Melton Building Society

Annual Report and Accounts 2023

Melton Building Society

Inside our 2023 Annual Report and Accounts

Business Review

Chair's Statement	4
Chief Executive's Review	6
Strategic Report	10
Building a Sustainable Society	19

Governance

The Board of Directors	26
Directors' Report	28
Corporate Governance Report	32
Audit Committee Report	38
Risk Management Report	41
Directors' Remuneration Report	50
Independent Auditor's Report	55

Financial Statements

Income Statements	61
Statement of Comprehensive Income	62
Statement of Financial Position	63
Statement of Changes in Members' Interests	65
Cash Flow Statements	67
Notes to the Accounts	69

Other Information

Annual Business Statement	139

Chair's Statement

2023

"As a Society that has lasted almost 150 years, we remain resilient and a safe home for our members' money."

On behalf of your Board of Directors, I am pleased to present the Report & Accounts for Melton Building Society covering the year to 31 December 2023. It has been another year of challenge and turmoil for the financial markets and the UK economy, as well as global instability particularly in the Middle East and Ukraine. We have weathered it well and continue to invest in the Society to ensure we are well placed to provide the best possible services to our members now and in the future.

We thank you all for continuing to deposit with us, which enables us to help people buy their own property. We have supported our borrowers through one of the most rapidly rising interest rate periods seen for many years.

Bank base rate moved from 0.25% to 5.25% in the two years to December 2023 as the Bank of England sought to control inflation. The effect of rapidly rising rates and a cost-of-living crisis has been felt by our borrowers. The Society has ensured we fully supported customers during these difficult times, with a range of forbearance options, as more people than ever have found the dream of home ownership harder to achieve. The deposit market has been equally tough as savers actively sought out the best interest rates and many newer deposit-takers enticed customers with top-of-the-table rates.

Despite these challenges, our Society has continued to deliver a good performance. Our underlying profit was £3.5m and, after taking into account the continued investment in our digital transformation programme and some unprecedented movements in the market values for swaps, our net profit before tax was £0.8m.

I would like to take this opportunity to thank our members and colleagues for their ongoing support in dealing with all the difficulties of 2023. I look forward to 2024 with optimism, knowing that we will continue to work hard for our members.

Market conditions

The desperate situation in the Middle East and the ongoing war in Ukraine have created even more global instability and lack of confidence for investors. In the UK, inflation reached levels not seen for decades, which came with rapidly rising interest rates as the Bank of England tried to reduce inflation. Rising costs across the board resulted in a cost-of-living crisis, which made 2023 a hard year for many. We have worked with our members to help them navigate these choppy waters. Our partnership with Melton and District Money Advice Centre and The Bridge – East Midlands, offering help to members facing financial troubles, has been well used.

The economy is finely poised. Growth has all but stagnated in the UK. Hopes at the end of the year for inflation to fall rapidly and for rate cuts to be on the horizon are now being tempered by ongoing worries about events in the Middle East and rising oil prices. Elections will be held in the UK and the USA in 2024 as well as many other European countries; this too is adding to the general economic and political uncertainty.

The housing market has strongly felt the effects of that uncertainty. Transactions in the last quarter of 2023 were almost 18% lower than in the same month in 2022, with an overall 1.8% fall in house prices for the year.*

The deposit market has been very active and highly volatile. Rising interest rates, coupled with changes in pension investment rules, has increased competition for retail savings.

Society's strategy

We remain true to our core purpose of supporting people to buy their own homes and being a trusted and safe home for their savings. We continue to support our savers by launching market-leading deposit products including a fixed bond paying 6.10% and a notice account paying 5.50%. These products, together with our savings rates generally, led us to receive very positive customer services feedback and a strong net promoter score.

We opened two new branches in Bourne and Stamford in 2023 at a time when most financial services providers were closing high street branches. We are delighted to be supporting those communities and pleased to see and hear the reactions from our members to the new branches. We are now trusted with more than £600m of members' money, which enables us to provide more than £600million of mortgages. Our savings balances now match our borrowings.

We continue to invest heavily in our transition to a relevant modern mutual and to ensure that our systems and processes are fit for purpose and cyber secure, which is an important expectation of our members. This costly but necessary investment will continue into 2024 and beyond.

We are conscious of our position at the heart of our community. So we are delighted that the refurbishment of Mutual House has created a modern workplace for our people and a wonderful community facility that is being well used by local groups and charities. We continue to look after our people during the cost-of-living crisis and are proud of our accreditation as a Living Wage employer, particularly at a time when many firms are moving away from this citing it as too expensive. We have also increased the number of holiday days available to our colleagues as we continue to support them finding the right work-life balance. We have again received the Women in Finance Charter. It endorses our work to ensure a gender-balanced workforce. We also support our people with their learning and development, whether as part of our graduate programme or university learning and achievement alongside their Society role.

Our property development finance subsidiary – Nexa Finance Limited – is now working with five other building societies to support the building of new homes in our communities and further afield.

There has been increasing focus at government level on the mutual sector's role and a commitment by the opposition Labour party to increase the number of mutual businesses if they form the next government. The Melton has regularly been invited to be an active participant in these discussions and works closely with the Building Societies Association to ensure the sector's voice is heard.

The Board

I thank all my colleagues on the Board for the hard work they have put in during a challenging year. Ensuring we have an experienced and strong Board is a pillar of our strategy and has supported the Society's growth and transformation over the past three years. We have grown our savings balances by more than 40%, added new members, increased the number of branches to five, refurbished our head office as a facility that our people and community can be proud of, and continue to invest in our people and processes so that we stay relevant to future savers and borrowers.

I am delighted to have led the Board through those changes but bringing on new talent will ensure that we continue to prosper and grow, so we will be adding two new Directors in the year ahead. My colleague Jonathan Farrington, who has been Chair of our Audit Committee for the past three years, will be leaving us and we thank him for his work at the Society and wish him well in his new role at Nottingham University. I too will be stepping down from the Board during 2024 and express good wishes to my successor in taking the Society to the next stage of its evolution. It has been a privilege to lead the organisation and I am proud of all the work that the whole team has achieved. I thank them all and our members for the support you have given us during my time as Chair.

Fiona Pollard
Chair
18 March 2024

Source:
* https://www.gov.uk/government/statistics/monthly-property-transactions-completed-in-the-uk-with-value-40000-or-above/uk-monthly-property-transactions-commentary#headline-statistics

Chief Executive's Review

2023

"My colleagues have worked very hard to provide members with a high level of service in a year of transformation and external volatility."

I am pleased to report our results, sharing what we have achieved during a difficult financial year. I am proud of the team and their work to balance the needs of savers and borrowers, given the cost-of-living pressures and volatile interest rates. All of our colleagues have worked very hard to ensure our members continue to receive great service and support from the Society.

Highlights of the year:

- Group mortgage assets increased to a record for the Society of £605.9m
- Our savings balances increased to a record of £598.5m
- Underlying profit for the Group continues to be strong
- Our capital position continues to remain robust
- Mortgage arrears have been well managed
- A net promoter score (on customer loyalty) of +82.8
- Awards for the Society across a range of areas
- Donated £34,000 to support local communities through the Society and the Charitable Foundation, and celebrated 25 years of the Foundation's work
- Our colleagues volunteered over 1,100 hours in our local communities

We are here for our members

In 2023 we were delighted to open two new branches, confirming our continued commitment to the High Street. The branches, in Stamford and Bourne, expanded our high-street presence to five locations across Leicestershire, Nottinghamshire and Lincolnshire, and their performance is already ahead of our expectations. We have been very pleased with the performance of all branches as members continue to take advantage of face-to-face support. Our branches have played a key part in achieving the Society's record savings growth.

The hard work to support our members has resulted in a number of awards recognising our knowledge and excellence:

- Best Self Build Lender for the fifth year running in the What Mortgage Awards 2023
- Mortgage Provider of the Year 2023, as voted by MoneyAge
- Highly Commended at British HR Awards for Financial Services Company of the Year 2023
- Winner of Most Influential Mortgage and Savings Product CEO 2023 UK from CEO Monthly

Our members have also supported our results and continue to give us a good measure of how we are doing. Through the continued excellence of service from our teams, we have achieved a net promoter score – which measures our members' loyalty – of +82.8 for 2023, an increase on our 2022 score of +81.7. We are proud of our score in 2023 and this compares well with the building society and wider financial services benchmarks. Our teams work hard every day to make our purpose of 'building thriving communities' come alive for our members.

We have continued to make it easy for our borrowers and savers to stay with the Society at the end of their product term. We have done this through proactive communications and great support from colleagues, who have shared details of other products that may be suitable.

We signed up to the Government's voluntary Mortgage Charter. The charter provides support options to homeowners, for example by temporarily switching to interest only or extending a mortgage term. Whilst these options already formed part of a range of forbearance and support options we offer, it does provide support and reassurance to borrowers.

We are proud to have maintained our Fairlife Charity Mark for our mortgage and savings products. The Mark is given to companies that meet the criteria of honest pricing and fair trading with customers.

FairLife

We are part of our communities

At the start of 2023 we completed the refurbishment of our Principal Office, Mutual House. Returning colleagues have benefited from our new work spaces and we are already seeing efficiencies in our internal processes. A key part of the refurbishment was to open up space for use by community groups and members for them to run workshops, meeting and events in a modern, fit-for-purpose setting.

The rooms have been popular with a number of groups and charities, including Melton and District Money Advice Centre, Melton Mencap, Community Network Foundation, and Anchor Care and Education. We have received great feedback from the groups, including these words from Community Network Foundation:

"Wow! What a brilliant asset for local community groups. And how lucky we are to have a local Society that thinks through how they can help community groups have access to such modern and carefully designed meeting rooms. Light, modern and welcoming. What more could you want? And, not just that, but a friendly, welcoming reception team to front the asset.

Thank you, Melton Building Society, for clearly demonstrating you'll go the extra mile to be there alongside community groups in and around Melton."

The Society continues to be part of the wider community, with money and time being given to our charity partners. Our Charitable Foundation, which celebrated 25 years of community giving last year, has again supported a broad range of local charities this year. A special part of its work is the responsibility of managing June Roper's legacy donation to the Foundation through the June Roper Sporting Trust. June Roper wanted to support charities and non-profit making organisations or individuals from underprivileged backgrounds with a focus on sport in the Melton area. The Foundation has made some great donations this year, for example to Rutland Community Ventures, Read for Good, Melton and District Indoor Bowls Club, Lincolnshire Emergency Blood, Oakham Cricket Club, and the Douglas Bader Foundation.

We were pleased in 2023 to partner with two other regional building societies, Hinckley & Rugby and Market Harborough, to provide funding to The Bridge – East Midlands, which helps give valuable housing support and information. The money pays for a Specialist Housing Advisor to help those in our local area with housing-related matters. There's already been good feedback on this support.

Our colleagues continue to take an active role in the community by offering their time. In total, the Society has given over 1,100 hours, an increase on a strong 800 hours in 2022. Their support has gone to projects, charities and initiatives including:

- an upgrade to an area of St Mary's Primary School to build a wildlife and picnic area for the children
- painting the exterior of the Holwell Pastures Scout Camp Site
- help to collect donations with the local Fire Brigade on the annual Santa tour around Melton
- litter picking in many locations around our heartland
- supporting at Storehouse before Christmas to serve Christmas meals

Our partnership with Melton and District Money Advice Centre has been going strong now for 18 months with the funded qualified Educational Officer going into schools and colleges across Leicestershire to provide financial education lessons to students. During 2023, 4,400 young people attended a session, with some great case studies and feedback on how the support has changed lives.

We have invested in our people

In 2023 we have supported the local economy by welcoming 43 new colleagues to the Society, who have played their part in helping our members. Our colleagues are key in offering the great experience members have with us. Through an independent colleague engagement and satisfaction survey, we are pleased our colleagues scored us +65.2 based on the question 'Would you recommend Melton as a place to work?'. In the same survey, we achieved 82.3% when we asked how our colleagues rate the experience of working for the Society. We have a strong and vibrant culture, with our colleagues feeling empowered to give great customer service.

We were pleased to maintain our Thriving Workplace Certification from New Possible for another year, which recognises organisations that give colleagues an outstanding experience. This is a great testament to our values and behaviours.

We continue to support the Living Wage Accreditation by paying the Real Living Wage across the whole Society. Given the uncertain economic conditions, we are pleased to be able to support our colleagues by doing this as well as having other support measures in place.

2023 Thriving Workplace Certified by New Possible

Living Wage Foundation

We seek to attract, develop and retain talented colleagues in the Society and aim to support them through their career. We have continued to focus on wellbeing, given the impact from the pandemic years as well as the cost-of-living impact, which has affected colleagues in different ways. We provide support to colleagues through a range of options, including an Employee Assistance Programme, access to mental health first-aiders (we have trained 13 across the year), a Cash Health Plan providing more support and access to a range of medical and health services, and an ongoing focus on wellbeing through training and focus days and events open to all.

Inclusion and diversity has continued to be an important area of focus for the Society and we are pleased with our continued progress in 2023. We are proud to maintain our Women in Finance recognition and our gender balance, in particular on the Board. We continue to invest and focus on this area.

We are committed to improving the environment

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

We have continued to make good progress in 2023, building on our work in 2022:

- We have improved our rating for work on supporting the United Nations' Sustainable Development Goals. Support the Goals, an initiative that rates and recognises businesses for their contributions towards the global goals, awarded us a five-star rating this year, up from four stars in 2022, something only 1% of businesses have achieved
- We were also delighted to be awarded Climate Partner certification. This was a testament to our dedicated efforts and ongoing commitments to significantly reduce our carbon footprint. We have made a number of impactful actions and pledges, showing our resolve to not only meet but exceed environmental standards
- Work continues to assess and address the risk of climate change and how we can help our members – see our Building a Sustainable Society report for more details of our work this year

We have performed well

The Group reported a profit before tax of £0.8m, a reduction compared to the £4.0m reported last year and was expected. Profitability decreased due to a number of factors, not least the investment in our digital transformation programme and adverse fair value movements in derivative instruments. Excluding these, underlying profit before tax was £3.5m, an increase of £0.9m.

Group mortgage assets increased by £50m to £605.9m and total assets increased to £769.2m. The Group's net interest margin also increased to 2.14%, up from 1.99% in 2022, 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 2.01% from 1.75%. We remain conscious of balancing the need to invest with operating as efficiently as possible for the benefit of members.

The Society recorded a profit before tax of £0.2m (2022: £3.6m) and advanced £123.1m (2022: £134.4m) of new mortgages during the year. Total loans and advances outstanding at the year-end increased by 11% to £539.7m (2022: £484.8m).

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 2024

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 began our work to invest in, and develop, the Society's capability to ensure we meet our members' needs now and in the future.

The programme we have embarked on – which will also be a key priority for us during 2024 – focuses on digital development to ensure that in future our members can benefit from an engaging and innovative online service that will integrate seamlessly with our face-to-face service, ultimately offering the best of both worlds.

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
18 March 2024

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 we face. 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 we earn from our subsidiary businesses, covers our operating costs, impairment losses, provisions and 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 our long term sustainability.

Mutuality has never been more relevant than today, with momentum building. A report completed by the Building Societies Association, The Value of Mutuals, shows that in 2022, building societies shared value with their members by paying £5.5bn more in savings interest versus the average market rate. The share of branches that building societies have, has also increased from the 16% share in 2012 and has risen to 38% in 2023, as the sector remains committed to the high street. Building societies realise that customers want choice on how they manage their money today and are providing strong support to customers.

The Members Bill going through Parliament states the important role of building societies, particularly in local communities. We fully support the Bill, which will put building societies on a more level footing with banks across a range of areas.

Our strategy

2024 sees the launch of the next strategic plan with work underway for how the Society will evolve over the coming years. However, at the heart of the strategy we remain true to the essence of a successful building society: to provide a safe and secure home for members' savings and to use them to provide mortgages to members to buy their homes. This places us in the position of balancing the conflicting needs of both sets of members, as we strive to find the optimal point between offering good value to savers and competitive rates to borrowers. We achieve this by being true to our core social purpose.

