51** |
| Financial assets that have been derecognised | (10) | (2) | (68) | **(80)** |
| **Balance at 31 December** | **80** | **4** | **552** | **636** |

The movement in the provision during the year is mainly due to change in assumptions in the economic environment, being house price index, GDP and unemployment, and growth in the mortgage book.

The amounts shown in the Income Statement for impairment provisions on loans and advances is made up as follows:

| | Group 2021 £'000 | Society 2021 £'000 |
|---|---|---|
| Increase in loss provision | 76 | 161 |
| Write-off | 59 | 59 |
| **Charge to the Income Statement** | **135** | **220** |

## 15. Provisions for impairment losses on loans and advances (continued)

**Post model adjustment**

Due to the level of uncertainty in the economy the Group has applied PD uplifts to its core ECL models to reflect management's view that there will be an impact on affordability due to global inflationary pressures. As a result of the PD uplifts, an overlay of £0.3m has been recognised in the above figures at 31 December 2022 in addition to the output from the core ECL model. The management overlay recognises £0.1m of ECL in stage 1 and £0.2m in stage 2.

There was no post model overlay applied for 31 December 2021.

**Forward looking information**

Central scenario - reflecting the Group's view of the most likely scenario. Continuation of the conflict in Ukraine but with no further sanctions imposed. Inflation continues in double digits and Bank base rate is expected to increase to 4.5%. This sees the UK entering a recession with GDP declining through H2 2022 and H1 2023. Unemployment peaks at 5.7% before reducing.

Upside scenario - reflecting a more optimistic scenario. The conflict in Ukraine diminishes with sanctions gradually being lifted resulting in a shallower rise in inflation and Bank base rate. GDP returns to pre-pandemic levels towards the end of 2023.

Downside scenario - reflecting a more pessimistic scenario with a deterioration of the conflict in Ukraine. Inflation rises higher than expected causing Bank base rate to increase to 5.5%. GDP declines during 2023 and most of 2024 and unemployment increases to a peak of 6.7%.

Severe downside scenario - reflecting a more severe downside scenario in line with the Bank of England's stress scenario. GDP declines by 11%, unemployment peaks at 11.9%, and house prices fall in excess of 30%.

| | 2022<br>% | 2021<br>% |
|---|---|---|
| Central | 45% | 45% |
| Upside | 10% | 15% |
| Downside | 30% | 25% |
| Severe downside | 15% | 15% |

### 15. Provisions for impairment losses on loans and advances (continued)

The table below shows the average macroeconomic assumptions used in each scenario:

| | | 2022 % | 2021 % |
|---|---|---|---|
| Gross Domestic Product (GDP) | Central | 0.60% | 1.00% |
| | Upside | 1.30% | 3.20% |
| | Downside | -0.90% | -5.00% |
| | Severe downside | -11.00% | -11.00% |
| | | | |
| Unemployment rate | Central | 5.00% | 4.50% |
| | Upside | 4.40% | 3.60% |
| | Downside | 5.80% | 5.40% |
| | Severe downside | 11.90% | 11.90% |
| | | | |
| House price inflation | Central | -4.80% | 4.20% |
| | Upside | 0.40% | 9.00% |
| | Downside | -9.90% | -14.40% |
| | Severe downside | -32.90% | -32.90% |

## 16. Investment in subsidiary undertakings

### (a) Investments at cost

| | Society 2022 £'000 | Society 2021 £'000 |
|---|---|---|
| Investment in subsidiary undertakings - shares | 190 | 190 |
| Investment in subsidiary undertakings - loans | 70,231 | 61,105 |
| | **70,421** | **61,295** |

## 16. Investment in subsidiary undertakings (continued)

Movement in investments at cost:

| | Subsidiary undertakings - Shares £'000 | Subsidiary undertakings - Loans £'000 |
|---|---|---|
| At 1 January 2022 | 190 | 61,105 |
| Net increase in loans | - | 9,126 |
| **At 31 December 2022** | **190** | **70,231** |

Loans to subsidiary undertakings are repayable on demand and have no fixed repayment date. Interest is charged at a rate linked to the Society's funding cost.

### (b) Subsidiary undertakings

| Entity | Principal Activity | Place of Incorporation | Class of Shares Held | Cost of Investment £'000 | Society's Interest |
|---|---|---|---|---|---|
| MBS Lending Limited | Mortgage Lending | England | Ordinary | 20 | 100% |
| MBS Lending Limited | Mortgage Lending | England | Preference | 90 | 100% |
| Nexa Finance Limited | Alternative Lending Platform | England | Ordinary | - | 100% |
| MMBS Services Limited | Mortgage Broking | England | Ordinary | 30 | 100% |
| MMBS Services Limited | Mortgage Broking | England | Preference | 50 | 100% |
| | | | | **190** | |

## 17. Property, plant and equipment

| Group | Freehold Land & Buildings £'000 | Office Equipment £'000 | Motor Vehicles £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2022 | 5,756 | 2,463 | 11 | 8,230 |
| Additions | - | 1,364 | 14 | 1,378 |
| Disposals | - | (31) | (2) | (33) |
| **At 31 December 2022** | **5,756** | **3,796** | **23** | **9,575** |
| | | | | |
| **Depreciation** | | | | |
| At 1 January 2022 | 1,519 | 2,102 | 9 | 3,630 |
| Charged in year | 92 | 205 | 4 | 301 |
| Disposals | - | (15) | - | (15) |
| **At 31 December 2022** | **1,611** | **2,292** | **13** | **3,916** |
| | | | | |
| **Net book value at 31 December 2022** | **4,145** | **1,504** | **10** | **5,659** |

## 17. Property, plant and equipment (continued)

| Society | Freehold Land & Buildings £'000 | Office Equipment £'000 | Motor Vehicles £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2022 | 5,163 | 2,462 | 11 | 7,636 |
| Additions | - | 1,364 | 14 | 1,378 |
| Disposals | - | (31) | (2) | (33) |
| **At 31 December 2022** | **5,163** | **3,795** | **23** | **8,981** |
| | | | | |
| **Depreciation** | | | | |
| At 1 January 2022 | 1,359 | 2,102 | 9 | 3,470 |
| Charged in year | 87 | 205 | 4 | 296 |
| Disposals | - | (15) | - | (15) |
| **At 31 December 2022** | **1,446** | **2,292** | **13** | **3,751** |
| **Net book value at 31 December 2022** | **3,717** | **1,503** | **10** | **5,230** |

Included in the net book value of Property, plant and equipment shown above were the following right-of-use assets:

| Group & Society | Freehold Land & Buildings £'000 | Office Equipment £'000 | Motor Vehicles £'000 | Total £'000 |
|---|---|---|---|---|
| At 1 January 2022 | - | 93 | 1 | 94 |
| Additions | - | 43 | 3 | 46 |
| Amortisation | - | (59) | (2) | (61) |
| Disposals | - | - | (2) | (2) |
| **At 31 December 2022** | **-** | **77** | **-** | **77** |

## 17. Property, plant and equipment (continued)

| Group | Freehold Land & Buildings £'000 | Office Equipment £'000 | Motor Vehicles £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2021 | 5,756 | 2,291 | 8 | 8,055 |
| Additions | - | 172 | 3 | 175 |
| **At 31 December 2021** | **5,756** | **2,463** | **11** | **8,230** |
| | | | | |
| **Depreciation** | | | | |
| At 1 January 2021 | 1,426 | 1,972 | 6 | 3,404 |
| Charged in year | 93 | 130 | 3 | 226 |
| **At 31 December 2021** | **1,519** | **2,102** | **9** | **3,630** |
| | | | | |
| **Net book value at 31 December 2021** | **4,237** | **361** | **2** | **4,600** |

## 17. Property, plant and equipment (continued)

| Society | Freehold Land & Buildings £'000 | Office Equipment £'000 | Motor Vehicles £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2021 | 5,163 | 2,290 | 8 | 7,461 |
| Additions | - | 172 | 3 | 175 |
| **At 31 December 2021** | **5,163** | **2,462** | **11** | **7,636** |
| | | | | |
| **Depreciation** | | | | |
| At 1 January 2021 | 1,272 | 1,972 | 6 | 3,250 |
| Charged in year | 87 | 130 | 3 | 220 |
| **At 31 December 2021** | **1,359** | **2,102** | **9** | **3,470** |
| **Net book value at 31 December 2021** | **3,804** | **360** | **2** | **4,166** |

Included in the net book value of Property, plant and equipment shown above were the following right-of-use assets:

| Group & Society | Freehold Land & Buildings £'000 | Office Equipment £'000 | Motor Vehicles £'000 | Total £'000 |
|---|---|---|---|---|
| At 1 January 2021 | - | 143 | 1 | 144 |
| Disposals | - | (50) | - | (50) |
| **At 31 December 2021** | **-** | **93** | **1** | **94** |

| | Group 2022 £'000 | Society 2022 £'000 | Group 2021 £'000 | Society 2021 £'000 |
|---|---|---|---|---|
| **Net book value of land and buildings occupied by the Group and Society for its own activities** | **4,145** | **3,717** | **4,237** | **3,804** |

## 18. Intangible assets

| Group | Group 2022 Purchased Software £'000 | Society 2022 Purchased Software £'000 | Group 2021 Purchased Software £'000 | Society 2021 Purchased Software £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At beginning of year | 1,323 | 1,018 | 1,038 | 800 |
| Additions | 128 | 128 | 285 | 218 |
| Disposals | (34) | (34) | - | - |
| **At end of year** | **1,417** | **1,112** | **1,323** | **1,018** |
| | | | | |
| | | | | |
| **Amortisation** | | | | |
| At beginning of year | 841 | 743 | 743 | 730 |
| Charged in year | 205 | 103 | 98 | 13 |
| Disposals | - | - | - | - |
| **At end of year** | **1,046** | **846** | **841** | **743** |
| | | | | |
| **Net book value at end of year** | **371** | **266** | **482** | **275** |
| | | | | |
| **Net book value at beginning of year** | **482** | **275** | **295** | **70** |

## 19. Investment properties

| | Group 2022 £'000 | Society 2022 £'000 | Group 2021 £'000 | Society 2021 £'000 |
|---|---|---|---|---|
| **Valuation** | | | | |
| At 1 January | 1,520 | 1,520 | 1,610 | 1,610 |
| Revaluation - unrealised loss | (120) | (120) | (90) | (90) |
| Disposal | (165) | (165) | - | - |
| **At 31 December** | **1,235** | **1,235** | **1,520** | **1,520** |

The last formal valuation of the investment properties was performed as at 31 December 2022. The valuations were performed by Mr Graham S. Parkinson BSc (Hons) MRICS IRRV (Hons) of Musson Liggins on the basis of open market value based on a multiple of yield achievable as at 31 December 2022, as defined in IVS 104 paragraph 30.1 in accordance with the RICS Red Book. These are deemed to be level 3 valuations, in accordance with the fair valuation definitions set out in Note 29(b). The key assumptions used in this valuation are the underlying rental yields and the term of the leases based on current market conditions at the time of the valuation. Rental yields have been assumed within a range of 6%-10% per annum, with lease terms ranging from zero to 25 years.