Progress on our digital transformation will continue in the coming years. Our investment in this will ensure we can appeal to a broad range of customers across a channel of their choice, offering the best experience we can to existing and new members. The growth and profitability of recent years has provided the foundations for the Society to make these investments and will support our relevance and growth in future.

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

- Our customer service remained consistent with a net promoter score (on customer loyalty) of +82.8
- We won a range of industry awards
- We were recognised as a signatory of the Women in Finance Charter
- We were proud to be awarded the Living Wage Accreditation
- We maintained our partnership with the Leicestershire and Rutland Wildlife Trust to support nature's recovery in the community

Grow

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

- Asset growth of 7.6%
- Strong savings growth of 17.7%
- A further increase in the year on customer numbers of 3%
- Proud to maintain our colleague engagement at over 80% for another year, with +65.2 of colleagues saying they would recommend the Society as a great place to work
- Opened two new branches in Stamford and Bourne, which are already helping customers plan and save for their future

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

- We introduced a simpler process for ISA transfers for our savers
- We transferred new lending for our Credit Repair products to the Society from our subsidiary, Melton Building Society Lending
- We made strong progress on our digital transformation, which aims to improve processes by removing friction from our customers' experience with us
- We have continued to improve our average mortgage application to offer timescales

Best

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

- Donated £34,000 to support local communities through the Society and the Charitable Foundation
- Partnered with Melton and District Money Advice Centre to provide financial education lessons to students. In 2023, over 4,400 young people have attended a session
- Showed strong operational resilience by continuing to provide our services across all channels to our customers
- Complied with the new Consumer Duty that came into effect on 31 July 2023, aiming to set higher and clearer standards of consumer protection
- We launched a panel, called Melton Voice, for members and non-members to help shape the Society's future by sharing feedback with us

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 KPIs are selected to support its strategic pillars, including several Alternative Performance Measures (APMs) which are in common use across the Financial Services industry and are useful to explain Group performance. These KPIs, and the Society's performance against each, are:

		2023	2022
Relevance	Mortgage growth (%)	9.0%	15.4%
	Savings growth (%)	17.7%	15.8%
	Customer numbers	44,806	43,493
Simplify/digitise	Underlying management expenses (as a % of mean total assets)	1.77%	1.68%
	Average application to offer days	21	25
Grow	Underlying profit before tax (£000)	3,471	2,581
	Net interest margin (as a % of mean total assets)	2.14%	1.99%
	Cost to income (%)	92.1%	72.8%
	CET 1 (as a % of risk-weighted assets)	14.2%	15.3%
Best	Net promoter score (% score achieved)	82.8%	81.7%
	Mortgage book in arrears (% of total mortgage book)	1.60%	1.80%

Business review

The Chief Executive's Review describes 2023 as a year of transformation and progress against a period of external volatility. The hard work of colleagues has ensured our performance continues to be maintained at high levels. Reported profits have reduced as expected due to the cost of implementing new systems (part of our digital transformation project), but underlying profitability has increased by over 33% compared to last year, to £3.5m. When combined with mortgage book growth of 9.0% and continued high customer satisfaction scores, 2023 can be considered a year of success against the Board's strategic objectives.

The following section provides information about our financial performance and 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 and adjusts for fair value volatility arising from derivative financial instruments and strategic IT investment costs which are non-reoccurring.

Summary Income Statement

	2023 £'000	2022 £'000
Net interest income	15,900	13,295
Fees, commissions and other income	1,048	894
Total underlying income	**16,948**	**14,189**
Underlying management expenses	(13,167)	(11,258)
Underlying operating profit	**3,781**	**2,931**
Gains/(losses) on revaluation/sale of investment property	165	(120)
Impairment on loans and advances to customers	(475)	(230)
Underlying operating profit before tax	**3,471**	**2,581**
Fair value gains	(877)	1,856
Strategic IT investment costs	(1,783)	(425)
Profit before tax	**811**	**4,012**

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 £3.5m (2022: £2.6m) but, due to strategic investment, statutory profit fell to £0.8m (2022: £4.0m).

Underlying 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 fall in statutory profits resulted from a partial unwind of the fair value gains recognised in 2022 and the significant ongoing investment in our digital transformation project.

Statutory profit after tax was £0.6m and resulted in a profit-after-tax ratio of 0.08% (2022: 0.49%); this contributed to reserves and supports our capital strength.

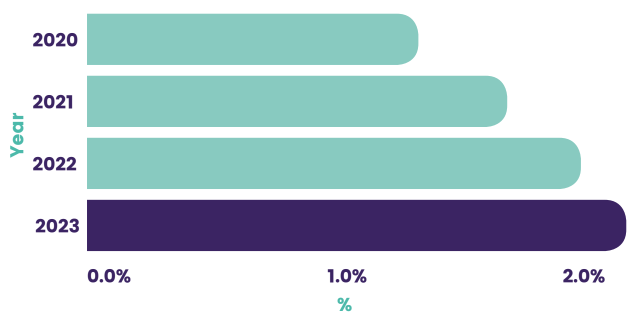
As reported last year, the reduction in statutory profit was expected as we incur one-off implementation costs to transform the Group's core systems. This will continue throughout 2024 but as shown by the increase in underlying profit, the Society's core business remains strong.

Underlying profit before tax (£m)

Net interest income and net interest margin

Net interest income is our main 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 £2.6m to £15.9m, with the net interest margin increasing to 2.14% (2022: 1.99%).

Net interest margin (%)



Increases to bank base rate during the year helped increase interest income by £18.2m to £38.2m, with interest received from mortgages increasing by £10.0m and interest from the Society's liquid assets increasing by £4.3m. The rises in bank base rate also increased our income from derivative assets, which are held by the Society to hedge fixed-rate mortgages. As bank base rate increased, the variable leg of the derivative asset also increased, generating additional interest income of £3.9m.

Interest payable also increased during the year by £15.6m to £22.3m, with £11.3m of this increase relating to increased interest paid to our savers. Other borrowing costs increased by £3.5m as our Bank of England borrowings increased with base rate.

Fees, commissions and other income

The Group offers home insurance, 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) method. It also includes management fees earned through the Group's Nexa Finance subsidiary.

Society net fees and commissions totalled £0.2m (2022: £0.3m), a decrease of 23%. The reduction was mainly driven by the lower volume of mortgage business compared to the previous year.

Fees, commissions and other income

	2023 £'000	2022 £'000
Society fee and commission income	198	258
MBSL fee and commission income	23	47
Independent mortgage advice	72	92
Nexa Finance	1,077	872
Other income/(expense)	(321)	(375)
Total	**1,049**	**894**

MBSL Lending Ltd provides mortgage finance to customers who do not meet our Lending Policy criteria. After a review of Lending Policy and to simplify the customer journey, from August 2023 all new lending that would have gone through MBSL came through the Society. As a result, MBSL fee and commission income reduced to £0.02m (2022: £0.05m) and MBSL advanced new loans totaling £9.6m (2022: £20.6m), with total loans and advances to customers outstanding at the year end of £66.2m (2022: £71.1m).

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 over 1,000 mortgage products. The decrease in fees during the year represents a reduction in mortgage business because of the tough market conditions.

Nexa Finance connects SME property developers with funders to provide an alternative lending model to support developments. Launched in 2019, the subsidiary continues to grow with fee income increasing to £1.1m (2022: £0.9m) and loans under management increasing to £27.4m (2022: £21.7m).

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. Unless the instruments are sold early, which we have no need or intention to do, any gains or losses will unwind over the life of the instrument.

The net loss on derivative financial instruments was £0.88m (2022: gain of £1.86m), which reflects movements in market yield curves during the year and also a partial unwind of the significant gain recognised last year.

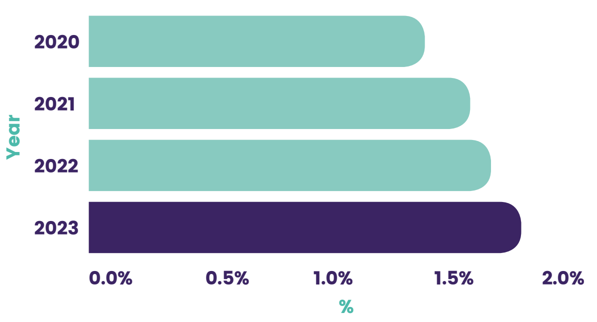
Management expenses

Management expenses comprise staff costs and all other overheads necessary for the Group's operation including depreciation and amortisation. As reported in last year's Business Review, we expected management expenses to increase year on year as we invested in our new digital platform. 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. As these are non-reoccuring they have been excluded from the underlying measure.

Total management expenses increased by £3.3m to £15.0m (2022: £11.7m). Underlying management expenses, consisting of administrative expenses and depreciation & amortisation but excluding £1.8m of IT investment costs, increased by £1.9m to £13.2m. The main cost drivers for increases to underlying management expenses were staff costs as we increased headcount from 138 to 148 and continued to maintain our real living wage accreditation. Depreciation expense also increased with the refurbishment of our Head Office.

This resulted in our underlying management expenses ratio increasing from 1.68% to 1.77%. The statutory management expenses ratio increased from 1.75% to 2.01%.

Underlying management expenses ratio (%)

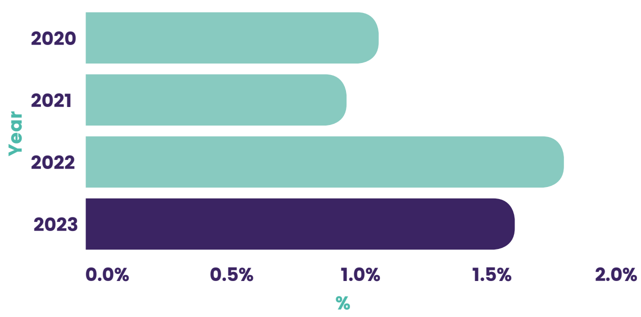


As stated last year, we expect our management expenses to remain high during 2024 as we continue our digital transformation project. During the year we incurred £1.8m of strategic costs that related to the project. These are one-off costs and, once the project is completed, we expect to see significant operational cost efficiencies.

Impairment on loans and advances to customers

Group mortgage balances in arrears as a percentage of the book decreased from 1.80% to 1.60%, with the total value of arrears remaining flat at £0.2m (2022: £0.2m).

Arrears (%)



The total number of arrears cases in the Society increased from 33 to 34, with the value of arrears reducing from £0.15m to £0.09m. Total arrears cases in MBS Lending Ltd remained at 37 with the value of arrears increasing slightly from £0.07m to £0.12m. While arrears figures have not increased significantly to date, we remain mindful of the cost-of-living pressures and future economic headwinds.

An impairment charge of £0.5m (2022: £0.2m) was recognised during the year. The increase from the previous year arose as we disposed of a number of legacy arrears cases; we also ensured we have an appropriate impairment provision, given the uncertain economic conditions. The combined Group impairment provision is £0.5m and represents 0.09% (2022: 0.17%) of the total mortgage book.

Summary statement of financial position

Group	2023 £'000	2022 £'000
Liquid assets	145,313	137,385
Mortgages	605,886	555,757
Fixed and other assets	18,049	21,692
Total assets	**769,248**	**714,834**
Retail	598,473	508,581
Non-retail funding	121,991	158,968
Other liabilities	6,264	5,476
Reserves	42,520	41,809
Total liabilities and reserves	**769,248**	**714,834**

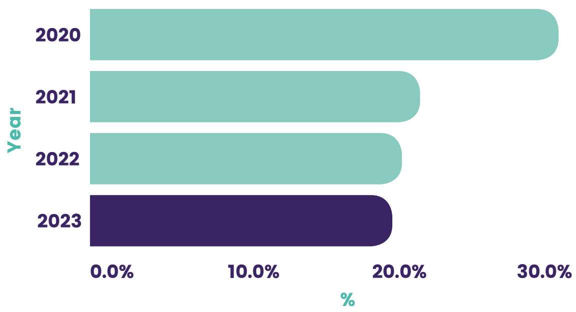
Total assets

Group total assets increased by 7.6% or £54.4m. The growth was mainly driven by an increase in the Group's mortgage portfolio of £50m.

Liquid assets

'Liquid assets' means 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. Liquid assets are held to ensure the Society can meet its financial obligations under both normal and stressed scenarios.

Liquid assets ratio (%)



The level of liquid assets as a percentage of shares and deposits has remained stable to last year at 20.17% (2022: 20.58%). At 31 December, total liquid assets amounted to £145.3m (2022: £137.4m) of which £128.4m was held with the Bank of England or HM Treasury. The level of liquidity held 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 held through the liquidity coverage ratio (LCR). At 31 December, our LCR was 1,000% (2022: 545%), significantly above the 100% regulatory minimum.

Mortgages

The overall mortgage portfolio totalled £605.9m at 31 December (2022: £555.8m) and mainly consists of prime owner-occupied, including shared ownership and buy-to-let lending, but also comprises small portfolios of impaired credit and property development loans.

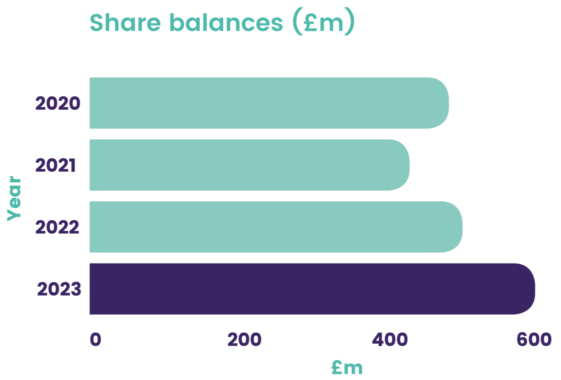
Gross lending in the year totalled £133m (2022: £166m) and continued the strong mortgage book growth of the last few years. Combined with strong retention levels – we retained over two thirds of customers who reached the end of their fixed or discounted term – net lending totalled £50m and resulted in overall mortgage book growth of 9% (2022: 15%).

Gross advances (£m)

The Group's mortgage portfolio continues to remain very high quality, with over two thirds of the portfolio represented by prime owner-occupied mortgages. The indexed loan-to-value also remains strong despite recent reductions in house prices at 50% (2022: 45%).

Retail

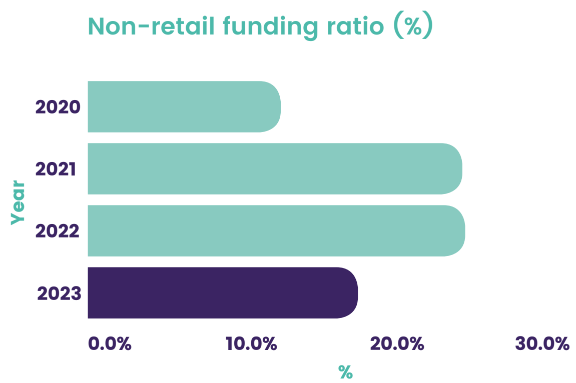
Retail savings and deposit balances continue to be our core funding requirement. Total balances increased by £89.9m to £598.5m (2022: £508.6m) as the Society saw strong growth in new account openings supported by its two new branches, at Bourne and Stamford.



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 small and medium enterprises (TFSME) continued to provide the Group with medium term funding. During the year repayments of £35m were made, leaving outstanding TFSME borrowings at 31 December of £82m (2022: £117m). Details of the security we provided to the Bank of England are shown in Notes 14 & 16. The security provided to the Bank also enables us to access other Bank liquidity facilities, including the discount window facility and the indexed long term repo (ILTR) facility. At 31 December, the Group had funding of £12m (2022: £nil) under the ILTR scheme.

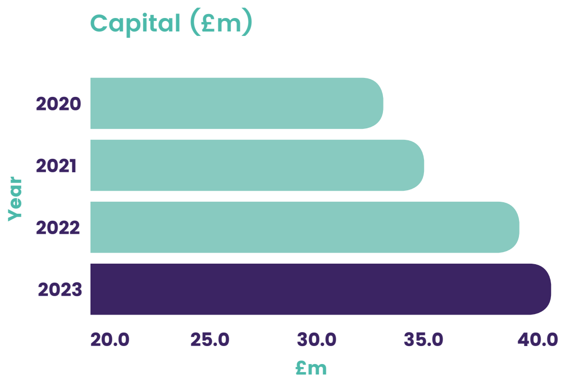
The Society also has access to the unsecured wholesale funding market, where funding can be obtained from other financial institutions and local authorities. At 31 December, this totalled £13.9m (2022: £17.9m). This led to the Group's non-retail funding ratio falling to 17.5% (2022: 23.1%).



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 future development. As a mutual organisation, we have no external shareholders so we need not maximise profits. We can focus on giving value to our members through competitively priced products and services while ensuring we earn a sufficient surplus to maintain a robust capital position.

The Group's Common Equity Tier (CET) 1 ratio fell from 15.3% to 14.2% during the year, due to a combination of mortgage book growth and lower profits because of the strategic investment.



Our regulatory capital position at 31 December 2023 remains robust, with capital increasing to £40.6m. Compared to the Group's total capital requirement set by the PRA of £22.9m, the Group remains well above its minimum requirements. Further details of the Group's risk exposures and capital adequacy are contained in the Group's Pillar 3 disclosures that are 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 risks and uncertainties and how the Group mitigates them are detailed in the Risk Management Report on pages 41 to 49. Alongside those risks detailed in the Risk Management Report, the Group has identified the following emerging risks that may affect its future strategy and business model.

External economic environment

The overall economic environment has stabilised compared to this time last year but conditions remain uncertain with the ongoing conflict in Ukraine and the crisis in Gaza. Inflation has fallen from the highs of last year, bank base rate appears to have peaked and mortgage rates have started to reduce, but household incomes remain squeezed.

Despite our current strong credit position, we may yet see an increase in the number of forbearance and arrears cases across the Group's mortgage portfolio. Initially we manage credit through underwriting, which seeks to ensure that borrowers only take on debt they can afford to repay. If borrowers struggle to pay their mortgage, we have a team that can support and advise them of their options, including use of the Mortgage Charter. In addition, the Group's forward looking mortgage provisioning assumptions continue to reflect the uncertain economic environment.

Change Risk

As the Group enters a period of significant investment and change, there is a risk that the change is not managed effectively. This may materialise through poor customer journeys, insufficient resource and capacity, or overspend compared to budget.

To ensure change is managed effectively, the Group operates project steering committees who monitor project progress, emerging risks and spend.

People risk

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, whilst 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 ensuring employees are trained to recognise cyber-security threats and manage the risks.

Climate risk

The Group recognises that climate change risks are not just an immediate issue but that their impact may materialise over much longer timescales. With extreme weather events occurring more often, the Group is managing these risks not as they materialise but by looking ahead over a longer-term timescale.

Simon Taylor
Chief Executive
18 March 2024

Building a Sustainable Society

In 2025, Melton Building Society will celebrate 150 years of helping the local community thrive, supporting it with financial education, social development, ambitions of financial security and home ownership.

Since our founding in 1875, the Society has continued to build on our original purpose: to work for the good of our members. During 2023, the Society grew our presence in the community by opening two new branch locations.

Operating in a wider context of growing concern about the long-term impact of such issues as climate change and social instability, the Society and its Board remain committed to our sustainability objectives.

We remain steadfast in our commitment to operate for the good of our current members and in a way that secures a Society fit to serve the needs of future generations. We also have a duty of care that starts with taking positive action for our people, the environment and the communities in which we serve.

Our commitments to sustainable development

We understand the growing importance to our members that we take seriously the difficulties of society and the environment. We have a responsibility to plan and take action for real change to build a sustainable society.

The Board has a responsibility to keep the Society and its members safe and fit to carry out its obligations as a modern mutual. This is managed through our risk-appetite areas: protect financial stability; maintain capital adequacy, reputation and protection; and provide fair customer outcomes.

The bedrock of mutuality, to run for purpose not profits, is growing in importance in the current challenging social and economic climates. There is a great need to commit ourselves to make changes that contribute to long term value.

Given how far-reaching these challenges are, we made a clear commitment back in 2022 to align all our sustainability activity to the United Nations Sustainable Development Goals. These 17 goals cover a wide spectrum of social and environmental issues, with targets set for 2030.

Focusing on our people and communities, we made excellent progress against the chosen five goals for the Society to focus on during 2023, shown below:

We are proud to have made significant progress against our objectives for 2023, completing over 1,100 hours volunteering, achieving Menopause Friendly Employer accreditation, becoming Climate Partner certified for reducing our carbon footprint, and funding the delivery of financial education to around 4,400 people across our communities with our partnership with Melton and District money advice centre. In doing so, have been awarded a five-star rating from 'Support the Goals'.

Our Climate Partner certification testifies to our efforts and ongoing commitments to significantly reduce our carbon footprint. It reflects our proactive approach to going green, including a series of impactful actions and future pledges that include:

- a 10% reduction in commuting by 2025, facilitated by an innovative electric vehicle (EV) scheme for colleagues through salary sacrifice and the installation of 8 free EV charging points
- transition to exclusive use of green energy by 2024, underpinned by installing solar panels and establishing a green resource group
- adopting a flexible working policy to further reduce commuting emissions

Our progress in climate action shows our resolve to not only meet but exceed environmental standards. Our certification as a Climate Partner shows our proactive part in the financial sector's green agenda.

In 2023, we partnered with JUST ONE Tree as part of their £1 for 1 tree campaign. They use the funding to support reforestation organisations around the world, focusing on areas severely affected by mass deforestation. We agreed to contribute £1 for each employee and an annual contribution equal to the number of new members attracted in the previous calendar year. In 2023, we attracted 3,764 new members, so in January we donated £3,764. Our forest now stands at 3,914 trees and we're offsetting about 1,206 tonnes of CO2 through the partnership.

We want to encourage our members to review the energy efficiency of their property and reduce their impact on the environment. So we've partnered with third-party provider Vibrant to offer all customers who complete on mortgage applications from 1 May 2023 access to a free EPC Plus survey on their mortgaged property, including further borrowing and product transfers. This will enable our members to identify opportunities to save money, add value to their property and reduce their environmental footprint.

Climate change

Strategy

Climate change is part of our strategic plan because of its possible widespread impacts, both positive and negative, on the Society and its members.

As a building society, our business model means we do not lend to or invest in the fossil-fuel industry. Our strategic approach continues to evolve, with the Board remaining aware of our impact on the climate and, where possible, being proactive in making adaptations to meet the changing needs of our customers and communities. The Group remains committed to supporting the Government's target of reaching net zero emissions by 2050.

The following information sets out the Group's progress towards achieving its climate objectives and further actions it is taking.

Principal areas	Delivered to date	Future focus
Governance	- Governance framework established to oversee climate-related financial risks. This continues to be embedded into our risk management framework - Established a Green Resource Group - Training and upskilling of the Board and senior management	- Continue to develop a clear timeline for reaching net zero
Risk management	- Climate change policy introduced - Gained ClimatePartner certification for action taken against climate change	- Continue to evolve climate risk reporting through committee structures - Continue to monitor and inform the Board of regulatory best practice
Metrics and targets	- Published calculations for scope 1, 2 and 3 emissions (scope definitions outlined under carbon emissions see page 25) for all business operations - Offset carbon emissions from business operations - Committed to an emission reduction strategy by 2025	- Collect data for all scope 3 upstream emissions - Committed to scope 1 and 2 reduction targets by 2025
Scenario analysis	- Physical and transitionary risk assessed within our Internal Capital Adequacy Assessment Process (ICAAP)	- Continue to evolve use and sophistication of scenario analysis throughout the business and in the ICAAP
Members	- Offer a free EPC Plus to borrowing members	- 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 - Electric vehicle salary sacrifice scheme offered to all colleagues	- Transition to green energy by the end of 2024
Training and culture	- Rolled out climate training to all colleagues	- Rolling out a colleague engagement app to help understand their emissions profile - Colleagues to get more involved in climate-related matters, including supporting activities in the community

Governance

Climate change risk is owned by the Board and is periodically discussed as part of the Group's strategy review cycle. The Board is responsible for setting the Group's overall risk appetite for climate change. It has delegated oversight of climate change risks to the Group's Risk Committee.

The Audit Committee has oversight of the Group's financial statement disclosures relating to risks arising from climate change.

Risk management

The Group recognises that climate-change risks are not just an immediate issue but will have effects that materialise over long timescales. The risks will have various implications for our operations, longer-term product strategy, members, colleagues and suppliers.

The Group aims to manage these risks by looking well ahead.

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

Metrics and targets

The key metrics and targets we adopt are detailed below.

Physical risk metrics

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 in our mortgage portfolio.

Risk		31 December 2023		RCP 8.5 2050	
		No. of properties	% of mortgage book	No. of properties	% of mortgage book
River flooding	High	217	4.9%	232	5.2%
	Med	52	1.2%	37	0.8%
	Low	4,180	93.9%	4,180	94.0%
Surface flooding	High	16	0.4%	101	2.3%
	Med	89	2.0%	6	0.1%
	Low	4,344	97.6%	4,342	97.6%
Coastal flooding	High	94	2.1%	106	2.4%
	Med	12	0.3%	11	0.2%
	Low	4,343	97.6%	4,332	97.4%
Subsidence	High	-	-	-	-
	Med	618	13.9%	757	17.0%
	Low	3,831	86.1%	3,692	83.0%
Landslide/Coastal erosion	High	225	5.1%	236	5.3%
	Med	144	3.2%	142	3.2%
	Low	4,080	91.7%	4,071	91.5%

Transition risk metrics

Transitionary financial risk is assessed through analysis of the Group's mortgage portfolio by Energy Performance Certificate (EPC) rating. We obtain 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 that would arise from making improvements to reduce emissions.

EPC rating	31 December 2023		31 December 2022	
	No. of properties	% of mortgage book	No. of properties	% of mortgage book
A	25	0.6%	20	0.5%
B	766	17.2%	779	16.0%
C	846	19.0%	820	16.5%
D	2,059	46.3%	1,757	32.7%
E	559	12.6%	683	15.8%
F	152	3.4%	166	5.5%
G	42	0.9%	52	2.0%
Unrated	-	-	342	11.0%
Total	**4,449**	**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.

EPC rating	Potential rating	
	No. of properties	% of mortgage book
A	628	14.1%
B	2,319	52.1%
C	1,207	27.1%
D	205	4.6%
E	64	1.5%
F	22	0.5%
G	4	0.1%
Total	**4,449**	**100%**

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 used by the Group's offices for heating
Scope 2	Indirect emissions form purchased energy	Electricity bought for Group premises
Scope 3	Indirect emissions that occur as a result of Group operations.	Water use, business travel and employee commuting

To help plot our pathway to net zero, we continue to evolve how we capture and report our carbon emissions to allow us to measure and then target reductions. The table below shows our progress on reducing carbon emissions against our original baseline data. During the year, the Group has adopted a number of initiatives to help reduce its carbon emissions, with the data showing a 17% reduction. While actual emissions have fallen, our reported drop in scope 1 and 2 emissions was boosted by our Head Office being closed for several months for refurbishment.

Carbon emissions data

Scope	Emissions (tCo2) Current	Emissions (tCo2) Baseline
Scope 1		
Natural gas	28.8	47.2
Company vehicles	10.3	28.0
Refrigerant	4.3	21.8
Scope 2		
Electricity	89.8	119.5
Total scope 1 and 2 emissions	**133.2**	**216.5**
Scope 3		
Water consumption	0.5	0.5
Gas and electricity	25.6	38.1
Business travel	19.0	19.5
Employee commuting	229.3	215.7
Total scope 3 emissions	**274.4**	**273.8**
Total emissions	**407.6**	**490.3**

Scope 3 data is restricted to emissions generated by the Group's business operations. It does not include upstream emissions from our supply chain or downstream emissions generated from our mortgage portfolio.
Over the medium term, as well as buying carbon offsets, we plan to reduce our overall net carbon footprint by making further reductions in our total emissions.

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 the 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 also sit on the Board, and Chair the Audit Committee of, National Deposit Friendly Society Limited.

I am married with one son and live in Surrey.

Jonathan Farrington - Chair of Audit 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 and a Professor of Practice at Nottingham University Business School.

Sue Douthwaite

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

I have been involved in transformational fintech projects and the successful delivery of new operating models, systems and culture. I also sit on the board of the NHS Business Services Authority as Chair since 2022, and I am a Non Executive Director of British Business Investments Ltd. I am Chair of the Advisory Board for Queen's University Business 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 20 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 & Accounts of the Society and its subsidiary undertakings (together, the 'Group') for the year ended 31 December 2023. 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 2023, 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 £0.8m (2022: £4.0m). The Group profit after tax transferred to general reserves was £0.6m (2022: £3.2m).

Gross capital at 31 December 2023 was £42.5m (2022: £41.8m), being 5.90% of total shares and borrowings (2022: 6.26%). Free capital at 31 December 2023 was £34.6m (2022: £35.8m), being 4.80% of total shares and borrowings (2022: 5.36%).

The Capital Requirements (Country-by-Country Reporting) Regulations 2013 place certain reporting obligations on financial institutions that are within the scope of Capital Requirements Directive IV (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 at 31 December 2023 are shown in Note 32 of the annual accounts.

Mortgage arrears

At 31 December 2023, the Group had 4 (2022: 3) mortgage loans 12 months or more in arrears, with total amounts outstanding of £338,000 (2022: £929,000).

At 31 December 2023, the Group held 1 property (2022: 4 properties) in possession.

Political donations and gifts

The Group has not made any political donations or gifts in the year (2022: £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, which helps them fulfil their contracts. The creditor days were 11 days at 31 December 2023 (2022: 28 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 of operating under stressed but plausible conditions. The forecasts reflect the current and anticipated economic environment including the persistent cost-of-living pressures and weaker housing market. The detailed assumptions adopted in line 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 because, beyond that timescale, assessment of the impact of changes in the economic, technological and regulatory environment is much 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. The stresses 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 enough to withstand the stress.

As a result:

- the Directors are satisfied that the Group has adequate resources to continue in business for at least twelve months from the date of approval of the accounts. Accordingly, the accounts continue to be prepared on a going-concern basis
- 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 & Accounts, incorporating the Director's Report, the annual accounts and the Annual Business Statement.

The Directors are responsible for preparing the Annual Report & Accounts incorporating the Director's 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. In compliance with the Act, they have elected to prepare the Group and Society annual accounts in line with international accounting standards.

The Group and Society annual accounts are required by the Act and international accounting standards to present fairly the financial position and the performance of the Group and Society. References in the Act to annual accounts giving a true and fair view are references to their achieving a fair presentation.

In preparing the annual accounts, the Directors must:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether the accounts have been prepared in line with international accounting standards, in compliance with the Act
- prepare the accounts on the going-concern basis unless it is inappropriate to presume that the Group and Society will continue in business

The Act also 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 account 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
- takes reasonable care to establish, maintain, document and review such systems and controls as rules made by the Financial Conduct Authority and Prudential Regulation Authority under the Financial Services and Markets Act 2000 require

The Directors are responsible for such internal controls as they decide are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. They also have general responsibility for taking reasonable steps 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 the corporate and financial information, including on the Society's website. UK legislation about preparing and disseminating financial statements may differ from that in other jurisdictions.

Directors

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

Non-Executive Directors

S M Douthwaite

J G Farrington

E A Lockwood

F A Pollard – Chair

J A Mortimer Sykes – Senior Independent Director

S G Thomas

Executive Directors

S J Taylor – Chief Executive Officer

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 at the end of the financial year.

Post-balance sheet events

There are no post-balance sheet events to report.

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 it.

Auditor

The External Auditor, BDO LLP, has indicated its willingness to continue in office and 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 colleagues 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
18 March 2024

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 Board's main functions are to set the Society's strategy, risk appetite and policies, to establish guidelines within which the business is managed, and to review the business's 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. Directors receive comprehensive training during induction, which aims to support the proficiency with which they as individuals are able to fulfil their duty to act in a way most likely to promote the Group's longer-term success. They are subject to regular oversight of their continuous professional development (CPD). The relevance and focus of information they provide 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 service innovation in the marketplace. This allows the Group to design its strategic business model with full awareness of the world in which it operates.