The valuation of investment properties was incorrectly deemed as Level 2 in 2021 and are now classified as Level 3. The impact is purely presentational within the notes to the accounts with no impact on the Income Statements or Statement of Financial Position.

## 20. Other assets

| | Group 2022 £'000 | Society 2022 £'000 | Group 2021 £'000 | Society 2021 £'000 |
|---|---|---|---|---|
| Prepayments | 342 | 274 | 299 | 247 |
| Other debtors | 592 | 401 | 128 | 87 |
| | **934** | **675** | **427** | **334** |

## 21. Deferred tax

| | Group 2022 £'000 | Society 2022 £'000 | Group 2021 £'000 | Society 2021 £'000 |
|---|---|---|---|---|
| **Movement on deferred tax** | | | | |
| At 1 January | (2,020) | (2,055) | (1,538) | (1,546) |
| Current year Income Statement (charge) (see Note 10) | (17) | (12) | (416) | (443) |
| Amount recognised directly in Other Comprehensive Income | 562 | 562 | (66) | (66) |
| **At 31 December** | **(1,475)** | **(1,505)** | **(2,020)** | **(2,055)** |

The deferred tax charge in the Income Statement comprises the following temporary differences:

| | | | | |
|---|---|---|---|---|
| Accelerated Capital Allowances | (190) | (218) | (90) | (94) |
| Other provisions | (1) | (1) | (2) | (1) |
| IFRS transition adjustment | (26) | (6) | (10) | (7) |
| IFRS 9 transition | (14) | 3 | - | 3 |
| Pensions and other post retirement benefits | 181 | 181 | 158 | 158 |
| Effect of change in tax rate | - | - | (495) | (492) |
| Adjustment in respect of prior years | 33 | 29 | 23 | (10) |
| **Income Statement (charge) (see Note 10)** | **(17)** | **(12)** | **(416)** | **(443)** |

## 21. Deferred tax (continued)

Deferred tax assets and liabilities are attributable to the following items:

| | Group 2022 £'000 | Society 2022 £'000 | Group 2021 £'000 | Society 2021 £'000 |
|---|---|---|---|---|
| **Deferred tax assets** | | | | |
| Other provisions | 37 | 32 | 5 | 5 |
| IFRS transition | 14 | 14 | 37 | 21 |
| IFRS 9 transition | 48 | - | 49 | - |
| Debt securities measured at FVOCI | 33 | 33 | - | - |
| Arrangement fees recognised under IFRS 9 | - | - | 17 | - |
| | **132** | **79** | **108** | **26** |
| | | | | |
| **Deferred tax liabilities** | | | | |
| Accelerated capital allowances | 507 | 485 | 312 | 265 |
| Available for sale (IFRS transition adjustment) | 8 | 8 | 12 | 12 |
| Debt securities measured at FVOCI | - | - | 1 | 1 |
| IFRS 9 transition | 17 | 17 | 21 | 21 |
| Rolled over gain on property disposal | 181 | 181 | 181 | 181 |
| Pensions and other post retirement benefits | 894 | 894 | 1,601 | 1,601 |
| | **1,607** | **1,585** | **2,128** | **2,081** |

Deferred tax is recognised at 25% (2021: 25%) being the tax rate enacted at the Statement of Financial Position date at which the balances are materially expected to reverse.

The UK corporation tax rate of 19% was substantively enacted on 18 November 2015. On 3 March 2021, the UK Government announced an increase in the corporation tax rate from 19% to 25% effective from April 2023.

## 22. Shares

| | Group & Society 2022 £'000 | Group & Society 2021 £'000 |
|---|---|---|
| Held by individuals | 503,002 | 434,710 |
| Other shares | 5,965 | 4,641 |
| Fair value adjustment for hedged risk | (386) | (147) |
| | **508,581** | **439,204** |

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

| | | |
|---|---|---|
| Accrued interest | 1,837 | 420 |
| Repayable on demand | 202,461 | 213,715 |
| In not more than three months | 62,384 | 41,706 |
| In more than three months but not more than one year | 106,447 | 119,771 |
| In more than one year but not more than five years | 135,452 | 63,592 |
| | **508,581** | **439,204** |

## 23. Amounts owed to credit institutions

Amounts owed to other customers are repayable from the Statement of Financial Position date in the ordinary course of business as follows:

| | Group & Society 2022 £'000 | Group & Society 2021 £'000 |
|---|---|---|
| Accrued interest | 891 | 38 |
| Repayable on demand | 8,989 | 206 |
| In less than three months | 3,000 | - |
| In more than three months but not more than one year | 2,000 | 1,000 |
| In more than one year but not more than five years | 117,000 | 117,000 |
| | **131,880** | **118,244** |

Amounts owed to credit institutions include £117,000,000 (2021; £117,000,000) secured against certain loans and advances to customers.

At 31 December 2022, £8,520,000 (2021: nil) had been received from credit counterparties as collateral against derivative contracts.

## 24. Amounts owed to other customers

Amounts owed to other customers are repayable from the Statement of Financial Position date in the ordinary course of business as follows:

| | Group & Society 2022 £'000 | Group & Society 2021 £'000 |
|---|---|---|
| Accrued interest | 144 | 36 |
| Repayable on demand | 3,186 | 3,478 |
| In not more than three months | 6,311 | 2,690 |
| In more than three months but not more than one year | 17,447 | 14,579 |
| | **27,088** | **20,783** |

## 25. Other liabilities and accruals

| | Group 2022 £'000 | Society 2022 £'000 | Group 2021 £'000 | Society 2021 £'000 |
|---|---|---|---|---|
| Lease liabilities | 77 | 77 | 96 | 96 |
| Accruals | 1,791 | 1,562 | 1,275 | 1,066 |
| Other creditors | 349 | 612 | 17 | 236 |
| | **2,217** | **2,251** | **1,388** | **1,398** |

### 25. Other liabilities and accruals (continued)

The lease liabilities represent contractual cash flows discounted using the marginal cost of funding. A maturity analysis of the undiscounted contractual cash flows is as follows:

| | Group & Society 2022 £'000 | Group & Society 2021 £'000 |
|---|---|---|
| Less than one year | 61 | 47 |
| One to five years | 18 | 51 |
| **Total undiscounted lease liabilities** | **79** | **98** |

Interest on lease liabilities recognised in the Income Statement was £2,000 (2021: £3,000).

Amounts paid in the year in respect of lease liabilities was £60,000 (2021: £55,000).

## 26. Provisions for liabilities

| Group & Society | Group & Society 2022 £'000 | Group & Society 2021 £'000 |
|---|---|---|
| **Regulatory Compensation** | | |
| At 1 January | - | 5 |
| (Credit)/charge to the income statement | - | (5) |
| Payments made in the year | - | - |
| **At 31 December** | **-** | **-** |

The regulatory compensation provision was held in respect of claims relating to the historic sale of mortgages, endowment policies, pensions and insurance products to customers.

## 27. Related party transactions

### a) Transactions with Group entities

Details of the Society's shares in and loans to group undertakings are set out in Note 16.

Interest paid by group undertakings to the Society and loans outstanding at the end of the year are as follows:

| | Interest paid 2022 £'000 | Loan outstanding 2022 £'000 | Interest paid 2021 £'000 | Loan outstanding 2021 £'000 |
|---|---|---|---|---|
| MBS Lending Limited | 2,449 | 69,102 | 1,681 | 60,060 |
| Nexa Finance Limited | 19 | 1,017 | 15 | 1,003 |
| MMBS Services Limited | 4 | 112 | 1 | 42 |
| | **2,472** | **70,231** | **1,697** | **61,105** |

In addition, the transactions listed below took place during the year. Unless otherwise stated, there were no outstanding debtors or creditors at the year-end.

1) MBS Lending Limited paid £603,000 (2021: £472,000) in administration and servicing fees to the Society during the year

2) Nexa Finance Limited paid £14,000 to the Society (2021: £24,000) in administration and servicing fees to Nexa Finance Limited during the year.

3) MMBS Services Limited paid £8,000 (2021: £8,000) in administration and servicing fees to the Society during the year. At 31 December 2022, the Society owed £nil (2021: £nil) to MMBS Services Limited relating to cash held on its behalf.

### b) Transactions with key management personnel

The Directors of the Society are considered to be the only key management personnel as defined by IAS 24.