The Group's successful core business model is based on specialism in niche market areas where it can use its strength in individual and bespoke underwriting to provide 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 providers. The risk management framework and the operation of regulatory requirements regarding levels of liquidity and capital aim to ensure that the longer-term business model is sustainable and maintained on a prudent basis.

The Board has formally reviewed its mission and values statements during the year. The main ways by which it assesses whether its culture promotes those values are via periodic externally facilitated Board effectiveness reviews, periodic surveys among colleagues, feedback from colleagues gained through various channels including our colleague experience surveys and suggestion scheme, and – from time to time – via a thematic review by Internal Audit. When these processes identify actions for improvement, they 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 (CPD) activity, which it monitors through regular review of CPD logs. It has invested in a new learning management system. This holds digital logs and records of learning activity, including for employees subject to formal training and competency schemes

(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.

By overseeing the operation of the Remuneration and Nominations Committee, the Board ensures that pay and employment conditions are consistent with, and support, the Society's values and the attainment of its longer-term strategic objectives. All bonus schemes combine financial and non-financial measures with targets aligned to these objectives. Payments are subject to a power of veto by the Risk Committee before being recommended for Board approval by the Remuneration and Nominations Committee. Further details are given in the Directors' Remuneration Report.

The Board ensures it has the necessary resources to meet its objectives. It does so within the boundaries of budgetary constraint, which the Board continually assesses, while 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 has established a comprehensive risk management framework, which covers (i) the continual identification and measurement of risk, including the risk of climate change, (ii) the environmental, social and governance issues facing the Society, and (iii) the setting of controls to manage those risks effectively, whose effectiveness is reviewed by a longer-term assurance plan supported by internal and independent auditing activity. Further details are given in the 'Audit, Risk and Internal Control' section below.

The Group engages with members via the AGM, the distribution of the Annual Report & 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 way of directly engaging with members and getting their feedback. Members may write (and read) reviews of our services at: https://smartmoneypeople.com/melton-mowbray-building-society-reviews/products

The Group supports our local community through both financial and non-financial commitments. Examples during 2023 have included continued 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 including work on an unused area of a Melton school; 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.

Across the year all colleagues are invited to presentations to ensure they are informed of Group progress. At least once a year, the Group conducts an anonymous colleague survey through an external company to ensure independence and anonymity. The Group completes interim 'pulse' surveys to obtain feedback on specific topics across the year, with responses published to all colleagues about issues raised and agreed actions.

In addition to submitting regulatory returns, the Group engages with its regulators through 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 all savings and mortgage customers, who are also 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 raised through our various feedback channels are put to the Board.

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 ofinterest 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. When their tenure comes to an end, Directors 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 (if 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, 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 Executive Directors and Non-Executive Directors (NEDs), with a clear division of responsibilities and accountabilities between each group, reflected in the role profiles of each group's individual members. Before appointment, a NED's time commitments, other than those to the Society, are assessed to ensure they can give enough time to Society business. NEDs must 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 governing body's capacity to provide constructive challenge, strategic guidance, and specialist input. A critical element of the skills matrix is that the NEDs have enough relevant knowledge and experience to constructively challenge the Executive Directors and the wider Executive Team.

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

The Board appoints an independent NED 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 role profiles 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 is subject to an independent effectiveness review, normally on a triennial basis; this took place by an external evaluator during 2023. An annual on-site review by the PRA also takes place. 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 on 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 2023.

Name	Board	Risk	Audit	Remuneration & Nominations
S M Douthwaite	8/9	8/8	-	4/4
J G Farrington	9/9	6/7	6/6*	-
E A Lockwood	8/9	8/8*	-	-
A J Lumby	9/9	-	-	-
J A Mortimer Sykes	9/9	-	6/6	4/4*
F A Pollard	9/9*	-	-	4/4
S J Taylor	9/9	-	-	-
S G Thomas	9/9	8/8	6/6	-

* Denotes Chair of the Board or committee at 31 December 2023

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 Committee Report on pages 38 to 40 provides details of its activities on 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 pay policy and considering the level and make-up of Directors' pay. Details of how the Remuneration & Nominations Committee has regard to the Code Principles on pay is explained in the Directors' Remuneration Report on pages 50 to 54.

Fiona Pollard
Chair
18 March 2024

Audit Committee Report

The Board has established an Audit Committee. It comprises of independent Non-Executive Directors (NEDs) and the Chair of the Board. The NEDs have skills and experience relevant to the financial services sector, some of it gained in regulated financial services bodies.

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 Risk & Compliance function, Internal Auditor 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 being present.

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

- Monitoring the integrity of the Group's financial statements, any formal announcements relating to the Group's financial performance, and reviewing significant financial reporting judgements 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 adequacy and effectiveness of the Group's internal controls 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 the management's proposal for the External Auditor's pay and terms of engagement
- 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 met its responsibilities
- Monitoring the Group's compliance with appropriate codes of governance, having due regard to evolving best practice

Financial reporting

The Directors' responsibilities regarding the preparation of the Group's Annual Report and Accounts are set out in the Statement of Directors' Responsibilities. The Audit Committee meets 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 information necessary for Board members to assess the Group's position and performance, business model and strategy
- reviewing the appropriateness of the accounting policies adopted when preparing the financial statements
- reviewing the fairness and reasonableness of material judgements and estimates made when preparing the financial statements
- reviewing the appropriateness of the adoption of the going-concern basis when preparing the financial statements

The committee confirms it has reviewed the Annual Report & Accounts and accounting policies. It recommends that, taken as a whole, they are true and fair, balanced and understandable, and provide the necessary information for Board 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 Group's longer-term viability and has advised the Board accordingly. Related disclosures are set out in the Directors' Report.

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

- Assessment of impairment provisioning methods and of the appropriateness of the level of loan impairment provisions, which are recognised using the method set out in the Accounting Policies in Note 1 of the Annual Report & Accounts. The committee reviewed the key estimates, assumptions and judgements in the Society's provisioning model, including the 'probability of default and loss given default' calculations under different economic scenarios, and the related disclosure in the Annual Report & Accounts. The review included consideration of the low level of impairment data available, the quality of the underlying mortgage portfolios, the current high interest rate and inflationary environment, 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 set out in the Accounting Policies in Note 1 of the Annual Report & 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
- Review of management's assessment of the carrying value of intercompany loans and the appropriateness of their stated carrying value
- 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's assets.

Internal controls

The Group operates in a business environment that contains significant risks, including financial risks. To mitigate them, the Board has responsibility for deciding on 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 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. Through the committee, Internal Audit also provides independent assurance to the Board on the effectiveness of the internal control framework. The areas of internal control that the committee reviewed during 2023 were:

- legal compliance-related issues
- prudential regulation-related issues
- annual Internal Audit plan
- combined Assurance Plan
- control weaknesses identified by the External Auditor regarding the financial reporting process
- status of control issues raised in internal audit reports, including risk rating and age of outstanding issues.

The Audit 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) opined 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 Risk Committee, the following areas were reviewed by Internal Audit during the year:

- Internal Capital Adequacy Assessment Process (ICAAP)
- Data privacy and protection
- Credit risk management
- Payments
- Anti money laundering
- Consumer duty
- Core system replacement programme governance review

The Audit Committee monitors the independence of the function by ensuring that no other personal or business relationships exist with the Group. It 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 External Auditor's independence and objectivity, and making recommendations to the Board regarding 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 bodies sets requirements about mandatory audit firm rotation and audit tendering and the use of the auditor for non-audit services. Under these requirements, the Group must put External Audit out to tender at least every 10 years and change the External Auditor every 20 years after a tender process. This exercise was completed during 2019, with BDO LLP appointed as the External Auditor.

The Group has a policy for the use of External Auditors for non-audit work and would not consider appointing the External Auditor to provide non-audit services where it might impair their independence. All material non-audit services require the committee's approval to ensure the safeguarding of auditor objectivity and independence.

Details of the fees paid to the External Auditor for audit and non-audit services are set out in Note 8 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, the 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 Committee
18 March 2024

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 goal is to manage these risks so that their financial impact remains within its 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. 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 the business 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 applied throughout business areas.

The main risk documents include:

- Risk Appetite Policy
- Lending Policy
- Conduct Policy
- Financial Risk Management Policy
- Remuneration Policy
- Senior Managers and Certification Regime (SM&CR) Framework
- Cyber Security Framework

These are regularly reviewed, with the key parts amended and approved by 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

Management are responsible for:

- Implementing risk management frameworks
- Setting risk appetite
- Identifying, managing and mitigating risk
- Establishing and promoting a strong culture of risk management
- Compliance with regulation and legislation

2 Risk oversight

The Risk & Compliance function are responsible for:

- Designing and developing the risk management frameworks
- Monitoring adherence to the risk management frameworks
- Providing oversight and challenge of risk management by First Line
- Overseeing compliance with regulation and legislation

3 Independent assurance

Internal audit are responsible for:

- Providing independent assurance on the design and implementation of the risk management frameworks
- Providing independent assurance on the effectiveness of the internal control environment
- Evaluating and improving the effectiveness of risk management control and governance processes

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.

Risk appetite 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
- protecting the Group and mitigating severe external economic impacts

The Group's risk appetite framework is outlined in its Risk Appetite Policy, which is reviewed and approved by the Board annually, on the Risk Committee's recommendation.

Risk appetite limits are regularly monitored and reported. Limit breaches are reported to the 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 Committee, Risk Committee, and Remuneration and Nominations Committee. In addition, the Group operates two executive committees that report directly to the Board committees: Assets and 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.

Risk Committee

The committee is responsible for overseeing the risk function, including compliance, and challenging risk strategy and management across the Group. This includes reviewing the effectiveness of the second line risk function and the Group's anti-money laundering and anti-fraud policies. The committee aims 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 line with the Group's overall risk appetite.

In addition, the committee considers the emergence of new risks that are mainly identified by considering 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. Committee members are Non-Executive Directors only.

Audit 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 Internal Audit function; and the External Auditor. Committee members are Non-Executive Directors only.

Remunerations and Nominations Committee

The committee is responsible for overseeing the development and implementation of pay policies along with overseeing Board governance and composition. The Committee reviews the balance, composition and size of the Board to ensure it is appropriate and contains the skills and experience needed to effectively operate the Group. Committee members are Non-Executive Directors only.

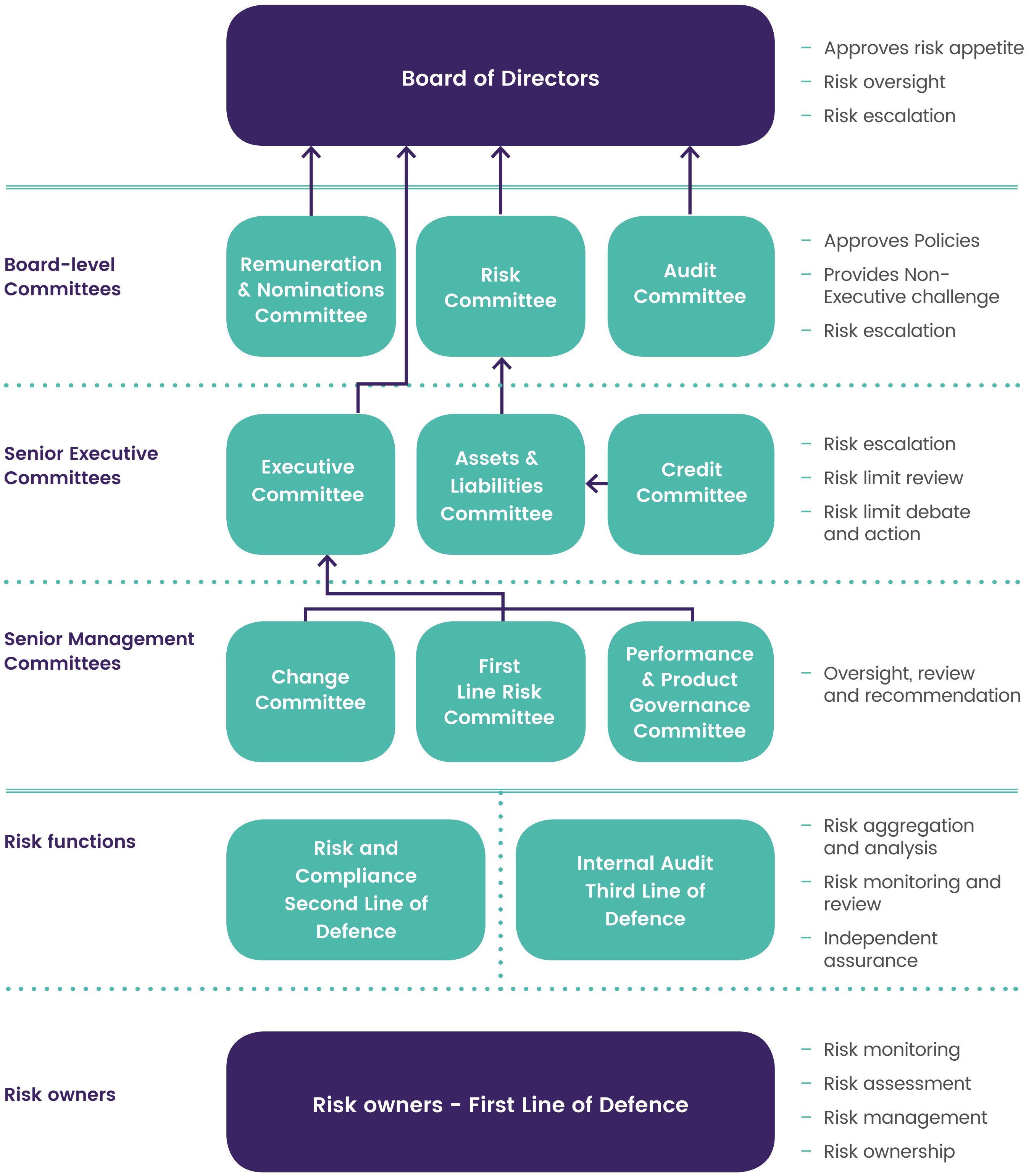
Executive Committee

The committee is mainly responsible for applying the Board's 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 conduct, operational and business risk across the Group. Committee members are Executive Directors and senior management.

Assets and Liabilities Committee

The committee is mainly responsible for overseeing balance sheet and financial risk management, which includes credit risk, liquidity risk, interest rate risk, pension obligation risk and certain business risks. Committee members are 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: **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 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 Risk Committee. All mortgage applications are assessed with reference to the credit and underwriting criteria in the Group's Lending Policy. The Group's Lending Policy is reviewed at least annually, but is actively assessed on an ongoing basis to consider impact from external or internal events. For example, during the year the maximum loan to value (LTV) of the Group's mortgage products was reviewed in light of reducing house prices, and mortgage affordability stress tests were refined to manage the risks emerging from the inflationary environment and cost-of-living pressures. The risk profile of the Group's mortgage portfolios remains strong, with an average balance weighted LTV of 45.5% (2022: 40.5%) for its residential portfolio and 54.1% (2022: 62.0%) for its commercial portfolio. The Group also has external mortgage indemnity guarantee insurance for mortgages >75% LTV for seven years from their outset. The Group's internal credit risk reporting also continues to evolve to ensure the relevant committees have the required information to make informed decisions. During the year, arrears levels have reduced slightly to 1.60% (2022: 1.80%) and remain low compared to historical levels. Further details of the Group's arrears analysis can be found on page 125. The Group recognises that our borrowers' personal and financial circumstances can be affected by deteriorating economic conditions, including higher interest rates, high inflation and unplanned events. When this happens, we apply a formal policy directed towards forbearance and fair treatment of customers. Our approach continues to evolve in this area and was further improved when the Society signed up to the Mortgage Charter. As a result, we have various measures available to help borrowers in difficulty, including agreeing a reduced monthly payment, transfer to interest-only payments or extending the mortgage term to reduce the borrowers' financial pressures. We expect borrowers to resume normal payments once they can. The number of customers using options under the Mortgage Charter is low as a proportion of the overall loan book. At 31 December, 26 customers were using one or more of the options available.
	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 provided by ALCo and Risk Committee. As at the end of 2023 95.3% (2022: 95.5%) of the Group's liquidity portfolio was invested with counterparties with an external credit rating of AA- or better.

<table>
<tr><th>Principal risk</th><th>Sub-categories</th><th>Key controls and mitigating factors</th></tr>
<tr><td>Climate Change Risk:

the risk of losses from the impact of climate change. Losses could arise from deterioration in an asset's value (physical risk); or the effects of a disorderly transition to a lower-carbon economy (transitional risk).</td><td></td><td>The Group considers climate change to have widespread impact, cutting across all existing principal risks, including operational, credit, strategic and business risks.

The Group has a climate change action plan to progress and formulate the Group's ongoing strategic approach to climate change. It covers several main areas to ensure we adapt to the risks and opportunities brought about by climate change. These main areas are outlined below:

• Governance – The Group has in place a clear governance framework to oversee climate-related financial risks. This is set out in the Group's Climate Change Policy

• Risk management – Climate change risks are managed through the Group's enterprise risk management framework, supported by the Climate Change Policy

• Metrics and targets – The Board has agreed 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

• 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

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 was immaterial.

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).

• 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

• Operations – The Group wants to reduce inefficient energy consumption and waste where possible. The Group's Principal Office is fitted with solar panels. Further improvements to our carbon footprint were made as part of the Head Office refurbishment

• Training and culture – All staff have been trained on the importance of climate change risks. The Group also has a Green Resource Group (GRC), made up of staff from all levels of the organisation. The GRC's purpose is to champion the Group's Green Strategy and to assess and take forward climate or green-related initiatives.</td></tr>
</table>

Principal risk	Sub-categories	Key controls and mitigating factors
Operational Risk: **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 Information security Business Continuity and Crisis management Third Parties Business Change Financial crime IT and 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; Cyber Security Framework, Change Management Framework; Incident Management Framework; Climate Change Policy; and Financial Crime Policy. The Group continues to embed and roll out additional modules to its governance, risk and compliance system. This has further 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. Threats from fraud and financial crime remain ever present. During the year, the Group set up a focused project to complete a full review of its financial crime framework as part of strengthening and improving its procedures and controls. 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 continued with its major technology transformation project that will significantly improve its digital capabilities and customer journeys. The management of cyber risk is an ongoing focus. The Group combines investment in technological security measures with effective policies and procedures to ensure that cyber risk management remains appropriate to protect both Group assets and member data. Exposure to operational risk is managed through the First Line Risk Committee, monitored by the Executive Committee and overseen by the Risk Committee.

Principal risk	Sub-categories	Key controls and mitigating factors
Conduct Risk: **the risk of detrimental outcomes to customers derived from staff interaction throughout the product lifecycle.**	Sales Suitability Products and services Customer treatment	The Conduct Policy sets out the Group's high-level expectations on conduct. This is supported by other key policies such as the Vulnerable Customers Policy and the Assisting Customers in Financial Difficulty Policy. The Board has set risk appetite limits regarding conduct risk. All conduct-related metrics are monitored regularly by the designated risk owners and reviewed by the First Line Risk Committee. This ensures that the Group is alerted to the need for, and can take, timely action regarding any potential customer harm. During the year, the Group implemented the FCA's consumer duty requirements, which aims to set higher expectations for the standard of care provided to customers. Although the new standards already aligned closely to the Group's mutual culture, a comprehensive project plan was created to embed the requirements. This included appointing a Non-Executive Director as Consumer Duty Board Champion. The Board Champion supports the Chair and Chief Executive in raising consumer duty regularly and challenging the Board on how it is embedding the duty and focusing on consumer outcomes. The Performance and Product Governance Committee ensures that products are designed and monitored to ensure fair customer outcomes. The Executive Committee reviews conduct risk metrics, ensuring adequate controls are implemented and that these are effective in delivering fair customer outcomes. Oversight is provided by the Risk Committee.
Prudential Risk: **the specific risks in relation to the financial and capital adequacy of the Group including:** **Funding and 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 mismatch at maturity 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. The aim is 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. 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. 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 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. The Group also complies with the requirements of the liquidity coverage ratio (LCR), which measures the amount of high-quality liquidity held regarding net stressed 30-day cash outflows. This is reported monthly to the Group's regulator, the Prudential Regulation Authority.

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 when they are repriced in defined time periods. The Group uses vanilla derivative financial instruments to help manage the mismatches. Management of interest rate risk is undertaken by the Group's Finance Department with monitoring performed by ALCo and oversight by the Risk Committee. Details of the Group's interest rate sensitivity and the use of derivatives for hedging purposes are set out in Note 30 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. The risk is monitored by the ALCo. Details of the Group's pension scheme, including the cost to the Society for the year and the updated scheme valuation on 31 December 2023, are set out in Note 10 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. The Board has no appetite for breaching the minimum regulatory capital requirements, so it has set minimum internal thresholds to manage this effectively. The Board regularly reviews and monitors the strategic plan against internal capital thresholds when considering future growth and investment strategies. 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. The Group also has a Board-approved Recovery Plan in place. This gives the Group plausible options for improving its capital position should its capital adequacy be threatened for any reason.

Principal risk	Sub-categories	Key controls and mitigating factors
Strategic Risk: **the risk of loss or reduction in profitability due to failure to achieve business/strategic objectives.**	Strategy and business model	The Group manages this risk by having a long-term focus on a sustainable business model that incorporates carefully developed and detailed business plans and policies. These include maintaining a diverse range of products and services to suit customers' needs. The Board 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 it reacts appropriately to changing conditions that may affect its strategic goals. The Board oversees and monitors business performance against the approved strategic objectives. The Executive Team manages the execution of the Board-approved strategy. Monthly reporting is provided to the Board on strategic key risk indicators.

Elizabeth Lockwood
Chair of Risk Committee
18 March 2024

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 its members' long-term interests.

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 equality, 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
- Take into account the Group's strategic and business plans, ensuring that its 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 we do to support the Group's culture and are reflected in their pay and benefits package. In assessing the performance of Directors, culture and values are an explicit component of annual appraisals. This includes each Director:

- affirming that he or she is acting in line with the 'fit and proper conditions' required by regulation
- attesting that he or she fully understands prescribed responsibilities, and giving evidence that they have been fulfilled

The pay of individual Directors is detailed on page 53.

Level and components of pay

Executive Directors' pay

Executive Directors' pay 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 after 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 is only awarded if the minimum threshold criteria are achieved, linked to delivery of the Group's strategic objectives. On-target performance across all measures 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.	Variable pay is linked to the delivery of the Group's strategic objectives. There are financial and non-financial targets alongside individual performance targets. The aim is to safeguard against poor conduct or risk-taking outside the Society's risk appetite. The 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 adversely affects the Society's regulatory status, financial performance or financial statements.
Other benefits	The Group provides other taxable benefits including a car allowance and health care 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.

2023 performance and awards

The Chair's Statement, Chief Executive's Review and Strategic Report on pages 4 to 18 describe 2023 as a year of transformation and progress against a period of external volatility.

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

Non-Executive Directors

The Chair and other Non-Executive Directors (NEDs) 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 so 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.

NEDs are reimbursed for reasonable expenses incurred during their work on Group business.

The Society's Rules limit NED pay to 2.5 times the annual salary of the lowest-paid full-time clerical employee.

Procedure for setting pay

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 annually reviews the Group Remuneration Policy, including director remuneration frameworks.

The overall pay level of Executive Directors is considered by the committee. In setting pay, 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 Directors of high calibre and diversity to be attracted and retained in line with the business strategy. The committee uses the services of independent consultants (Gallagher), third-party surveys and peer-group benchmarking to ensure pay levels are appropriate and in line with the external market. The committee has authority to override formulaic pay outcomes when considering the Society's performance, 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 it 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 Chief Executive's performance 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' pay aligns to the Group's wider pay policy generally. The Group's Remuneration Policy is available to view on the Society's website.

Committee members are unable to set their own pay. The pay of the Chair of the Board is considered by the committee, together with the Society's Chief Executive. The pay of the NEDs is considered by the Chair of the Board after proposals from the Executive Directors. Fees are approved by the Board on the committee's recommendation.

Non-Executive Directors (audited)	2023 Total fees £'000	2022 Total fees £'000
A J Capps (retired 30 September 2022)	-	25
S M Douthwaite	34	34
J G Farrington	34	34
E A Lockwood (appointed 1 July 2022)	34	14
J A Mortimer Sykes	34	34
F A Pollard	45	45
S G Thomas	27	27
Total	**208**	**213**

Executive Directors (audited) 2023	Salary £'000	Annual Bonus £'000	Benefits £'000	Sub-total £'000	Pension Contributions[1] £'000	Total £'000
S J Taylor	259	41	44	344	-	344
A J Lumby	172	28	11	211	21	232
Total	**431**	**69**	**55**	**555**	**21**	**576**

Executive Directors (audited) 2022	Salary £'000	Annual Bonus[2] £'000	Benefits £'000	Sub-total £'000	Pension Contributions[1] £'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**

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

2 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.

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
18 March 2024

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 and of the Society's affairs as at 31 December 2023 and of the Group's 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 2023 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 material accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards.

Basis for opinion

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

Independence

Following the recommendation of the Audit and Compliance committee, we were appointed by the Members of the Society on 19 August 2019 to audit the financial statements for the year ended 31 December 2019 and subsequent financial periods. We were re-appointed by the Members of the Society on 26 April 2023 to audit the financial statements for the year ended 31 December 2023 and subsequent financial periods. The period of total uninterrupted engagement including retenders and reappointments is 5 years, covering the years ended 31 December 2019 to 31 December 2023. We remain independent of the Group and Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Group or the Society.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group's and 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;
- Assessing how the Directors' have factored in key external factors expected to affect the Group and Society such as the cost of living crisis and their corresponding economic impact, checking these had been appropriately considered as part of the Directors' going concern assessment.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and 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% (2022: 100%) of Group profit before tax 100% (2022: 100%) of Group revenue 100% (2022: 100%) of Group total assets		
Key audit matters		2023	2022
	Revenue Recognition (Effective Interest Rate)	✔	✔
	Impairment losses on loans and advances	✔	✔
Materiality	Group financial statements as a whole £531,000 (2022: £418,000) based on 1.25% (2022: 1%) of Net assets (2022: 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.

Climate change

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

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

We also assessed the consistency of managements disclosures included as 'Other Information' on pages 21-25 with the financial statements and with our knowledge obtained from the audit.

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

Key audit matters

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

Key audit matter		How the scope of our audit addressed the key audit matter
Revenue recognition-Effective Interest Rate adjustment The Group's accounting policies are detailed on page 70 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 £2.0m (2022: £0.7m) which reflects upfront fees and costs that are integral to the effective interest rate as well as accrued interest income. 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. 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. Significant management judgement is required to determine the expected cash flows for Group's loans and advances within these models. 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, interest rates and the directly attributable fees and costs. Error within the EIR models itself or bias in key assumptions applied could result in the material misstatement of revenue. 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 and costs being spread within the effective interest rate models. 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. 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. 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. Furthermore, we performed sensitivity analysis to determine the impact of a shorter behavioural life assumption for all products. 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. Key observations: Based on our audit work performed, we have not identified any indicators that the EIR model and assumptions used are unreasonable.

Key audit matter		How the scope of our audit addressed the key audit matter
Impairment provision on loans and advances The Group's accounting policies are detailed on page 72 with detail about judgements in applying accounting policies and critical accounting estimates on page 75. Refer to note 17 for Impairment provision on loans and advances.	The Group holds £0.5m of impairment provisions at year-end (2022: £0.9m). The Group accounts for the impairment of loans and advances to customers using an expected credit loss ("ECL") model. Estimating the loan loss provision requires significant management judgement and estimate in determining the value and timing of expected future cash flows. The ECL models are required to incorporate forward-looking economic scenarios within the methodology. The selection and application of economic variables, along with its weightings and assumptions, are highly judgemental. Macroeconomic variables should be appropriately forward looking and relevant to the risk characteristics faced by the Group. 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 IFRS 9. 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. With the support of an internal expert, we assessed the appropriateness of the PD model used. 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. 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. 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 and benchmarking. 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. 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. We considered the accuracy and completeness of forward looking multiple economic scenarios and the valuation of collateral to determine the loss given default. On a sample basis, we verified that the collateral valuation is supported by an independent appraiser and evaluated the appraiser's qualification. We assessed the adequacy and appropriateness of disclosures for compliance with the applicable accounting standards. **Key observations:** Based on our audit work performed, we have not identified any indicators that the key assumptions and judgements made in calculating the impairment provision for loans and advances are unreasonable.

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	
	2023 £m	2022 £m	2023 £m	2022 £m
Materiality	£531,000	£418,000	£503,000	£397,000
Basis for determining materiality	1.25% of Net assets	1% 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. We used 1.25% of Net Assets for 2023, constituting an increase of 0.25% as a result of considering our risk assessment factors.		This has been limited to a percentage of Group financial statement materiality.	
Performance materiality	£371,000 based on 70% of materiality	£293,000 based on 70% of materiality	£352,000 based on 70% of materiality	£277,000 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% (2022: 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 ranged from £266,000 to £506,000 (2022: from £213,000 to £396,000). 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 £21,000 (2022: £12,000). 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: - The annual business statement and the Directors' report have been prepared in accordance with the requirements of the Building Societies Act 1986; - The information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and - The information given in the annual business statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given. In the light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we have not identified any material misstatements in the Directors' report.
Matters on which we are required to report by exception	We have nothing to report in respect of the following matters in relation to which the Building Societies Act 1986 requires us to report to you if, in our opinion: - adequate accounting records have not been kept by the Society; or - the Society financial statements are not in agreement with the accounting records; or - we have not received all the information and explanations we require for our audit.

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

In our opinion the information given on page 138 for the financial year ended 31 December 2023 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Responsibilities of directors

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

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

BDO UNITED KINGDOM

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

Non-compliance with laws and regulations

Based on:

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

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

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

Our procedures in response to the above included:

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

Irregularities including fraud

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

- Enquiry with management, internal audit, and those charged with governance regarding any known or suspected instances of fraud;
- Obtaining an understanding of the Group's and Society's policies and procedures relating to:
    - Detecting and responding to the risks of fraud; and
    - Internal controls established to mitigate risks related to fraud.
- Review of minutes of meeting of those charged with governance for any known or suspected instances of fraud;
- Discussion amongst the engagement team as to how and where fraud might occur in the financial statements.

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

Our procedures in respect of the above included:

- 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;
- 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
- Assessing significant estimates made by management for bias (refer to the key audit matters section for procedures performed).

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, who were deemed to have the appropriate competence and capabilities, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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

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

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
18 March 2024

BDO UNITED KINGDOM

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

Income Statements

for the year ended 31 December 2023

	Notes	Group 2023 £'000	Society 2023 £'000	Group 2022 £'000	Society 2022 £'000
Interest receivable and similar income	2	38,150	36,951	19,972	18,829
Interest payable and similar charges	3	(22,250)	(22,250)	(6,677)	(6,677)
Net interest income		**15,900**	**14,701**	**13,295**	**12,152**
Other finance income	10	179	179	128	128
Fees and commissions receivable	4	1,395	394	1,287	532
Fees and commissions payable	5	(472)	(196)	(509)	(274)
Other operating income	6	45	707	99	724
Other operating expense	6	(99)	(520)	(111)	(577)
Net (loss)/gain from derivative financial instruments	7	(877)	(877)	1,856	1,856
Total net income		**16,071**	**14,388**	**16,045**	**14,541**
Administrative expenses	8	(14,233)	(13,146)	(11,177)	(10,205)
Depreciation and amortisation	19,20	(717)	(668)	(506)	(399)
Operating profit before impairment losses and provisions		**1,121**	**574**	**4,362**	**3,937**
Gain/(loss) on investment property	21	165	165	(120)	(120)
Impairment provisions on loans and advances	17	(475)	(356)	(230)	(209)
Impairment of loans to subsidiary undertakings	18	-	(190)	-	-
Operating profit and profit before tax		**811**	**193**	**4,012**	**3,608**
Tax expense	12	(225)	(92)	(765)	(661)
PROFIT FOR THE FINANCIAL YEAR		**586**	**101**	**3,247**	**2,947**

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 2023

	Notes	Group 2023 £'000	Society 2023 £'000	Group 2022 £'000	Society 2022 £'000
Profit for the financial year		586	101	3,247	2,947
Items that will not be re-classified to the income statement					
Remeasurements of defined benefit obligations	10	(142)	(142)	(2,111)	(2,111)
Tax on items that will not be re-classified		36	36	528	528
Items that may subsequently be re-classified to the income statement					
Debt securities: net change in fair value	14	309	309	(136)	(136)
Tax on items that may subsequently be re-classified to the income statement		(78)	(78)	34	34
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**711**	**226**	**1,562**	**1,262**

The notes on pages 69 to 138 form part of these accounts.