Details of Directors' emoluments are disclosed in Note 9.

The table below shows outstanding balances and transactions with key personnel, which comprises Group Directors and their close family members:

| | Number of key management personnel and their close family members 2022 | Amounts in respect of key management personnel and their close family members 2022 £'000 | Number of key management personnel and their close family members 2021 | Amounts in respect of key management personnel and their close family members 2021 £'000 |
|---|---|---|---|---|
| Loans and advances | | | | |
| Balances outstanding 31 December | - | - | - | - |
| **Interest paid** | **-** | **-** | **-** | **-** |
| Savings | | | | |
| Balances outstanding 31 December | 11 | 94 | 12 | 54 |
| **Interest received** | **11** | **-** | **12** | **-** |

## 27. Related party transactions (continued)

### b) Transactions with key management personnel (continued)

Mortgage loans and savings are available to key management personnel and members of their close family at normal commercial terms.

A register is maintained in accordance with the requirements of Section 68 of the Building Societies Act 1986, 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 Society's Principal Office for a period of 15 days up to and including the Annual General Meeting.

### c) Contributions to pension schemes

Contributions paid by the Society to the pension scheme are shown in Note 8.

### d) Donations to the Melton Mowbray Building Society Charitable Foundation

During the year, the Society donated £10,265 (2021: £7,500) to the Melton Mowbray Building Society Charitable Foundation.

## 28. Guarantees and other financial commitments

### a) Capital commitments

| | Group 2022 £'000 | Society 2022 £'000 | Group 2021 £'000 | Society 2021 £'000 |
|---|---|---|---|---|
| **Capital expenditure contracted for but not provided in the accounts at the end of the financial year** | **1,793** | **1,793** | **-** | **-** |

## 29. Financial instruments

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

As a result of these activities, the Group is exposed to a variety of risks, the most significant of which are credit risk, liquidity risk and market risk. These risks are described below.

### a) Classification of financial assets and financial liabilities

The following tables show the classification of the Group's and Society's financial assets and liabilities:

| Group at 31 December 2022 | Amortised cost £'000 | Fair value through OCI £'000 | Fair value through profit & loss £'000 | Total £'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and balances with the Bank of England | 117,636 | - | - | 117,636 |
| Loans and advances to credit institutions | 15,535 | - | - | 15,535 |
| Debt securities | - | 4,214 | - | 4,214 |
| Derivative financial instruments | - | - | 9,786 | 9,786 |
| Loans and advances to customers | 555,757 | - | - | 555,757 |
| Other Debtors | 592 | - | - | 592 |
| **Total financial assets** | **689,520** | **4,214** | **9,786** | **703,520** |
| Non-financial assets | | | | 11,314 |
| **Total assets** | | | | **714,834** |
| | | | | |
| **Liabilities** | | | | |
| Shares | 508,581 | - | - | 508,581 |
| Amounts owed to credit institutions | 131,880 | - | - | 131,880 |
| Amounts owed to other customers | 27,088 | - | - | 27,088 |
| Derivative financial instruments | - | - | 1,291 | 1,291 |
| Lease Liabilities | 77 | - | - | 77 |
| Accruals | 2,049 | - | - | 2,049 |
| Other Creditors | 91 | - | - | 91 |
| **Total financial liabilities** | **669,766** | **-** | **1,291** | **671,057** |
| Non-financial liabilities | | | | 1,968 |
| **Total liabilities** | | | | **673,025** |

## 29. Financial instruments (continued)

| Society at 31 December 2022 | Amortised cost £'000 | Fair value through OCI £'000 | Fair value through profit & loss £'000 | Total £'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and balances with the Bank of England | 117,636 | - | - | 117,636 |
| Loans and advances to credit institutions | 15,143 | - | - | 15,143 |
| Debt securities | - | 4,214 | - | 4,214 |
| Derivative financial instruments | - | - | 9,786 | 9,786 |
| Loans and advances to customers | 484,807 | - | - | 484,807 |
| Loans to subsidiary undertakings | 70,231 | - | - | 70,231 |
| Other Debtors | 401 | - | - | 401 |
| **Total financial assets** | **688,218** | **4,214** | **9,786** | **702,218** |
| Non-financial assets | | | | 10,849 |
| **Total assets** | | | | **713,067** |
| | | | | |
| **Liabilities** | | | | |
| Shares | 508,581 | - | - | 508,581 |
| Amounts owed to credit institutions | 131,880 | - | - | 131,880 |
| Amounts owed to other customers | 27,088 | - | - | 27,088 |
| Derivative financial instruments | - | - | 1,291 | 1,291 |
| Lease Liabilities | 77 | - | - | 77 |
| Accruals | 1,775 | - | - | 1,775 |
| Other Creditors | 399 | - | - | 399 |
| **Total financial liabilities** | **669,800** | **-** | **1,291** | **671,091** |
| Non-financial liabilities | | | | 1,912 |
| **Total liabilities** | | | | **673,003** |

## 29. Financial instruments (continued)

| Group at 31 December 2021 | Amortised cost £'000 | Fair value through OCI £'000 | Fair value through profit & loss £'000 | Total £'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and balances with the Bank of England | 108,100 | - | - | 108,100 |
| Loans and advances to credit institutions | 12,575 | - | - | 12,575 |
| Debt securities | - | 5,143 | - | 5,143 |
| Derivative financial instruments | - | - | 1,193 | 1,193 |
| Loans and advances to customers | 481,752 | - | - | 481,752 |
| Other Debtors | 128 | - | - | 128 |
| **Total financial assets** | **602,555** | **5,143** | **1,193** | **608,891** |
| Non-financial assets | | | | 13,413 |
| **Total assets** | | | | **622,304** |
| | | | | |
| **Liabilities** | | | | |
| Shares | 439,204 | - | - | 439,204 |
| Amounts owed to credit institutions | 118,244 | - | - | 118,244 |
| Amounts owed to other customers | 20,783 | - | - | 20,783 |
| Derivative financial instruments | - | - | 190 | 190 |
| Lease Liabilities | 96 | - | - | 96 |
| Accruals | 1,275 | - | - | 1,275 |
| Other Creditors | 17 | - | - | 17 |
| **Total financial liabilities** | **579,619** | **-** | **190** | **579,809** |
| Non-financial liabilities | | | | 2,248 |
| **Total liabilities** | | | | **582,057** |

## 29. Financial instruments (continued)

| Society at 31 December 2021<br>* restated | Amortised cost £'000 | Fair value through OCI £'000 | Fair value through profit & loss £'000 | Total £'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and balances with the Bank of England | 108,100 | - | - | 108,100 |
| Loans and advances to credit institutions | 12,332 | - | - | 12,332 |
| Debt securities | - | 5,143 | - | 5,143 |
| Derivative financial instruments | - | - | 1,193 | 1,193 |
| Loans and advances to customers | 420,056 | - | - | 420,056 |
| Loans to subsidiary undertakings * | 61,105 | - | - | 61,105 |
| Other Debtors | 87 | - | - | 87 |
| **Total financial assets** | **601,680** | **5,143** | **1,193** | **608,016** |
| Non-financial assets* | | | | 12,828 |
| **Total assets** | | | | **620,844** |
| | | | | |
| **Liabilities** | | | | |
| Shares | 439,204 | - | - | 439,204 |
| Amounts owed to credit institutions | 118,244 | - | - | 118,244 |
| Amounts owed to other customers | 20,783 | - | - | 20,783 |
| Derivative financial instruments | - | - | 190 | 190 |
| Lease Liabilities | 96 | - | - | 96 |
| Accruals | 1,066 | - | - | 1,066 |
| Other Creditors | 236 | - | - | 236 |
| **Total financial liabilities** | **579,629** | **-** | **190** | **579,819** |
| Non-financial liabilities | | | | 2,223 |
| **Total liabilities** | | | | **582,042** |

* Loans to subsidiary undertakings totalling £61.1m were incorrectly classified as non-financial assets in 2021. The impact is purely presentational within the notes to the accounts with no impact on the Income Statement or Statement of Financial Position.

## 29. Financial instruments (continued)

### b) Fair value of financial assets and financial liabilities

Fair value is the value for which an asset or liability could be sold or settled in an arms length transaction between knowledgeable willing parties. The Group determines fair values by the following three tier valuation hierarchy detailed in IFRS 13: 'Fair Value Measurement':

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

The valuation techniques used by the Group to establish the fair value of each category of financial asset or liability are described below.

### Financial assets and financial liabilities held at amortised cost

The tables below show the fair values of the Group's and Society's financial assets and liabilities held at amortised cost in the Statement of Financial Position, analysed according to the fair value hierarchy described above.

| Group at 31 December 2022 | Carrying value £'000 | Fair value Level 1 £'000 | Fair value Level 2 £'000 | Fair value Level 3 £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and balances with the Bank of England | 117,636 | 117,636 | - | - | 117,636 |
| Loans and advances to credit institutions | 15,535 | 15,535 | - | - | 15,535 |
| Loans and advances to customers | 555,757 | - | - | 554,751 | 554,751 |
| | **688,928** | **133,171** | **-** | **554,751** | **687,922** |
| **Financial liabilities** | | | | | |
| Shares | 508,581 | - | - | 507,133 | 507,133 |
| Amounts due to credit institutions | 131,880 | 8,989 | 122,891 | - | 131,880 |
| Amounts due to other customers | 27,088 | - | - | 27,088 | 27,088 |
| | **667,549** | **8,989** | **122,891** | **534,221** | **666,101** |

## 29. Financial instruments (continued)

| Society at 31 December 2022 | Carrying value £'000 | Fair value Level 1 £'000 | Fair value Level 2 £'000 | Fair value Level 3 £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and balances with the Bank of England | 117,636 | 117,636 | - | - | 117,636 |
| Loans and advances to credit institutions | 15,143 | 15,143 | - | - | 15,143 |
| Loans and advances to customers | 484,807 | - | - | 484,353 | 484,353 |
| Loans to subsidary undertakings | 70,231 | - | - | 70,231 | 70,231 |
| | **687,817** | **132,779** | **-** | **554,584** | **687,363** |
| **Financial liabilities** | | | | | |
| Shares | 508,581 | - | - | 507,133 | 507,133 |
| Amounts due to credit institutions | 131,880 | 8,989 | 122,891 | - | 131,880 |
| Amounts due to other customers | 27,088 | - | - | 27,088 | 27,088 |
| | **667,549** | **8,989** | **122,891** | **534,221** | **666,101** |

| Group at 31 December 2021 | Carrying value £'000 | Fair value Level 1 £'000 | Fair value Level 2 £'000 | Fair value Level 3 £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and balances with the Bank of England | 108,100 | 108,100 | - | - | 108,100 |
| Loans and advances to credit institutions | 12,575 | 12,575 | - | - | 12,575 |
| Loans and advances to customers | 481,752 | - | - | 478,473 | 478,473 |
| | **602,427** | **120,675** | **-** | **478,473** | **599,148** |
| **Financial liabilities** | | | | | |
| Shares | 439,204 | - | - | 437,344 | 437,344 |
| Amounts due to credit institutions | 118,244 | 206 | 118,038 | - | 118,244 |
| Amounts due to other customers | 20,783 | - | - | 20,782 | 20,782 |
| | **578,231** | **206** | **118,038** | **458,126** | **576,370** |

## 29. Financial instruments (continued)

| Society at 31 December 2021 * restated | Carrying value £'000 | Fair value Level 1 £'000 | Fair value Level 2 £'000 | Fair value Level 3 £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and balances with the Bank of England | 108,100 | 108,100 | - | - | 108,100 |
| Loans and advances to credit institutions | 12,332 | 12,332 | - | - | 12,332 |
| Loans and advances to customers | 420,056 | - | - | 418,300 | 418,300 |
| Loans to subsidary undertakings * | 61,105 | - | - | 61,105 | 61,105 |
| | **601,593** | **120,432** | **-** | **479,405** | **599,837** |
| **Financial liabilities** | | | | | |
| Shares | 439,204 | - | - | 437,344 | 437,344 |
| Amounts due to credit institutions | 118,244 | 206 | 118,038 | - | 118,244 |
| Amounts due to other customers | 20,783 | - | - | 20,782 | 20,782 |
| | **578,231** | **206** | **118,038** | **458,126** | **576,370** |

* Loans to subsidiary undertakings totalling £61.1m were incorrectly classified as non-financial assets in 2021. The impact is purely presentational within the notes to the accounts with no impact on the Income Statements or Statement of Financial Position.

i) Cash and balances with the Bank of England

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

ii) Loans and advances to credit institutions

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.

iii) Loans and advances to customers

The estimated fair value of loans and advances to customers represents the discounted amount of estimated future cash flows expected to be received taking account of impairment and expected prepayment rates. Estimated cash flows are discounted at prevailing market rates for items of similar remaining maturity.

iv) Loans to subsidiary undertakings

The fair value of loans to subsidiary undertakings is the amount repayable on demand.

v) Shares and borrowings

The estimated fair value of deposits with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest-bearing deposits and other borrowings without quoted market prices is based on discounted cash flows using interest rates for new deposits with similar remaining maturity.

## 29. Financial instruments (continued)

### Financial assets and financial liabilities held at fair value

The tables below show the fair values of the Group's and Society's financial assets and liabilities held at fair value in the Statement of Financial Position, analysed according to the fair value hierarchy described above.

| Group & Society at 31 December 2022 | Fair value Level 1 £'000 | Fair value Level 2 £'000 | Total £'000 |
|---|---|---|---|
| **Financial assets** | | | |
| Debt securities | 4,214 | - | 4,214 |
| Derivative financial instruments | - | 9,786 | 9,786 |
| Loans and advances to customers - fair value adjustments for hedged risks | - | (6,721) | (6,721) |
| | **4,214** | **3,065** | **7,279** |
| **Financial liabilities** | | | |
| Shares - fair value adjustments for hedged risks | - | (386) | (386) |
| Derivative financial instruments | - | 1,291 | 1,291 |
| | **-** | **905** | **905** |

| Group & Society at 31 December 2021 | Fair value Level 1 £'000 | Fair value Level 2 £'000 | Total £'000 |
|---|---|---|---|
| **Financial assets** | | | |
| Debt securities | 5,143 | - | 5,143 |
| Derivative financial instruments | - | 1,193 | 1,193 |
| Loans and advances to customers - fair value adjustments for hedged risks | - | (1,112) | (1,112) |
| | **5,143** | **81** | **5,224** |
| **Financial liabilities** | | | |
| Shares - fair value adjustments for hedged risks | - | (147) | (147) |
| Derivative financial instruments | - | 190 | 190 |
| | **-** | **43** | **43** |

## 29. Financial instruments (continued)

i) Debt securities

Market prices have been used to determine the fair value of listed debt securities.

ii) Derivative financial instruments and fair value adjustments of hedged items

The estimated fair value of interest rate swaps and hedged items are calculated based on discounted expected future cash flows. Expected interest cash flows are discounted using prevailing interest rate yield curves. The yield curves are based on generally observable market data derived from quoted interest rates in similar time bandings which match the timings of the interest cash flows and maturities of the instruments.

### c) Credit Risk

Credit risk is 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 of liquid assets with treasury counterparties. The Group's exposure to credit risk can be influenced by changes in the wider economy, including unemployment levels, property values, household finances impacting the affordability of mortgages and the credit quality of treasury counterparties. The Board of Directors has defined the Group's risk appetite for credit risk which clearly sets out the level of credit risk the Group is prepared to accept.

The maximum credit risk exposure is the carrying value as shown in the tables on pages 123 to 131. In addition, mortgage offer commitments at the year-end amounted to £61,405,000 (2021: £59,335,000) for the Group and £56,042,000 (2021: £51,985,000) for the Society.

i) Loans and advances to customers

The Board of Directors has defined the Group's risk appetite for credit risk exposure to mortgage borrowers by targeting the origination of a balanced portfolio of mortgage assets that match the expertise and experience of underwriters.

The Group has documented its general principles for mortgage lending and the detailed systems and controls for mitigating credit risk within its Lending Policy. Any changes in policy are submitted to the Risk Committee for consideration before recommendation to the Board for approval. These systems and controls include:

- The setting and regular monitoring of applicable lending limits, including product, borrower and loan related limits, to avoid concentrations of exposures in higher risk lending categories.
- The setting of full underwriting criteria for each product category, designed to ensure the adequacy of security, the creditworthiness of borrowers and the affordability of mortgage repayments.
- The manual assessment of all new mortgage applications by staff who are experienced in residential property finance and are accredited through a formal training and competence scheme. Mortgage applications are approved by staff with specific underwriting mandates approved by the Board.
- The use of appropriately qualified and experienced external property surveyors, solicitors and accountants as necessary to assist the assessment of mortgage applications.
- The prevention of mortgage fraud through thorough mortgage application assessment and use of external fraud prevention systems.
- The pricing of all new mortgage products using a model that incorporates an expected Probability of Default (PD) and Loss Given Default (LGD) to ensure that the margin received appropriately reflects the risks involved.
- The use of mortgage indemnity policies to insure the Society against the risk of lending at higher Loan to Value (LTV) ratios.
- The use of insurance warranties to provide specialist cover in self-build and renovation lending.

The Group has a separate Arrears Policy covering the systems and controls relating to the processes for dealing with arrears and forbearance. Any changes in policy are submitted to the Risk Committee for consideration before recommendation to the Board for approval.

The Assets & Liabilities Committee (ALCO) is responsible for monitoring credit risk associated with mortgage assets. This is undertaken through the review of credit portfolio analysis, mortgage arrears, forbearance and provisions schedules, mortgage stress testing analysis, mortgage concentration analysis, lending limit monitoring, external insurance provider rating and exposure, and limit stress testing analysis. ALCO reports into the Board's Risk Committee, which is responsible for the oversight and challenge of risk management across the Group. It receives reports relating to key decisions made at ALCO, an independent view of each risk category from the Chief Risk Officer, including a quarterly credit portfolio analysis, and access to all ALCO papers.

The Group's exposure to residential and commercial loans and advances to customers is set out below.

From 2019 any new Commercial lending advanced is in the form of residential development finance.