Statements of financial position

as at 31 December 2023

	Notes	Group 2023 £'000	Society 2023 £'000	Group 2022 restated £'000	Society 2022 restated £'000
ASSETS					
Liquid assets					
Cash in hand and balances with the Bank of England		100,741	100,741	117,636	117,636
Loans and advances to credit institutions	13	14,509	14,291	15,535	15,143
Debt securities	14	30,063	30,063	4,214	4,214
Derivative financial instruments	15	5,811	5,811	9,786	9,786
Loans and advances to customers	16	605,886	539,732	555,757	484,807
Investments in subsidiary undertakings	18	-	64,811	-	70,421
Investment properties	1(r), 21	-	-	650	650
Assets held for sale	1(r), 21	770	770	585	585
Property, plant and equipment	19	7,721	7,298	5,659	5,230
Intangible assets	20	205	143	371	266
Other assets	22	933	973	934	675
Current tax		40	128	-	-
Deferred tax asset	23	115	84	132	79
Retirement benefit asset	10	2,454	2,454	3,575	3,575
TOTAL ASSETS		**769,248**	**767,299**	**714,834**	**713,067**

The 2022 figures have been restated to reflect investment properties held for sale during the period.

	Notes	Group 2023 £'000	Society 2023 £'000	Group 2022 restated £'000	Society 2022 restated £'000
LIABILITIES					
Shares	24	598,473	598,473	508,581	508,581
Amounts owed to credit institutions	25	107,969	107,969	131,880	131,880
Amounts owed to other customers	26	14,022	14,022	27,088	27,088
Derivative financial instruments	15	2,045	2,045	1,291	1,291
Current tax		-	-	361	327
Deferred tax	23	1,436	1,388	1,607	1,585
Other liabilities and accruals	27	2,783	3,112	2,217	2,251
TOTAL LIABILITIES		**726,728**	**727,009**	**673,025**	**673,003**
RESERVES					
General reserves		42,644	40,334	42,329	40,504
Revaluation reserve		(270)	(190)	(435)	(355)
Fair value reserve		146	146	(85)	(85)
TOTAL RESERVES ATTRIBUTABLE TO MEMBERS OF THE SOCIETY		**42,520**	**40,290**	**41,809**	**40,064**
TOTAL LIABILITIES AND RESERVES		**769,248**	**767,299**	**714,834**	**713,067**

The notes on pages 69 to 138 form part of these accounts.

These accounts were approved by the Board of Directors on 18 March 2024 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 2023

	General reserves £'000	Revaluation reserve £'000	Fair Value reserve £'000	Total £'000
Group 2023				
Balance as at 1 January 2023	42,329	(435)	(85)	41,809
Profit for the year	421	165	-	586
Other comprehensive income for the year (net of tax)				
Net gains from changes in fair value	-	-	231	231
Remeasurement of defined benefit obligations	(106)	-	-	(106)
Total other comprehensive income	(106)	-	231	125
Total comprehensive income / (expense) for the year	315	165	231	711
Balance as at 31 December 2023	**42,644**	**(270)**	**146**	**42,520**
Society 2023				
Balance as at 1 January 2023	40,504	(355)	(85)	40,064
Profit for the year	(64)	165	-	101
Other comprehensive income for the year (net of tax)				
Net gains from changes in fair value	-	-	231	231
Remeasurement of defined benefit obligations	(106)	-	-	(106)
Total other comprehensive income	(106)	-	231	125
Total comprehensive income / (expense) for the year	(170)	165	231	226
Balance as at 31 December 2023	**40,334**	**(190)**	**146**	**40,290**

	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**

Cash Flow Statements

for the year ended 31 December 2023

	Group 2023 £'000	Society 2023 £'000	Group 2022 £'000	Society 2022 £'000
Cash flows from operating activities				
Profit before tax	811	193	4,012	3,608
Depreciation and amortisation	717	668	506	399
Revaluation of investment properties	(120)	(120)	120	120
Profit on disposal of investment properties	(45)	(45)	-	-
Loss on disposal of property, plant and equipment	5	5	16	16
Loss on disposal of intangible assets	-	-	34	34
Net gain/(loss) on derivative financial instruments including unrealised accrued interest	762	762	(2,122)	(2,122)
Amortisation of debt securities	(296)	(296)	-	-
(Decrease) / increase in impairment of loan and advances	(407)	(522)	230	209
Total	**1,427**	**645**	**2,796**	**2,264**
Changes in operating assets and liabilities				
Increase in other assets	(39)	(426)	(509)	(340)
Increase in other liabilities	661	956	888	913
Increase in loans and advances to customers	(44,458)	(49,139)	(79,844)	(70,569)
Increase in shares	88,595	88,595	69,616	69,616
Increase in amounts owed to credit institutions and other customers	(36,977)	(36,977)	19,941	19,941
Decrease in retirement benefit asset	979	979	718	718
Taxation paid	(782)	(663)	(504)	(464)
Net cash from operating activities	**9,406**	**3,970**	**13,102**	**22,079**

	Group 2023 £'000	Society 2023 £'000	Group 2022 £'000	Society 2022 £'000
Cash flows from investing activities				
Purchase of debt securities	(27,034)	(27,034)	(1,000)	(1,000)
Maturity of debt securities	1,790	1,790	1,793	1,793
Purchase of property, plant and equipment	(2,618)	(2,618)	(1,376)	(1,376)
Purchase of intangible assets	-	-	(128)	(128)
Proceeds from sale of investment property	630	630	165	165
Decrease / (increase) in loan to subsidiary undertakings	-	5,610	-	(9,126)
Net cash (used in) investing activities	**(27,232)**	**(21,622)**	**(546)**	**(9,672)**
Cash flows from financing activities				
Principle lease payments	(95)	(95)	(60)	(60)
Net cash (used in) financing activities	**(95)**	**(95)**	**(60)**	**(60)**
Net (decrease) / increase in cash and cash equivalents	(17,921)	(17,747)	12,496	12,347
Cash and cash equivalents at 1 January	133,171	132,779	120,675	120,432
Cash and cash equivalents at 31 December	**115,250**	**115,032**	**133,171**	**132,779**

Interest received was £38.1m (2022: £20.0m) and interest paid was £22.2m (2022: £6.7m).

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	100,741	100,741	117,636	117,636
Loans and advances to credit institutions repayable in not more than 3 months	14,509	14,291	15,535	15,143
	115,250	**115,032**	**133,171**	**132,779**

Notes To The Accounts

1. Accounting policies

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

a) Basis of preparation

The Group and Society 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 (as amended) that are applicable.

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 property which is 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 current cost of living pressures and the transitoin to a higher interest rate environment. 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. 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 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. 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. 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.

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.

1. Accounting policies (continued)

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.

Definition of default has been defined as possession.

A three stage approach to impairment is used:

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

The Group has characterised a financial asset as Stage 2 - 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;

1. Accounting policies (continued)

- 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.

The Group has characterised a financial asset as Stage 3 - Non-performing when it meets any of the following criteria:

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

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. The current year severe downturn scenario is a more moderate scenario compared to that used last year which was 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 (s)(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 various 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.

l) 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. Where the software is not controlled by the Group, such as in the case of a Software as a Service (SaaS) contract, costs are expensed through the Income Statement as incurred.

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.

1. Accounting policies (continued)

m) 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 10 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.

n) 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 future economic benefits that will flow to the Group. The Group has an unconditional right to a refund.

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.

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.

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.

p) 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 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.

q) 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.

r) Prior period adjustment

As at 31 December 2022, the Group was actively marketing the sale of 2 investment properties with total carrying value of £585k, and had received offers for both properties. Subsequently, the properties were sold during the year ended 31 December 2023. These properties must have been accounted for as assets held for sale as the criteria specified by IFRS 5 Non-current Assets Held for Sale and Discontinued Operations were met. Therefore, 2022 numbers have been restated and the following table shows the impact of the restatement.

Statement of financial position	Group 2022 £'000	Society 2022 £'000	Adjustment	Group 2022 restated £'000	Society 2022 restated £'000
Investment properties	1,235	1,235	(585)	650	650
Assets held for sale	-	-	585	585	585

s) 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 judgements 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 10.

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. Estimates are applied to determine future market conditions (e.g. interest, unemployment 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 compromising a number of economic variables considered to be key credit risk drivers.

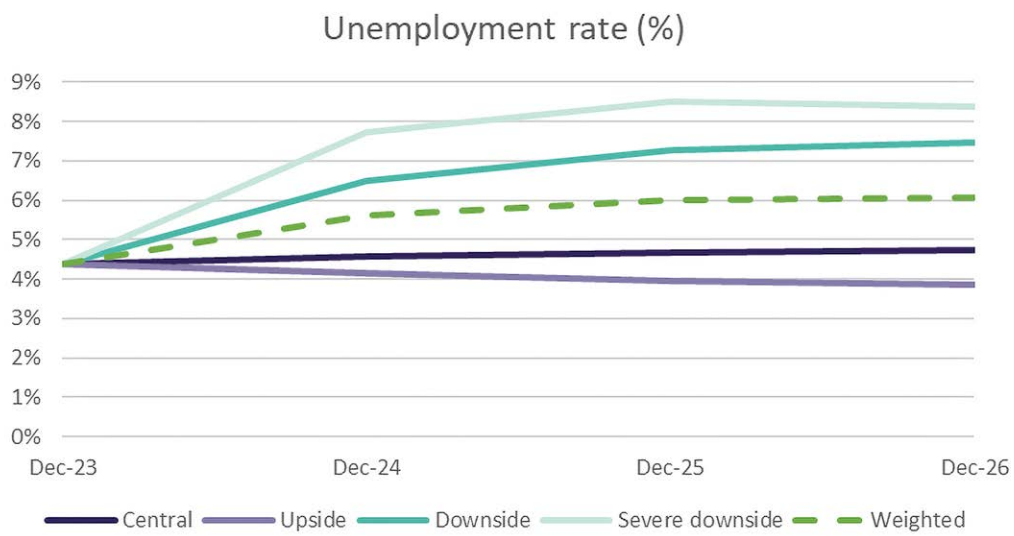
1. Accounting policies (continued)

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).

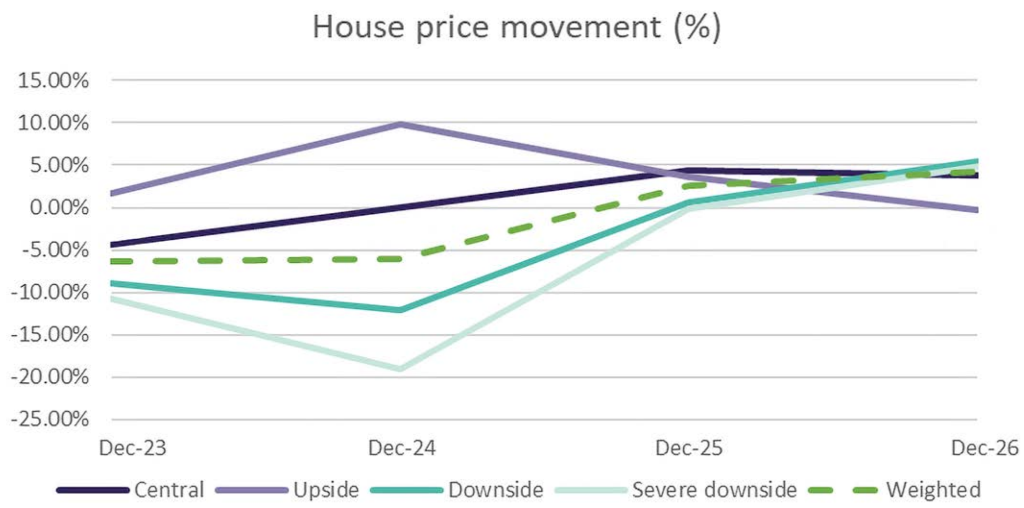
2023 Scenario	Weighting	Increase/(decrease) in provision with 100% scenario weighting £'000	Increase/(decrease) in provision with 10% increase in scenario weighting £'000
Central	50%	(238)	-
Upside	5%	(387)	(15)
Downside	30%	218	46
Severe downside	15%	489	73

2022 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

The tables in note 17 show the key macro economic variables for each scenario. The impairment calculation is most sensitive to the variables of unemployment and house price inflation. The charts below show the assumptions used for these variables across all four scenarios.



1. Accounting policies (continued)



The sensitivity of the provision calculations to key assumptions in the current and prior year is as follows:

Assumption	Sensitivity	Increase/(decrease) in provision 2023 £'000	Increase/(decrease) in provision 2022 £'000
HPI	+ 10%	(387)	(188)
HPI	- 10%	661	308
Change in borrowers credit scores to constitute a significant increase in credit risk	+ 20%	(1)	(2)
Change in borrowers credit scores to constitute a significant increase in credit risk	- 20%	12	46

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 £17,000 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 £1.3m increase (£1.3m decrease) in the total net fair value of derivative financial instruments at the year-end.

2. Interest receivable and similar income

	Group 2023 £'000	Society 2023 £'000	Group 2022 £'000	Society 2022 £'000
On financial assets measured at amortised cost				
On loans fully secured on residential property	26,431	21,831	16,554	12,939
On other loans	1,309	1,309	1,185	1,185
On other loans to subsidiary undertakings	-	3,401	-	2,472
On other liquid assets	5,523	5,523	1,638	1,638
On debt securities measured at FVOCI	410	410	40	40
Interest receivable calculated using the effective interest rate method	33,673	32,474	19,417	18,274
Net interest income on derivatives	4,477	4,477	555	555
	38,150	**36,951**	**19,972**	**18,829**

Interest on loans fully secured on residential property includes interest accrued on impaired residential mortgages assets: Group £399,000 (2022: £154,000) and Society £206,000 (2022: £64,000).

Interest on other loans includes interest accrued on impaired residential mortgages assets: Group £26,000 (2022: £47,000) and Society £26,000 (2022: £47,000).

Interest on debt securities includes £410,000 (2022: £40,000) in respect of income from fixed income securities.

3. Interest payable and similar charges

	Group & Society 2023 £'000	Group & Society 2022 £'000
On financial liabilities measured at amortised cost		
On shares held by individuals	16,004	4,762
On other shares	65	13
On deposits and other borrowings	5,721	1,972
Other interest	5	6
Total interest payable on instruments held at amortised cost	21,795	6,753
On financial liabilities held at FVTPL		
Net interest expense / (income) on derivatives	455	(76)
Total interest payable on instruments held at FVTPL	455	(76)
	22,250	**6,677**

4. Fees and commissions receivable

	Group 2023 £'000	Society 2023 £'000	Group 2022 £'000	Society 2022 £'000
Mortgage related administration fees	899	276	861	393
Commission income	43	21	59	36
Other fees and commissions	453	97	367	103
	1,395	**394**	**1,287**	**532**

5. Fees and commissions payable

	Group 2023 £'000	Society 2023 £'000	Group 2022 £'000	Society 2022 £'000
Banking fees	12	12	6	6
Mortgage related fees	59	-	50	1
Other fees and commissions	401	184	453	267
	472	**196**	**509**	**274**

6. Other operating income and expense

	Group 2023 £'000	Society 2023 £'000	Group 2022 £'000	Society 2022 £'000
Rent receivable on investment property	30	30	74	74
Other	15	677	25	650
	45	**707**	**99**	**724**

'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 £630,000 (2022: £603,000), Nexa Finance Limited a recharge of £25,000 (2022: a recharge of £14,000) and MMBS Services Limited a charge of £7,500 (2022: £8,000).

6. Other operating income and expense (continued)

	Group 2023 £'000	Society 2023 £'000	Group 2022 £'000	Society 2022 £'000
Other operating expense	99	520	94	560
Loss on disposal of fixed assets	-	-	17	17
	99	**520**	**111**	**577**

'Other operating expense' within the Society includes management fees paid to its subsidiary Nexa Finance Limited of £476,000 (2022: £504,000).

7. Net (losses)/gains from derivative financial instruments

	Group & Society 2023 £'000	Group & Society 2022 £'000
Derivatives in designated fair value hedge relationships	(4,664)	7,349
Adjustments to hedged items in fair value hedge accounting relationships	3,967	(5,400)
Derivatives not in designated fair value hedge relationships	(180)	(93)
	(877)	**1,856**

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

8. Administrative expenses

	Group 2023 £'000	Society 2023 £'000	Group 2022 £'000	Society 2022 £'000
Staff costs:				
Wages and salaries	5,969	5,413	5,504	4,959
Social security costs	646	585	570	509
Pension costs:				
Expenses related to the defined benefit section	258	258	105	105
Contributions to the defined contribution section	900	807	741	655
Other administrative expenses	6,460	6,083	4,257	3,977
	14,233	**13,146**	**11,177**	**10,205**
Other administrative expenses include:				
Remuneration of the Auditors and their associates (excluding VAT):				
Statutory Audit of the Annual Report and Accounts	262	262	228	228
Statutory Audit of the financial statements of subsidiaries	85	-	71	-
Other assurance services	-	-	19	19

Included within other administrative expenses is £1.8m related to the Group's digital transformation project.

9. Employees

	Group 2023	Society 2023	Group 2022	Society 2022
The average number of persons employed during the year was:				
Full time	106	101	97	91
Part time	45	40	37	34
	151	**141**	**134**	**125**
Central administration	123	113	114	105
Branches	28	28	20	20
	151	**141**	**134**	**125**

10. 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

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 2023 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. The premium paid resulted in an investment loss of £1.5m. The transaction resulted in a decrease in the defined benefit pension scheme asset and a corresponding entry through the statement of other comprehensive income for 2022.

10. Retirement benefit obligations (continued)

	Group & Society 2023 £'000	Group & Society 2022 £'000
The amounts recognised in the Statement of Financial Position are as follows:		
Fair value of scheme assets	16,819	17,326
Present value of funded obligations	(14,365)	(13,751)
Retirement benefit asset	**2,454**	**3,575**
The amounts recognised in the Income Statement are as follows:		
Current service cost	26	23
Non-investment related expenses	232	82
Contributions to the defined contribution section	900	741
Service cost	1,158	846
Net interest on the defined benefit asset	(179)	(128)
Total recognised in the Income Statement	**979**	**718**

Service costs are recognised within administrative expenses whilst net interest on the defined benefit asset is disclosed as Other finance income.

The amounts recognised in Other Comprehensive Income are as follows:		
Remeasurement (increase) of defined benefit obligation	671	(6,804)
Return on plan assets, excluding amounts included in net interest on the net defined benefit asset	(529)	8,915
Total recognised in Other Comprehensive Income	**142**	**2,111**

The cumulative amount recognised outside the Income Statement in Other Comprehensive Income at 31 December 2023 is an actuarial loss of £4,289,000 (2022: £4,147,000).

10. Retirement benefit obligations (continued)

	Group & Society 2023 £'000	Group & Society 2022 £'000
Changes in the present value of the defined benefit obligations are as follows:		
Opening defined benefit obligation	13,751	20,835
Current service cost	26	23
Interest cost	665	409
Remeasurement arising from changes in demographic assumptions	(105)	(104)
Remeasurement arising from changes in financial assumptions	389	(7,506)
Remeasurement arising from experience	387	806
Benefits paid	(748)	(712)
Closing defined benefit obligation	**14,365**	**13,751**
Changes in the fair value of scheme assets are as follows:		
Opening fair value of scheme assets	17,326	27,239
Interest income	844	537
Actual return on plan assets, excluding interest income	529	(8,915)
Contributions to the defined contribution section	(900)	(741)
Benefits paid	(748)	(712)
Non-investment related expenses and other payments	(232)	(82)
Closing fair value of scheme assets	**16,819**	**17,326**

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

10. Retirement benefit obligations (continued)

Amounts for the current and previous periods are as follows:

Group & Society	2023 £'000	2022 £'000	2021 £'000	2020 £'000	2019 £'000
Scheme assets	16,819	17,326	27,239	29,017	30,162
Defined benefit obligation	(14,365)	(13,751)	(20,835)	(22,379)	(21,511)
Surplus	**2,454**	**3,575**	**6,404**	**6,638**	**8,651**
Experience adjustments on scheme liabilities	387	806	352	(305)	(245)
Experience adjustments on scheme assets	529	(8,915)	(851)	(710)	1,453

The duration of the scheme obligations as at 31 December 2023 was 12 years (2022: 13 years).

The major categories of scheme assets as a percentage of total scheme assets are as follows:	Group & Society 2023	Group & Society 2022
Quoted		
Bonds	7%	11%
Annuities	86%	80%
Cash	7%	9%

All bonds have quoted market prices in active markets.

10. Retirement benefit obligations (continued)

Principal actuarial assumptions at the Statement of Financial Position date (expressed as weighted averages):	Group & Society 2023	Group & Society 2022
Discount rate	4.68%	4.99%
Future increases of pensions in payment, split:		
Inflation linked (RPI) up to 5%	3.10%	3.20%
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 2021 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	24.9 / 27.4	25.0 / 27.5
Male / female life expectancy from age 60 at year end date plus 20 years	26.4 / 28.9	26.5 / 29.0

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 2023 £'000	Group & Society 2022 £'000
Discount rate	+ 0.1%	(175)	(170)
	- 0.1%	178	173
Price inflation	+ 0.1%	169	168
	- 0.1%	(174)	(172)
Life expectancy	+ 1 year	491	443
	- 1 year	(494)	(446)

10. Retirement benefit obligations (continued)

(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 2023 £'000	Society 2023 £'000	Group 2022 £'000	Society 2022 £'000
Pension cost for the year	**900**	**807**	**741**	**655**

11. Directors' emoluments

Directors' remuneration totalling £784,000 (2022: £736,000) is shown as part of the Directors' Remuneration Report on page 53.

12. Tax expense

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

	Group 2023 £'000	Society 2023 £'000	Group 2022 £'000	Society 2022 £'000
UK corporation tax on profits for the year	421	325	747	648
Adjustment in respect of prior years	-	10	1	1
Total current tax	421	335	748	649
Deferred tax movement	(190)	(243)	50	41
Adjustment in respect of prior years	(6)	-	(33)	(29)
Tax expense for the year in the Income Statement	**225**	**92**	**765**	**661**

12. Tax expense (continued)

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

	Group 2023 £'000	Society 2023 £'000	Group 2022 £'000	Society 2022 £'000
UK corporation tax on profits for the year	-	-	-	-
Total current tax	-	-	-	-
Deferred tax movement	42	42	(562)	(562)
Tax expense for the year in the Income Statement	**42**	**42**	**(562)**	**(562)**

(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 23.50% (2022: 19.00%). The differences are explained below:

	Group 2023 £'000	Society 2023 £'000	Group 2022 £'000	Society 2022 £'000
Profit before tax	**811**	**193**	**4,012**	**3,608**
Profit before tax multiplied by the UK standard rate of tax of 23.50% (2022: 19.00%)	191	45	762	686
Effects of:				
Income not taxable	(38)	(38)	42	24
Losses claimed from fellow group companies	-	-	-	(15)
Effect of changes to tax rate on deferred tax	(3)	(5)	9	10
Adjustment in respect of prior years	(6)	10	(32)	(28)
Other movements	81	80	(16)	(16)
Tax expense for the year	**225**	**92**	**765**	**661**

13. Loans and advances to credit institutions

	Group 2023 £'000	Society 2023 £'000	Group 2022 £'000	Society 2022 £'000
Amounts Repayable on demand	14,509	14,291	15,535	15,143
	14,509	**14,291**	**15,535**	**15,143**

14. Debt securities

	Group & Society 2023 £'000	Group & Society 2022 £'000
UK Government Gilts	12,013	3,212
Treasury Bills	15,924	-
UK bank and building society certificates of deposit	2,126	1,002
	30,063	**4,214**

Debt securities held by the Society included items with a carrying value of £7,488,000 (2022: £nil) that were pledged to the Bank of England as collateral.

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

	Group & Society 2023 £'000	Group & Society 2022 £'000
At 1 January	4,214	5,143
Additions	27,034	1,000
Maturities	(1,790)	(1,750)
Movements in accrued income	296	(43)
Net gains/(losses) from changes in fair value recognised in Other Comprehensive Income	309	(136)
At 31 December	**30,063**	**4,214**

15. Derivative financial instruments

	Notional amount £'000	Fair values – Assets £'000	Fair values – Liabilities £'000
Group & Society 2023			
Unmatched derivatives - Interest rate swaps	37,000	93	(111)
Derivatives designated as fair value hedges - Interest rate swaps	274,750	5,718	(1,934)
Total recognised derivative assets/(liabilities)	**311,750**	**5,811**	**(2,045)**

15. Derivative financial instruments (continued)

	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)**

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

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.

15. Derivative financial instruments (continued)

	Maturity		
	Less than 1 year £'000	1-5 years £'000	More than 5 years £'000
Group & Society 2023			
Hedge of loans and advances			
Nominal amount	41,500	131,250	-
Average fixed rate	3.50%	2.91%	-
Hedge of shares			
Nominal amount	3,000	99,000	-
Average fixed rate	3.01%	4.40%	-
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%	-

15. 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 2023							
Interest rate swaps - hedge of loans and advances	172,750	4,693	(1,616)	Derivative financial instruments	(5,018)	246	Net loss from derivative financial instruments
Interest rate swaps - hedge of shares	102,000	1,025	(318)	Derivative financial instruments	354	(943)	Net loss from derivative financial instruments
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

15. 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
	Assets £'000	Liabilities £'000	Total Balance		
Group & Society 2023					
Loans and advances	125,200	-	(1,457)	Loans and advances to customers	5,264
Shares	-	32,840	911	Shares	(1,297)
Group & Society 2022					
Loans and advances	213,235	-	(6,721)	Loans and advances to customers	(5,639)
Shares	-	41,535	(386)	Shares	239

16. Loans and advances to customers

	Group 2023 £'000	Society 2023 £'000	Group 2022 £'000	Society 2022 £'000
Loans fully secured on residential property	590,579	524,140	548,196	477,045
Loans fully secured on land	17,284	17,372	15,209	15,328
	607,863	**541,512**	**563,405**	**492,373**
Provisions for impairment losses on loans and advances (see Note 17)	(520)	(323)	(927)	(845)
Fair value adjustment for hedged risk	(1,457)	(1,457)	(6,721)	(6,721)
	605,886	**539,732**	**555,757**	**484,807**

Mortgage assets held by the Society included items with a carrying value of £194,701,000 (2022: £181,205,000) that were pledged to the Bank of England as collateral.

17. 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 2023			
Stage 1	541,653	135	0.0%
Stage 2	57,876	114	0.2%
Stage 3	8,334	271	3.2%
	607,863	**520**	**0.1%**
Loan commitments - stage 1	45,802	-	-
Loan commitments - stage 2	197	-	-
Loan commitments - stage 3	655	-	-
Society 2023			
Stage 1	491,318	123	0.0%
Stage 2	45,514	74	0.2%
Stage 3	4,680	126	2.7%
	541,512	**323**	**0.1%**
Loan commitments - stage 1	45,245	-	-
Loan commitments - stage 2	197	-	-
Loan commitments - stage 3	655	-	-
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	-	-

17. 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:

Loans and advances to customers	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Group 2023				
Balance at 1 January	521,945	35,125	6,335	**563,405**
Transfers between stages arising from changes in credit risk				
Transfer to Stage 1	18,357	(17,659)	(698)	-
Transfer to Stage 2	(41,212)	41,785	(573)	-
Transfer to Stage 3	(3,617)	(2,430)	6,047	-
Net movement arising from transfer of stages	(26,472)	21,696	4,776	-
New financial assets originated or purchased	108,725	4,375	357	**113,457**
Redemptions and repayments	(62,545)	(3,320)	(3,134)	**(68,999)**
Balance at 31 December	**541,653**	**57,876**	**8,334**	**607,863**
Society 2023				
Balance at 1 January	459,965	28,362	4,046	**492,373**
Transfers between stages arising from changes in credit risk				
Transfer to Stage 1	16,602	(16,015)	(587)	-
Transfer to Stage 2	(32,323)	32,605	(282)	-
Transfer to Stage 3	(2,569)	(1,132)	3,701	-
Net remeasurement of loss allowance	(18,290)	15,458	2,832	-
New financial assets originated or purchased	99,869	3,749	355	**103,973**
Repayments and redemptions	(50,226)	(2,055)	(2,553)	**(54,834)**
Balance at 31 December	**491,318**	**45,514**	**4,680**	**541,512**

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

Provision for impairment losses	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Group 2023				
Balance at 1 January	190	146	591	927
Transfers between stages arising from changes in credit risk				
Transfer to Stage 1	70	(70)	-	-
Transfer to Stage 2	(17)	20	(3)	-
Transfer to Stage 3	(1)	(23)	24	-
Net movement arising from transfer of stages	52	(73)	21	-
Net remeasurement of loss allowance	(99)	50	234	185
New financial assets originated or purchased	35	12	-	47
Financial assets that have been derecognised	(43)	(21)	(575)	(639)
Balance at 31 December	**135**	**114**	**271**	**520**
Society 2023				
Balance at 1 January	174	95	576	845
Transfers between stages arising from changes in credit risk				
Transfer to Stage 1	56	(56)	-	-
Transfer to Stage 2	(14)	14	-	-
Transfer to Stage 3	(1)	(2)	3	-
Net movement arising from transfer of stages	41	(44)	3	-
Net remeasurement of loss allowance	(84)	31	122	69
New financial assets originated or purchased	33	11	-	44
Financial assets that have been derecognised	(41)	(19)	(575)	(635)
Balance at 31 December	**123**	**74**	**126**	**323**

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 as shown in the table below. The provision utilised relates to legacy loans which were disposed during the year.

	Group 2023 £'000	Society 2023 £'000
Decrease in loss provision	(407)	(522)
Provision utilised	639	635
Write-off	243	243
Charge to the Income Statement	**475**	**356**

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

Loans and advances to customers	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Group 2022				
Balance at 1 January	463,923	13,985	5,653	**483,561**
Transfers between stages arising from changes in credit risk				
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 movement arising from transfer of stages	(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				
Balance at 1 January	408,661	9,637	3,506	**421,804**
Transfers between stages arising from changes in credit risk				
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 movement arising from transfer of stages	(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**

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

Provision for impairment losses	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Group 2022				
Balance at 1 January	88	29	580	697
Transfers between stages arising from changes in credit risk				
Transfer to Stage 1	15	(13)	(2)	-
Transfer to Stage 2	(4)	7	(3)	-
Transfer to Stage 3	-	-	-	-
Net movement arising from transfer of stages	11	(6)	(5)	-
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				
Balance at 1 January	80	4	552	636
Transfers between stages arising from changes in credit risk				
Transfer to Stage 1	2	(2)	-	-
Transfer to Stage 2	(2)	2	-	-
Transfer to Stage 3	-	-	-	-
Net movement arising from transfer of stages	-	-	-	-
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**

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

Post model adjustment

Model overlays have been applied to the Group's core ECL models in certain situations where it is considered that the historic PD's understate current risks. PD's have been uplifted to take account of the cost of living challenges and stretched affordability. As a result of the PD uplifts, an overlay of £0.2m has been recognised in the above figures at 31 December 2023 (2022: £0.3m) in addition to the output from the core ECL model. The management overlay recognises £0.1m of ECL in stage 2 and £0.1m in stage 3.