## 29. Financial instruments (continued)

### Residential loans and advances to customers

The table below shows the concentration by loan type of the residential loan portfolio at the year end date:

| | Group 2022 £'000 | Society 2022 £'000 | Group 2021 £'000 | Society 2021 £'000 |
|---|---|---|---|---|
| Prime owner occupied | 421,944 | 350,987 | 364,137 | 302,403 |
| Buy to let | 126,252 | 126,058 | 105,660 | 105,510 |
| **Gross balances** | **548,196** | **477,045** | **469,797** | **407,913** |
| Impairment provisions | (239) | (157) | (105) | (44) |
| Fair value adjustments for hedged risk | (6,721) | (6,721) | (1,112) | (1,112) |
| | **541,236** | **470,167** | **468,581** | **406,757** |

The table below shows the geographical spread of the residential loan portfolio at the year end date:

| | Group 2022 £'000 | Society 2022 £'000 | Group 2021 £'000 | Society 2021 £'000 |
|---|---|---|---|---|
| East Midlands | 105,357 | 94,885 | 101,318 | 91,741 |
| South East | 103,263 | 92,687 | 82,467 | 72,563 |
| North West | 45,884 | 37,138 | 37,905 | 30,875 |
| South West | 82,186 | 74,550 | 67,585 | 60,531 |
| East | 75,087 | 63,367 | 62,274 | 51,751 |
| West Midlands | 40,221 | 34,244 | 35,221 | 29,875 |
| Yorkshire | 36,803 | 29,295 | 32,000 | 25,936 |
| London | 20,678 | 19,036 | 17,067 | 16,029 |
| Wales | 27,319 | 22,315 | 25,153 | 21,486 |
| North East | 11,398 | 9,528 | 8,807 | 7,126 |
| | **548,196** | **477,045** | **469,797** | **407,913** |

## 29. Financial instruments (continued)

The table below shows the indexed loan to value distribution of the residential loan portfolio at the year end date:

| | Group 2022 | | | | Society 2022 | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 £'000 | Stage 2 £'000 | Stage 3 £'000 | Total £'000 | Stage 1 £'000 | Stage 2 £'000 | Stage 3 £'000 | Total £'000 |
| >95% | 436 | - | - | **436** | 436 | - | - | **436** |
| 90%-95% | 195 | - | - | **195** | 195 | - | - | **195** |
| 85%-90% | 918 | - | - | **918** | 918 | - | - | **918** |
| 75%-85% | 10,079 | 565 | - | **10,644** | 10,079 | 565 | - | **10,644** |
| 50%-75% | 190,125 | 17,178 | 1,777 | **209,080** | 158,016 | 14,718 | 1,099 | **173,833** |
| <50% | 307,719 | 16,510 | 2,694 | **326,923** | 277,729 | 12,207 | 1,083 | **291,019** |
| | **509,472** | **34,253** | **4,471** | **548,196** | **447,373** | **27,490** | **2,182** | **477,045** |

| | Group 2021 | | | | Society 2021 | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 £'000 | Stage 2 £'000 | Stage 3 £'000 | Total £'000 | Stage 1 £'000 | Stage 2 £'000 | Stage 3 £'000 | Total £'000 |
| >95% | 176 | 165 | - | **341** | 176 | 165 | - | **341** |
| 90%-95% | 341 | - | - | **341** | 341 | - | - | **341** |
| 85%-90% | 2,136 | - | - | **2,136** | 2,136 | - | - | **2,136** |
| 75%-85% | 14,880 | 247 | 134 | **15,261** | 14,788 | 247 | 133 | **15,168** |
| 50%-75% | 173,275 | 5,653 | 1,539 | **180,467** | 144,515 | 3,460 | 610 | **148,585** |
| <50% | 261,167 | 7,920 | 2,164 | **271,251** | 234,630 | 5,765 | 947 | **241,342** |
| | **451,975** | **13,985** | **3,837** | **469,797** | **396,586** | **9,637** | **1,690** | **407,913** |

The Group's average indexed loan to value ratio at the year end date for the residential loan portfolio was 40.5% (2021: 41.0%).

## 29. Financial instruments (continued)

The table below shows the loan to value distribution of the mortgage offer commitments at the year end date:

| | Group 2022 | | | | Society 2022 | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 £'000 | Stage 2 £'000 | Stage 3 £'000 | Total £'000 | Stage 1 £'000 | Stage 2 £'000 | Stage 3 £'000 | Total £'000 |
| >95% | 495 | - | - | **495** | 495 | - | - | **495** |
| 90%-95% | 1,240 | - | - | **1,240** | 1,240 | - | - | **1,240** |
| 85%-90% | 1,084 | - | - | **1,084** | 1,084 | - | - | **1,084** |
| 75%-85% | 2,636 | - | - | **2,636** | 2,636 | - | - | **2,636** |
| 50%-75% | 45,210 | 416 | - | **45,626** | 39,847 | 416 | - | **40,263** |
| <50% | 10,247 | 77 | - | **10,324** | 10,247 | 77 | - | **10,324** |
| | **60,912** | **493** | **-** | **61,405** | **55,549** | **493** | **-** | **56,042** |

| | Group 2021 | | | | Society 2021 | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 £'000 | Stage 2 £'000 | Stage 3 £'000 | Total £'000 | Stage 1 £'000 | Stage 2 £'000 | Stage 3 £'000 | Total £'000 |
| >95% | - | - | - | **-** | - | - | - | **-** |
| 90%-95% | 4,074 | - | - | **4,074** | 4,074 | - | - | **4,074** |
| 85%-90% | 216 | - | - | **216** | 216 | - | - | **216** |
| 75%-85% | 1,723 | - | - | **1,723** | 1,723 | - | - | **1,723** |
| 50%-75% | 32,664 | 80 | - | **32,744** | 25,315 | 80 | - | **25,395** |
| <50% | 10,992 | 91 | - | **11,083** | 10,991 | 91 | - | **11,082** |
| | **49,669** | **171** | **-** | **49,840** | **42,319** | **171** | **-** | **42,490** |

## 29. Financial instruments (continued)

The table below shows the Group's residential loan portfolio by payment due status:

| | Group 2022 | | | | Society 2022 | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 £'000 | Stage 2 £'000 | Stage 3 £'000 | Total £'000 | Stage 1 £'000 | Stage 2 £'000 | Stage 3 £'000 | Total £'000 |
| Current and past due up to 1 month | 509,472 | 28,721 | 1,512 | **539,705** | 447,373 | 23,727 | 883 | **471,983** |
| Past due 1 to 3 months | - | 5,532 | 1,523 | **7,055** | - | 3,763 | 391 | **4,154** |
| Past due over 3 months | - | - | 1,436 | **1,436** | - | - | 908 | **908** |
| | **509,472** | **34,253** | **4,471** | **548,196** | **447,373** | **27,490** | **2,182** | **477,045** |

| | Group 2021 | | | | Society 2021 | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 £'000 | Stage 2 £'000 | Stage 3 £'000 | Total £'000 | Stage 1 £'000 | Stage 2 £'000 | Stage 3 £'000 | Total £'000 |
| Current and past due up to 1 month | 451,975 | 13,045 | 1,347 | **466,367** | 396,586 | 9,301 | 743 | **406,630** |
| Past due 1 to 3 months | - | 940 | 1,107 | **2,047** | - | 336 | 338 | **674** |
| Past due over 3 months | - | - | 1,383 | **1,383** | - | - | 609 | **609** |
| | **451,975** | **13,985** | **3,837** | **469,797** | **396,586** | **9,637** | **1,690** | **407,913** |

### Performance of interest only loans at maturity

Interest only loans which are judged to have a significantly increased risk of inability to refinance at maturity are transferred to stage 2. At 31 December 2022 no (2021: 1) interest only loans were transferred to stage 2 (2021: £164,758)

The table below shows the collateral held against the residential loan portfolio:

| | Group 2022 £'000 | Society 2022 £'000 | Group 2021 £'000 | Society 2021 £'000 |
|---|---|---|---|---|
| Not impaired | 1,846,392 | 1,654,501 | 1,754,516 | 1,593,001 |
| Impaired | 10,586 | 5,048 | 10,565 | 5,046 |
| | **1,856,978** | **1,659,549** | **1,765,081** | **1,598,047** |

## 29. Financial instruments (continued)

The collateral consists of residential property. Collateral values are adjusted by the Nationwide price index, produced by the Nationwide Building Society to derive the indexed valuation at 31 December. The price index is produced on a regional basis and is used to update the property values for residential mortgages on a quarterly basis.

With collateral capped to the amount of outstanding debt, the value of collateral held against 'Not impaired' loans at 31 December 2022 was £537,523,000 (2021: £469,761,000) against outstanding debt of £544,484,000 (2021: £469,804,000). In addition, the value of collateral held against 'Impaired' loans at 31 December 2022 was £3,703,000 (2021: £3,798,000) against outstanding debt of £3,713,000 (2021: £3,844,000).

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. The mortgage indemnity insurance relates to the Society's residential portfolio only and reduces the level of impairment provision held at the year-end by £7,000 (2021: £13,000)

Assets obtained by taking possession of collateral

During the year the Group took possession of property held as security, against loans and advances to customers, and held at the year end security of £61,500 (2021: £nil).

During the year the Society took possession of property held as security, against loans and advances to customers, and held at the year end security of £nil (2021: £nil).

The Group's policy is to pursue timely realisation of the collateral in an orderly manner.

### Forbearance

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 such borrowers including agreeing a reduced monthly payment, transfer to interest only payments and extension of the mortgage term. Forbearance measures are only provided to borrowers following a full assessment of their circumstances. Accounts on which forbearance has been provided are monitored and borrowers are expected to resume normal payments, including any increase to repay the mortgage at the end of the agreed term, once they are able. Loans that receive forbearance may only be classified as up-to-date once six months' normal payments have been received.

At 31 December 2022 there were 11 accounts subject to forbearance (2021: 69), 1 of these accounts were impaired at the year end (2021: 4).

| Group & Society | Concessions 2022 £'000 | Payment Holiday 2022 £'000 | Total 2022 £'000 | Concessions 2021 £'000 | Payment Holiday 2021 £'000 | Total 2021 £'000 |
|---|---|---|---|---|---|---|
| Not impaired | 724 | 520 | **1,244** | 813 | - | **813** |
| Past due up to three months | - | 23 | **23** | - | - | **-** |
| **Total forbearance** | **724** | **543** | **1,267** | **813** | **-** | **813** |

## 29. Financial instruments (continued)

### Commercial loans and advances to customers

The table below shows the concentration by loan type of the commercial loan portfolio at the year end date:

| | Group 2022 £'000 | Society 2022 £'000 | Group 2021 £'000 | Society 2021 £'000 |
|---|---|---|---|---|
| Investment property | 15,143 | 15,262 | 13,685 | 13,812 |
| Owner occupied | 66 | 66 | 79 | 79 |
| Loans secured on commercial property | 15,209 | 15,328 | 13,764 | 13,891 |
| Impairment provisions | (688) | (688) | (592) | (592) |
| | **14,521** | **14,640** | **13,172** | **13,299** |

The table below shows the geographic spread of the commercial loan portfolio at the year end date:

| | Group 2022 £'000 | Society 2022 £'000 | Group 2021 £'000 | Society 2021 £'000 |
|---|---|---|---|---|
| East Midlands | 11,479 | 11,567 | 9,652 | 9,747 |
| West Midlands | 2,344 | 2,356 | 3,628 | 3,656 |
| Yorkshire | 884 | 890 | 484 | 488 |
| South West | 502 | 515 | - | - |
| | **15,209** | **15,328** | **13,764** | **13,891** |

## 29. Financial instruments (continued)

The table below shows the indexed loan to value distribution of the commercial loan portfolio at the year end date:

| | Group 2022 | | | | Society 2022 | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 £'000 | Stage 2 £'000 | Stage 3 £'000 | Total £'000 | Stage 1 £'000 | Stage 2 £'000 | Stage 3 £'000 | Total £'000 |
| 150%-175% | - | - | - | **-** | - | - | - | **-** |
| 125%-150% | - | - | - | **-** | - | - | - | **-** |
| 100%-125% | - | - | 470 | **470** | - | - | 470 | **470** |
| 75%-100% | 3,010 | 676 | 1,136 | **4,822** | 3,021 | 676 | 1,136 | **4,833** |
| 50%-75% | 8,372 | - | 258 | **8,630** | 8,441 | - | 258 | **8,699** |
| <50% | 1,091 | 196 | - | **1,287** | 1,130 | 196 | - | **1,326** |
| | **12,473** | **872** | **1,864** | **15,209** | **12,592** | **872** | **1,864** | **15,328** |

| | Group 2021 | | | | Society 2021 | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 £'000 | Stage 2 £'000 | Stage 3 £'000 | Total £'000 | Stage 1 £'000 | Stage 2 £'000 | Stage 3 £'000 | Total £'000 |
| 150%-175% | - | - | 445 | **445** | - | - | 445 | **445** |
| 125%-150% | - | - | - | **-** | - | - | - | **-** |
| 100%-125% | - | - | 515 | **515** | - | - | 515 | **515** |
| 75%-100% | 2,515 | - | 856 | **3,371** | 2,527 | - | 856 | **3,383** |
| 50%-75% | 9,048 | - | - | **9,048** | 9,165 | - | - | **9,165** |
| <50% | 385 | - | - | **385** | 383 | - | - | **383** |
| | **11,948** | **-** | **1,816** | **13,764** | **12,075** | **-** | **1,816** | **13,891** |

As at the 31 December 2022 mortgage offer commitments for the commercial portfolio were £9,476,000 (2021: £9,496,000).

The Group's average indexed loan to value ratio at the year end date for the commercial loan portfolio was 62.0% (2021: 60.0%).

The above analysis includes 5 loans (2021: 3) which were impaired at year end. The loans had a value of £1,895,000 (2021: £1,625,000), an average LTV of 124% (2021: 119%) and a loan loss provision of £605,000 (2021: £552,000) was held in relation to them

## 29. Financial instruments (continued)

The table below shows the collateral held against the commercial loan portfolio:

| Group and Society | Unindexed Group 2022 £'000 | Unindexed Society 2022 £'000 | Unindexed Group 2021 £'000 | Unindexed Society 2021 £'000 |
|---|---|---|---|---|
| Not impaired | 22,084 | 22,084 | 21,747 | 21,747 |
| Impaired | 1,625 | 1,625 | 1,105 | 1,105 |
| | **23,709** | **23,709** | **22,852** | **22,852** |

The collateral consists of commercial property and collateral values reflect the latest valuation undertaken.

With collateral capped to the amount of outstanding debt, the value of collateral held against 'Not impaired' loans at 31 December 2022 was £13,231,000 (2021: £12,590,000) against outstanding debt of £13,344,000 (2021: £12,626,000).

There were no loans within the commercial loan portfolio receiving forbearance as at 31 December 2022 or 31 December 2021.

### ii) Loans and advances to credit institutions and debt securities

The Group holds treasury investments in order to meet liquidity requirements and for general business purposes. The Board of Directors has defined the Group's risk appetite for credit risk exposure to treasury counterparties by defining within the Financial Risk Management Policy the permissible instruments that can be used, the minimum counterparty credit ratings required and maximum counterparty and sector exposure limits. Any changes in policy are submitted to the Risk Committee for consideration before recommendation to the Board for approval.

Permissible counterparties include supranational bodies, the UK government, UK banks and building societies. The limits for all rated counterparty exposures are linked to Fitch credit ratings in addition to management's own assessment. Unrated building societies are assessed by the Assets & Liabilities Committee (ALCO).

ALCO is responsible for monitoring adherence to the relevant Financial Risk Management Policy limits, with oversight provided by the Risk Committee, which is responsible for the oversight and challenge of risk management across the Group. It receives reports relating to key decisions made at ALCO, an independent view of each risk category from the Director of Risk & Compliance, including a quarterly analysis of treasury related key risk indicators and access to all ALCO papers.

## 29. Financial instruments (continued)

The Group's exposure to treasury counterparties is set out below.

| | Group 2022 £'000 | Society 2022 £'000 | Group 2021 £'000 | Society 2021 £'000 |
|---|---|---|---|---|
| **Concentration by credit rating:** | | | | |
| AAA to AA- | 131,198 | 131,198 | 122,040 | 122,040 |
| A+ to A- | 5,971 | 5,579 | 3,778 | 3,535 |
| BBB+ to BBB- | - | - | - | - |
| Other | 216 | 216 | - | - |
| | **137,385** | **136,993** | **125,818** | **125,575** |

'Other' relates to investments in unrated Building Societies.

All exposures are categorised as Stage 1 for loan loss provisioning with no significant deterioration in credit risk since origination.

| | Group 2022 £'000 | Society 2022 £'000 | Group 2021 £'000 | Society 2021 £'000 |
|---|---|---|---|---|
| **Concentration by sector:** | | | | |
| Sovereign | 120,633 | 120,633 | 112,030 | 112,030 |
| Financial institutions | 16,752 | 16,360 | 13,788 | 13,545 |
| | **137,385** | **136,993** | **125,818** | **125,575** |
| **Concentration by region:** | | | | |
| UK | 137,385 | 136,993 | 125,818 | 125,575 |
| | **137,385** | **136,993** | **125,818** | **125,575** |

### iii) Loans to subsidiary undertakings

The value of the Society's loans to subsidiary undertakings has been assessed against the future expected net cash flow from the subsidiary. At 31 December 2022 there was no impairment recognised (2021: £nil).

## 29. Financial instruments (continued)

### d) Liquidity risk

Liquidity risk is 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. The Group's policy is to hold a significant amount of its total assets in the form of readily realisable assets in order to:

- maintain liquidity resources 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;
- smooth out the effect of maturity mismatches between assets and liabilities; and
- maintain the highest level of public confidence in the Group.

The Group's risk appetite, policies, systems and controls relating to the management of liquidity risk are set out in the Financial Risk Management Policy which is approved by the Board and reviewed at least annually to ensure it remains appropriate and adequate. The key aspects of the control framework to mitigate liquidity risk are as follows:

- The setting and regular monitoring of applicable liquidity limits, including those covering the amount, instrument type and maturity of liquidity held;
- The monitoring of both short-term and long-term liquidity ratios, including the Liquidity Coverage Ratio and Net Stable Funding Ratio, to ensure that these are maintained above minimum levels;
- Segregated treasury front and back offices. The front office is responsible for adherence on a day-to-day basis to the liquidity limits set by the Board. The Group's liquidity position against all key liquidity limits is calculated and monitored on a daily basis by the treasury back office;
- The holding of a high quality Liquid Assets Buffer, including deposits with the Bank of England and UK Government Treasury Bills and Gilts;
- Monthly liquidity stress testing, to ensure that the level of the Liquid Assets Buffer and total liquidity held are sufficient to meet liabilities under severe but plausible stressed conditions; and
- A Recovery Plan is maintained that sets out the governance processes and the options available to the Society if it experienced liquidity stress event. The Plan includes a menu of possible actions depending on the severity of the liquidity event.

The minimum level of the Liquid Assets Buffer is set in accordance with an Internal Liquidity Adequacy Assessment Process (ILAAP) that is reviewed by the Risk Committee and approved by the Board on an annual basis. The ILAAP incorporates severe stress testing linked to the Board's formal assessment of the liquidity risks to which the Group is exposed.

The Assets & Liabilities Committee (ALCO) monitors liquidity risk on a monthly basis, including management information on liquidity and funding limits, Liquid Asset Buffer levels and composition, liquidity stress testing results, cash flow forecasts and liquid asset and wholesale borrowing maturity analysis. ALCO reports into the Risk Committee, which receives reports relating to key decisions made at ALCO, an independent view of each risk category from the Chief Risk Officer, including key risk indicators relating to liquidity and funding, and access to all ALCO papers.

## 29. Financial instruments (continued)

The table below analyses the Group's assets and liabilities across maturity periods that reflect the residual maturity from the year end date to the contractual maturity date. The actual repayment profile of loans and advances is likely to be significantly different to that shown in the analysis.

| Group at 31 December 2022 | Repayable on demand £'000 | Not more than three months £'000 | More than three months but not more than one year £'000 | More than one year but not more than five years £'000 | More than five years £'000 | No specific maturity £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and balances with the Bank of England | 117,636 | - | - | - | - | - | **117,636** |
| Loans and advances to credit institutions | 15,535 | - | - | - | - | - | **15,535** |
| Debt securities | - | - | 1,752 | 2,462 | - | - | **4,214** |
| Total liquid assets | 133,171 | - | 1,752 | 2,462 | - | - | **137,385** |
| Derivative financial instruments | - | - | 1,421 | 8,365 | - | - | **9,786** |
| Loans and advances to customers | - | 6,521 | 21,823 | 84,602 | 442,811 | - | **555,757** |
| Other assets | - | 750 | 141 | 43 | - | 10,972 | **11,906** |
| | **133,171** | **7,271** | **25,137** | **95,472** | **442,811** | **10,972** | **714,834** |
| **Liabilities and reserves** | | | | | | | |
| Shares | 203,195 | 62,610 | 106,833 | 135,943 | - | - | **508,581** |
| Amounts due to credit institutions | 8,989 | 3,000 | 2,000 | 117,891 | - | - | **131,880** |
| Amounts due to other customers | 3,203 | 6,345 | 17,540 | - | - | - | **27,088** |
| Derivative financial instruments | - | 1 | 1,161 | 129 | - | - | **1,291** |
| Other liabilities | - | 1,862 | 585 | 131 | - | 1,607 | **4,185** |
| Reserves | - | - | - | - | - | 41,809 | **41,809** |
| | **215,387** | **73,818** | **128,119** | **254,094** | **-** | **43,416** | **714,834** |
| **Net liquidity gap** | **(82,216)** | **(66,547)** | **(102,982)** | **(158,622)** | **442,811** | **(32,444)** | **-** |

## 29. Financial instruments (continued)

| Society at 31 December 2022 | Repayable on demand £'000 | Not more than three months £'000 | More than three months but not more than one year £'000 | More than one year but not more than five years £'000 | More than five years £'000 | No specific maturity £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and balances with the Bank of England | 117,636 | - | - | - | - | - | **117,636** |
| Loans and advances to credit institutions | 15,143 | - | - | - | - | - | **15,143** |
| Debt securities | - | - | 1,752 | 2,462 | - | - | **4,214** |
| Total liquid assets | 132,779 | - | 1,752 | 2,462 | - | - | **136,993** |
| Derivative financial instruments | - | - | 1,421 | 8,365 | - | - | **9,786** |
| Loans and advances to customers | - | 5,715 | 19,666 | 72,874 | 386,552 | - | **484,807** |
| Investments in subsidiary undertakings | 70,231 | - | - | - | - | 190 | **70,421** |
| Other assets | - | 540 | 97 | 38 | - | 10,385 | **11,060** |
| | **203,010** | **6,255** | **22,936** | **83,739** | **386,552** | **10,575** | **713,067** |
| **Liabilities and reserves** | | | | | | | |
| Shares | 203,195 | 62,610 | 106,833 | 135,943 | - | - | **508,581** |
| Amounts due to credit institutions | 8,989 | 3,000 | 2,000 | 117,891 | - | - | **131,880** |
| Amounts due to other customers | 3,203 | 6,345 | 17,540 | - | - | - | **27,088** |
| Derivative financial instruments | - | 1 | 1,161 | 129 | - | - | **1,291** |
| Other liabilities | - | 1,862 | 585 | 131 | - | 1,585 | **4,163** |
| Reserves | - | - | - | - | - | 40,064 | **40,064** |
| | **215,387** | **73,818** | **128,119** | **254,094** | **-** | **41,649** | **713,067** |
| **Net liquidity gap** | **(12,377)** | **(67,563)** | **105,183** | **170,355** | **386,552** | **(31,074)** | **-** |

## 29. Financial instruments (continued)

| Group at 31 December 2021 | Repayable on demand £'000 | Not more than three months £'000 | More than three months but not more than one year £'000 | More than one year but not more than five years £'000 | More than five years £'000 | No specific maturity £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and balances with the Bank of England | 108,100 | - | - | - | - | - | **108,100** |
| Loans and advances to credit institutions | 12,575 | - | - | - | - | - | **12,575** |
| Debt securities | - | - | 1,761 | 3,382 | - | - | **5,143** |
| Total liquid assets | 120,675 | - | 1,761 | 3,382 | - | - | **125,818** |
| Derivative financial instruments | - | - | 9 | 1,184 | - | - | **1,193** |
| Loans and advances to customers | - | 7,049 | 19,651 | 78,768 | 376,284 | - | **481,752** |
| Other assets | - | 288 | 129 | 7 | - | 13,117 | **13,541** |
| | **120,675** | **7,337** | **21,550** | **83,341** | **376,284** | **13,117** | **622,304** |
| **Liabilities and reserves** | | | | | | | |
| Shares | 213,920 | 41,746 | 119,885 | 63,653 | - | - | **439,204** |
| Amounts due to credit institutions | 206 | | 1,000 | 117,038 | - | - | **118,244** |
| Amounts due to other customers | 3,484 | 2,695 | 14,604 | - | - | - | **20,783** |
| Derivative financial instruments | - | 7 | 36 | 147 | - | - | **190** |
| Other liabilities | - | 1,042 | 462 | 5 | - | 2,127 | **3,636** |
| Reserves | - | - | - | - | - | 40,247 | **40,247** |
| | **217,610** | **45,490** | **135,987** | **180,843** | **-** | **42,374** | **622,304** |
| **Net liquidity gap** | **(96,935)** | **(38,153)** | **(114,437)** | **(97,502)** | **376,284** | **(29,257)** | **-** |

## 29. Financial instruments (continued)

| Society at 31 December 2021 * restated | Repayable on demand £'000 | Not more than three months £'000 | More than three months but not more than one year £'000 | More than one year but not more than five years £'000 | More than five years £'000 | No specific maturity £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and balances with the Bank of England | 108,100 | - | - | - | - | - | **108,100** |
| Loans and advances to credit institutions | 12,332 | - | - | - | - | - | **12,332** |
| Debt securities | - | - | 1,761 | 3,382 | - | - | **5,143** |
| Total liquid assets | 120,432 | - | 1,761 | 3,382 | - | - | **125,575** |
| Derivative financial instruments | - | - | 9 | 1,184 | - | - | **1,193** |
| Loans and advances to customers | - | 6,490 | 17,766 | 67,390 | 328,410 | - | **420,056** |
| Investments in subsidiary undertakings | 61,105 | - | - | - | - | 190 | **61,295** |
| Other assets | - | 230 | 97 | 7 | - | 12,391 | **12,725** |
| | **181,537** | **6,720** | **19,633** | **71,963** | **328,410** | **12,581** | **620,844** |
| **Liabilities and reserves** | | | | | | | |
| Shares | 213,920 | 41,746 | 119,885 | 63,653 | - | - | **439,204** |
| Amounts due to credit institutions | 206 | - | 1,000 | 117,038 | - | - | **118,244** |
| Amounts due to other customers | 3,484 | 2,695 | 14,604 | - | - | - | **20,783** |
| Derivative financial instruments | - | 7 | 36 | 147 | - | - | **190** |
| Other liabilities | - | 1,073 | 462 | 5 | - | 2,081 | **3,621** |
| Reserves | - | - | - | - | - | 38,802 | **38,802** |
| | **217,610** | **45,521** | **135,987** | **180,843** | **-** | **40,883** | **620,844** |
| **Net liquidity gap** | **(36,073)** | **(38,801)** | **(116,354)** | **(108,880)** | **328,410** | **(28,302)** | **-** |

* Loans to subsidiary undertakings have been reclassified separately from other assets in 2021. The impact is purely presentational within the notes to the accounts with no impact on the Income Statements or Statement of Financial Position.

## 29. Financial instruments (continued)

The table below shows an analysis of the gross contractual cash flows payable under financial liabilities:

| Group & Society at 31 December 2022 | Not more than three months £'000 | More than three months but not more than one year £'000 | More than one year but not more than five years £'000 | Total £'000 |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Shares | 265,750 | 108,825 | 148,049 | **522,624** |
| Amounts owed to credit institutions and other customers | 21,159 | 19,744 | 127,800 | **168,703** |
| Derivative financial instruments | 117 | 358 | 815 | **1,290** |
| | **287,026** | **128,927** | **276,664** | **692,617** |

| Group & Society at 31 December 2021 | Not more than three months £'000 | More than three months but not more than one year £'000 | More than one year but not more than five years £'000 | Total £'000 |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Shares | 255,749 | 120,529 | 65,698 | **441,976** |
| Amounts owed to credit institutions and other customers | 6,178 | 15,634 | 118,029 | **139,841** |
| Derivative financial instruments | 27 | 57 | 106 | **190** |
| | **261,954** | **136,220** | **183,833** | **582,007** |

### e) Market Risk

The Group's exposure to market risk arises from interest rate risk. Interest rate risk is the risk of reductions in net interest margin arising from unfavourable movements in interest rates due to mismatches between the dates on which interest receivable on assets and interest payable on liabilities are reset to market rates and the re-pricing of assets and liabilities according to different interest bases (basis risk).

The main causes of interest rate risk are the imperfect matching of fixed rate mortgages and savings products. While the Group aims to match fixed rate assets with liabilities, it is not always possible to achieve exact matches due to the need to estimate initial customer demand for mortgage and savings products and the early repayment of mortgages. Interest rate swaps are utilised to reduce mismatches where economic to do so, but remain susceptible to early repayment of fixed rate products by customers.

## 29. Financial instruments (continued)

The Board has set a risk appetite for exposure to this risk by setting a maximum limit for the impact of a 2% shift in rates on the economic value of the Group. In addition to the risk appetite, the Board has set individual and cumulative gap limits for each time band analysed.

In order to manage interest rate risk, an interest rate gap report is prepared on a Group basis showing how assets and liabilities re-price or mature over time. The Assets & Liabilities Committee (ALCO) monitors both historic and projected gap analyses and the results of stress tests assessing the impact of a shift in interest rates as a percentage of capital on a monthly basis in order that action can be taken to minimise the risk. Various parallel and non-parallel interest rate shift scenarios are modelled to ensure that capital allocation remains appropriate across a range of scenarios. ALCO reports into the Risk Committee, which receives reports relating to key decisions made at ALCO, an independent view of each risk category from the Director of Risk & Compliance, including key risk indicators relating to interest rate risk relating re-pricing mismatch and basis risk, and access to all ALCO papers.

The table below summarises the Group's exposure to interest rate risk.

| | Group 2022 £'000 | Group 2021 £'000 |
|---|---|---|
| **Sensitivity to profit and reserves** | | |
| Parallel shift of +2% | (174) | (474) |
| Parallel shift of -2% | 174 | 474 |

The Group 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 Group.

All financial assets and liabilities are presented on a gross basis in the Statement of Financial Position.

The Group has Credit Support Annexes (CSA) for its derivative instruments which provides for the exchange of collateral to mitigate net mark to market credit exposure. At 31 December 2022 £8,520,000 (2021: £nil) collateral had been received against derivative contracts.

The Group is not exposed to foreign currency risk.

## 30. Capital

The Board's policy is to maintain a strong capital base to provide protection for members, promote market confidence and support future growth. The principal component of capital is retained earnings in General Reserves (Common Equity Tier 1). The Group is required to manage its capital to meet the requirements of the Capital Requirements Directive (CRD IV) and related requirements set by the Prudential Regulation Authority.

The Group undertakes a formal Internal Capital Adequacy Assessment Process (ICAAP) to determine and demonstrate its capital adequacy, including meeting its minimum regulatory Total Capital Requirement (TCR).

During the year, the Group has complied with its minimum capital requirements at all times.

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

- Lending and Business Decisions – The Group does not use an application scorecard and all lending decisions are individually underwritten, with the assessment designed to ensure the adequacy of security, the credit worthiness of borrowers and affordability of mortgage repayments. A detailed Lending policy sets out the Group's lending criteria for different types of lending supported by ongoing monitoring by ALCO and Credit Committee.
- Pricing – the pricing of all new mortgage products utilises a pricing model that incorporates an expected Probability of Default (PD) and Loss Given Default (LGD) to ensure that the margin received appropriately reflects the risks involved.
- Concentration risk – Concentration risk is 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 within all UK regions and the maximum value of large exposures to single or connected mortgage borrowers and treasury counterparties. These concentrations are reviewed monthly by ALCO.
- Counterparty risk – Wholesale lending is only carried out with approved counterparties in line with the Group's risk appetite and is subject to a range of limits. The limits are monitored by ALCO to ensure the Group remains within policy.

Capital is subjected to regular stress tests to ensure the Group maintains sufficient capital for future possible events. The table below reconciles the Group's reserves to its total regulatory capital position.

| Capital | Group 2022 £'000 | Group 2021 £'000 |
|---|---|---|
| General reserves | 42,329 | 40,545 |
| Revaluation reserve | (435) | (315) |
| Fair value reserve | (85) | 17 |
| Deduction for net pension asset | (2,681) | (4,803) |
| Deduction for intangible assets | (371) | (482) |
| Other regulatory adjustments | 168 | 129 |
| **Common Equity Tier 1 Capital** | **38,925** | **35,091** |
| **Total Regulatory Capital** | **38,925** | **35,091** |
| Risk Weighted Assets (unaudited) | 254,735 | 218,670 |
| Total leverage exposures (unaudited) | 605,301 | 633,731 |

| Capital ratios (unaudited) | % | % |
|---|---|---|
| Common Equity Tier 1 | 15.3% | 16.0% |
| Total capital ratio | 15.3% | 16.0% |
| Leverage ratio | 6.4% | 5.5% |

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

## 31. Country-by-country reporting

The regulations under Article 89 of the CRD IV require the Society to disclose the following information about the source of the Society's income and the location of its operations.

a) Name, nature of activities and geographical location: Melton Mowbray Building Society has one regulated subsidiary and operates only in the United Kingdom. The principal activities of the Society are noted in the Directors' Report under Business Review. The principal activities of the subsidiary are disclosed in Note 16(b) to the accounts.

b) Average number of employees: 134 (2021: 114)

c) Annual turnover: £13,295,000 (2021: £10,575,000)

Profit before tax: £4,012,000 (2021: £1,709,000)

d) Corporation tax paid £504,000 (2021: £297,000)

e) Public subsidies: there were none received in the year (2021: none)

### 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 7.
- Turnover represents total operating income as disclosed in the 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 Income Statement.
- Corporation tax paid represents the cash amount of corporation tax paid during the year, as disclosed in the Statement of Cash Flow.
- No public subsidies were received during the year, however the Society is a participant of the Term Funding Scheme with additional incentives for SME's (TFSME). Borrowings from the scheme are shown in note 23.

### 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

## for the year ended 31 December 2022

### 1. Statutory percentages

| | Group 2022 | Statutory Limit |
|---|---|---|
| Lending Limit | 4.24% | 25.00% |
| Funding Limit | 24.71% | 50.00% |

The above percentages have been calculated in accordance with the provisions of the Building Societies Act 1986.

The Lending Limit measures the proportion of business assets not in the form of loans fully secured on residential property. Business assets are the total assets of the Group as shown on the Statement of Financial Position plus provisions for bad and doubtful debts, less 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.

The Funding Limit measures the proportion of shares and borrowings not in the form of shares held by individuals.

The statutory limits are as laid down under the Building Societies Act 1986 and ensure that the principal purpose of the Group is that of making loans which are secured on residential property and are funded substantially by its members.

### 2. Other percentages

| | Group 2022 | Group 2021 |
|---|---|---|
| As a percentage of shares and borrowings: | | |
| Gross capital | 6.26% | 6.96% |
| Free capital | 5.36% | 6.08% |
| Liquid assets | 20.58% | 21.76% |
| | | |
| As a percentage of mean total assets: | | |
| Profit for the financial year | 0.49% | 0.14% |
| Group management expenses | 1.75% | 1.59% |
| Society management expenses | 1.59% | 1.40% |

The above percentages have been prepared from the Group's accounts and in particular:

'Shares and borrowings' represent the total of shares, amounts owed to credit institutions and amounts owed to other customers.

'Gross capital' represents the aggregate of general reserves, revaluation reserves and fair value reserves.

'Free capital' represents the aggregate of gross capital less property, plant and equipment and intangible assets.

'Mean total assets' represent the amount produced by halving the aggregate of total assets at the beginning and end of the financial year.

'Liquid assets' represent the total of cash in hand and balances with the Bank of England, treasury bills and similar securities, loans and advances to credit institutions and debt securities.

'Management expenses' represent the aggregate of administrative expenses, depreciation and amortisation.

## 3. Information Relating to Directors and Other Officers at 31 December 2022

### Directors

| Name | Date Of Appointment | Business Occupation | Date Of Birth | Other Directorships |
|---|---|---|---|---|
| Susan Margaret DOUTHWAITE | 1 May 2021 | Building Society Director | 1962 | Apricus Consultancy Limited<br>British Business Investments Ltd<br>Nexa Finance Limited |
| Jonathan George FARRINGTON | 1 March 2018 | Company Director | 1969 | Farrington Associates Ltd<br>London Pharma Capital Ltd<br>Medpro Health Ltd |
| Elizabeth Anne LOCKWOOD | 1 July 2022 | Consultant & Building Society Director | 1973 | Cawthorne and Cooke Limited<br>Nexa Finance Limited |
| Andrew John LUMBY | 1 July 2021 | Building Society Chief Financial Officer | 1978 | MBS Lending Ltd<br>MMBS Services Limited<br>Nexa Finance Limited<br>Nexa Lending & Security Services Ltd |
| Judith Anne MORTIMER SYKES | 1 May 2021 | Building Society Director | 1957 | None |
| Fiona Ann POLLARD | 9 October 2014 | Building Society Director | 1965 | Eagle-Eyed Ventures Ltd<br>Heritage Events Ltd<br>MBS Lending Ltd<br>Monument Bank Limited<br>Nexa Finance Limited<br>The Roman Baths Foundation |
| Simon James TAYLOR | 1 June 2020 | Building Society Chief Executive | 1970 | Half Acre Management Consultancy Limited<br>MBS Lending Ltd<br>MMBS Services Limited<br>Nexa Finance Limited<br>Nexa Lending & Security Services Ltd |
| Simon George THOMAS | 1 May 2021 | Building Society Director | 1964 | None |

Documents may be served on any of the Directors at the Society's Principal Office at Mutual House, Leicester Road, Melton Mowbray, Leicestershire, LE13 0DB.

### Directors' Service Contracts

S J Taylor, Chief Executive, has a service contract with the Society, terminable by the Society giving 12 months' notice or the director giving 6 months' notice. The contract was entered into on 1 June 2020.

A J Lumby, Chief Finance Officer, has a service contract with the Society, terminable by the Society giving 6 months' notice or the director giving 6 months' notice. The contract was entered into on 1 July 2021.

### Officers and senior management

| Name | Business Occupation | Other Directorships |
|---|---|---|
| Lisa BULLEN | Director of Operations | None |
| Rita BULLIVANT | Director of IT & Change | None |
| Debbie FLINT | Programme Director | None |
| Rachel KOLEBUK | Chief Customer Officer | None |
| Nicola Kirsty WALKER | Chief Risk Officer | None |
| David Roswell WATTS | Society Secretary | Kim Watts Consultancy Limited |

No Director or other Officer of the Society, or any member of their immediate families, at the end of the year was entitled to any right to subscribe for shares in, or debentures of, any connected undertaking of the Society and no such right was granted to, or exercised during the year.

Melton Building Society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