Forward looking information

Central scenario - reflecting the Group's view of the most likely scenario. Continuation of the conflicts in Ukraine and Gaza but they do not escalate into a broader conflict. Inflation falls back to the Bank of England's target but only by the end of 2024 with Bank base rate is only expected to be cut from mid 2024. Economic growth will be weak and unemployment levels will remain broadly level.

Upside scenario - reflecting a more optimistic scenario. The war in Ukraine ends quicker than anticipated resulting in a boost to economic growth. Inflation remains stable and Bank rate begins to reduce similar to the central scenario.

Downside scenario - reflecting a more pessimistic scenario with a deterioration of the conflict in Ukraine. The geo-political uncertainty results in GDP falling and an economic recession with inflation falling and the Bank reducing base rate quicker than in the central or upside scenario.

Severe downside scenario - reflecting a more severe downside scenario with greater geo-political tensions resulting in significant barriers to shipping and impacts to overall global growth. GDP declines by 7%, unemployment peaks at 8.7%, and house prices fall in excess of 20%.

	2023 %	2022 %
Central	50%	45%
Upside	5%	10%
Downside	30%	30%
Severe downside	15%	15%

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

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

		2023 %	2022 %
Gross Domestic Product (GDP)	Central	0.74%	0.60%
	Upside	1.92%	1.30%
	Downside	-1.06%	-0.90%
	Severe downside	-1.75%	-11.00%
Unemployment rate	Central	4.59%	5.00%
	Upside	4.80%	4.40%
	Downside	6.40%	5.80%
	Severe downside	7.25%	11.90%
House price inflation	Central	-0.36%	-4.80%
	Upside	4.82%	0.40%
	Downside	-6.77%	-9.90%
	Severe downside	-9.89%	-32.90%

18. Investment in subsidiary undertakings

(a) Investments at cost

	Society 2023 £'000	Society 2022 £'000
Investment in subsidiary undertakings - shares	190	190
Investment in subsidiary undertakings - loans	64,621	70,231
	64,811	**70,421**

Movement in investments at cost:

	Subsidiary undertakings - Shares £'000	Subsidiary undertakings - Loans £'000
At 1 January 2023	190	70,231
Net reduction in loans	-	(5,420)
Write-off	-	(190)
At 31 December 2023	**190**	**64,621**

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	

19. Property, plant and equipment

Group	Freehold Land & Buildings £'000	Office Equipment £'000	Motor Vehicles £'000	Total £'000
Cost				
At 1 January 2023	5,756	3,796	23	9,575
Additions	428	2,190	-	2,618
Disposals	-	(1,906)	(11)	(1,917)
At 31 December 2023	**6,184**	**4,080**	**12**	**10,276**
Depreciation				
At 1 January 2023	1,611	2,292	13	3,916
Charged in year	136	412	3	551
Disposals	-	(1,901)	(11)	(1,912)
At 31 December 2023	**1,747**	**803**	**5**	**2,555**
Net book value at 31 December 2023	**4,437**	**3,277**	**7**	**7,721**

19. Property, plant and equipment (continued)

Society	Freehold Land & Buildings £'000	Office Equipment £'000	Motor Vehicles £'000	Total £'000
Cost				
At 1 January 2023	5,163	3,795	23	8,981
Additions	428	2,190	-	2,618
Disposals	-	(1,906)	(11)	(1,917)
At 31 December 2023	**5,591**	**4,079**	**12**	**9,682**
Depreciation				
At 1 January 2023	1,446	2,292	13	3,751
Charged in year	130	412	3	545
Disposals	-	(1,901)	(11)	(1,912)
At 31 December 2023	**1,576**	**803**	**5**	**2,384**
Net book value at 31 December 2023	**4,015**	**3,276**	**7**	**7,298**

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 2023	-	77	-	77
Additions	428	82	-	510
Amortisation	(44)	(73)	-	(117)
Disposals	-	(5)	-	(5)
At 31 December 2023	**384**	**81**	**-**	**465**

19. Property, plant and equipment (continued)

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**

19. 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**

	Group 2023 £'000	Society 2023 £'000	Group 2022 £'000	Society 2022 £'000
Net book value of land and buildings occupied by the Group and Society for its own activities	4,437	4,015	4,145	3,717

20. Intangible assets

Group	Group 2023 Purchased Software £'000	Society 2023 Purchased Software £'000	Group 2022 Purchased Software £'000	Society 2022 Purchased Software £'000
Cost				
At beginning of year	1,417	1,112	1,323	1,018
Additions	-	-	128	128
Write-off	(742)	(742)	(34)	(34)
At end of year	**675**	**370**	**1,417**	**1,112**
Amortisation				
At beginning of year	1,046	846	841	743
Charged in year	166	123	205	103
Write-off	(742)	(742)	-	-
At end of year	**470**	**227**	**1,046**	**846**
Net book value at end of year	**205**	**143**	**371**	**266**
Net book value at beginning of year	**371**	**266**	**482**	**275**

21. Investment properties

	Group 2023 £'000	Society 2023 £'000	Group 2022 restated £'000	Society 2022 restated £'000
Valuation				
At 1 January	650	650	1,520	1,520
Revaluation - unrealised gain/(loss)	120	120	(120)	(120)
Reclassification to assets held for sale	(770)	(770)	(585)	(585)
Disposal	-	-	(165)	(165)
At 31 December	**-**	**-**	**650**	**650**

The last formal valuation of the investment properties was performed as at 31 December 2022 by Mr Graham S. Parkinson of Musson Liggins. The Group applies the open market value based on a multiple of yield achievable, as defined in IVS 104 paragraph 30.1 in the RICS Red Book. These are deemed to be level 3 valuations, in accordance with the fair valuation definitions set out in Note 30(b). The key assumptions used in the valuations are the underlying rental yields and the term of the leases based on 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.

Certain investment properties have been classified as held for sale in accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'.

The Group has an ongoing strategy to dispose of all investment properties. During the year profits recognised on disposal were £45,000 (2022: £nil).

The Group has one property remaining at 31 December, which is under offer, and expects the sale to be completed within the next 12 months.

22. Other assets

	Group 2023 £'000	Society 2023 £'000	Group 2022 £'000	Society 2022 £'000
Prepayments	535	522	342	274
Other debtors	398	451	592	401
	933	**973**	**934**	**675**

23. Deferred tax

	Group 2023 £'000	Society 2023 £'000	Group 2022 £'000	Society 2022 £'000
Movement on deferred tax				
At 1 January	(1,475)	(1,505)	(2,020)	(2,055)
Current year Income Statement credit/ (charge) (see Note 12)	196	243	(17)	(12)
Amount recognised directly in Other Comprehensive Income	(42)	(42)	562	562
At 31 December	**(1,321)**	**(1,304)**	**(1,475)**	**(1,505)**

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

Accelerated Capital Allowances	(37)	(47)	(190)	(218)
Other provisions	44	44	(1)	(1)
IFRS transition adjustment	(19)	(2)	(26)	(6)
IFRS 9 transition	4	3	(14)	3
Pensions and other post retirement benefits	245	245	181	181
Effect of change in tax rate	(47)	-	-	-
Adjustment in respect of prior years	6	-	33	29
Income Statement credit / (charge) (see Note 12)	**196**	**243**	**(17)**	**(12)**

23. Deferred tax (continued)

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

	Group 2023 £'000	Society 2023 £'000	Group 2022 £'000	Society 2022 £'000
Deferred tax assets				
Other provisions	76	76	37	32
IFRS transition	9	8	14	14
IFRS 9 transition	30	-	48	-
Debt securities measured at FVOCI	-	-	33	33
	115	**84**	**132**	**79**
Deferred tax liabilities				
Accelerated capital allowances	531	531	507	485
Available for sale (IFRS transition adjustment)	4	4	8	8
Debt securities at FVOCI	44	44	-	-
IFRS 9 transition	14	14	17	17
Rolled over gain on property disposal	229	181	181	181
Pensions and other post retirement benefits	614	614	894	894
	1,436	**1,388**	**1,607**	**1,585**

Deferred tax is recognised at 25% (2022: 25%) being the tax rate enacted at the Statement of Financial Position date at which the balances are materially expected to reverse.

24. Shares

	Group & Society 2023 £'000	Group & Society 2022 £'000
Held by individuals	593,478	503,002
Other shares	4,084	5,965
Fair value adjustment for hedged risk	911	(386)
	598,473	**508,581**

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

Accrued interest	6,782	1,837
Repayable on demand	203,015	202,461
In not more than three months	58,282	62,384
In more than three months but not more than one year	113,641	106,447
In more than one year but not more than five years	216,753	135,452
	598,473	**508,581**

25. 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 2023 £'000	Group & Society 2022 £'000
Accrued interest	1,335	891
Repayable on demand	4,634	8,989
In less than three months	6,500	3,000
In more than three months but not more than one year	13,500	2,000
In more than one year but not more than five years	82,000	117,000
	107,969	**131,880**

Amounts owed to credit institutions include £82,000,000 (2022: £117,000,000) secured against certain loans and advances to customers.

At 31 December 2023, £4,310,000 (2022: £8,520,000) had been received from credit counterparties as collateral against derivative contracts

26. 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 2023 £'000	Group & Society 2022 £'000
Accrued interest	124	144
Repayable on demand	3,280	3,186
In not more than three months	3,203	6,311
In more than three months but not more than one year	7,415	17,447
	14,022	**27,088**

27. Other liabilities and accruals

	Group 2023 £'000	Society 2023 £'000	Group 2022 £'000	Society 2022 £'000
Lease liabilities	493	492	77	77
Accruals	1,812	1,525	1,791	1,562
Other creditors	478	1,095	349	612
	2,783	**3,112**	**2,217**	**2,251**

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 2023 £'000	Group & Society 2022 £'000
Less than one year	84	61
One to five years	424	18
Total undiscounted lease liabilities	**508**	**79**

The increase in lease liabilities reflects leases entered into for the two new branch properties opened during the year.

Interest on lease liabilities recognised in the Income Statement was £5,000 (2022: £2,000).

Amounts paid in the year in respect of lease liabilities was £95,000 (2022: £60,000).

28. 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 18.

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

	Interest paid 2023 £'000	Loan outstanding 2023 £'000	Interest paid 2022 £'000	Loan outstanding 2022 £'000
MBS Lending Limited	3,357	64,082	2,449	69,102
Nexa Finance Limited	34	539	19	1,017
MMBS Services Limited	10	-	4	112
	3,401	**64,621**	**2,472**	**70,231**

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 £630,000 (2022: £603,000) in administration and servicing fees to the Society during the year.

2) Nexa Finance Limited paid £25,000 to the Society (2022: £14,000) in administration and servicing fees to Nexa Finance Limited during the year.

3) MMBS Services Limited paid £7,500 (2022: £8,000) in administration and servicing fees to the Society during the year. At 31 December 2023, the Society owed £nil (2022: £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 the Directors' Remuneration report on page 53. No directors are members of the defined benefit pension scheme. One director is an active member of the defined contribution scheme.

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

	Number of key management personnel and their close family members 2023	Amounts in respect of key management personnel and their close family members 2023 £'000	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
Loans and advances				
Balances outstanding 31 December	-	-	-	-
Interest paid	**-**	**-**	**-**	**-**
Savings				
Balances outstanding 31 December	10	120	11	94
Interest received	**10**	**3**	**11**	**-**

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 2023, 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 10.

d) Donations to the Melton Mowbray Building Society Charitable Foundation

During the year, the Society donated £10,000 (2022: £10,265) to the Melton Mowbray Building Society Charitable Foundation.

29. Guarantees and other financial commitments

a) Capital commitments

	Group 2023 £'000	Society 2023 £'000	Group 2022 £'000	Society 2022 £'000
Capital expenditure contracted for but not provided in the accounts at the end of the financial year	**-**	**-**	**1,793**	**1,793**

30. 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 2023	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	100,741	-	-	100,741
Loans and advances to credit institutions	14,509	-	-	14,509
Debt securities	-	30,063	-	30,063
Derivative financial instruments	-	-	5,811	5,811
Loans and advances to customers	605,886	-	-	605,886
Other Debtors	398	-	-	398
Total financial assets	**721,534**	**30,063**	**5,811**	**757,408**
Non-financial assets				11,589
Total assets				**766,885**
Liabilities				
Shares	598,473	-	-	598,473
Amounts owed to credit institutions	107,969	-	-	107,969
Amounts owed to other customers	14,022	-	-	14,022
Derivative financial instruments	-	-	2,045	2,045
Lease Liabilities	493	-	-	493
Accruals	1,812	-	-	1,812
Other Creditors	478	-	-	478
Total financial liabilities	**723,247**	**-**	**2,045**	**725,292**
Non-financial liabilities				1,436
Total liabilities				**726,728**

30. Financial instruments (continued)

Society at 31 December 2023	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	100,741	-	-	100,741
Loans and advances to credit institutions	14,291	-	-	14,291
Debt securities	-	30,063	-	30,063
Derivative financial instruments	-	-	5,811	5,811
Loans and advances to customers	539,732	-	-	539,732
Loans to subsidiary undertakings	64,621	-	-	64,621
Other Debtors	451			451
Total financial assets	**719,836**	**30,063**	**5,811**	**755,710**
Non-financial assets				11,589
Total assets				**767,299**
Liabilities				
Shares	598,473	-	-	598,473
Amounts owed to credit institutions	107,969	-	-	107,969
Amounts owed to other customers	14,022	-	-	14,022
Derivative financial instruments	-	-	2,045	2,045
Lease Liabilities	492	-	-	492
Accruals	1,525	-	-	1,525
Other Creditors	1,095	-	-	1,095
Total financial liabilities	**723,576**	**-**	**2,045**	**725,621**
Non-financial liabilities				1,388
Total liabilities				**727,009**

30. Financial instruments (continued)

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	1,791	-	-	1,791
Other Creditors	349	-	-	349
Total financial liabilities	**669,766**	**-**	**1,291**	**671,057**
Non-financial liabilities				1,968
Total liabilities				**673,025**

30. 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**

30. 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 2023	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	100,741	100,741	-	-	100,741
Loans and advances to credit institutions	14,509	14,509	-	-	14,509
Loans and advances to customers	605,886	-	-	603,223	603,223
	721,136	**115,250**	**-**	**603,223**	**718,473**
Financial liabilities					
Shares	598,473	-	-	594,983	594,983
Amounts due to credit institutions	107,969	4,634	103,335	-	107,969
Amounts due to other customers	14,022	-	-	14,022	14,022
	720,464	**4,634**	**103,335**	**609,005**	**716,974**

30. Financial instruments (continued)

Society at 31 December 2023	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	100,741	100,741	-	-	100,741
Loans and advances to credit institutions	14,291	14,291	-	-	14,291
Loans and advances to customers	539,732	-	-	538,106	538,106
Loans to subsidary undertakings	64,621	-	-	64,621	64,621
	719,385	**115,032**	**-**	**602,727**	**717,759**
Financial liabilities					
Shares	598,473	-	-	594,983	594,983
Amounts due to credit institutions	107,969	4,634	103,335	-	107,969
Amounts due to other customers	14,022	-	-	14,022	14,022
	720,464	**4,634**	**103,335**	**609,005**	**716,974**

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**

30. 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**

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.

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.

30. Financial instruments (continued)

Group & Society at 31 December 2023	Fair value Level 1 £'000	Fair value Level 2 £'000	Total £'000
Financial assets			
Debt securities	30,063	-	30,063
Derivative financial instruments	-	5,811	5,811
	30,063	**5,811**	**35,874**
Financial liabilities			
Derivative financial instruments	-	2,045	2,045
	-	**2,045**	**2,045**

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
	4,214	**9,786**	**14,000**
Financial liabilities			
Derivative financial instruments	-	1,291	1,291
	-	**1,291**	**1,291**

30. 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 122 to 130. In addition, mortgage offer commitments at the year-end amounted to £46,654,000 (2022: £61,405,000) for the Group and £46,097,000 (2022: £56,042,000) 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 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.

30. Financial instruments (continued)

- 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.

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 2023 £'000	Society 2023 £'000	Group 2022 £'000	Society 2022 £'000
Prime owner occupied	466,039	399,893	421,944	350,987
Buy to let	124,540	124,247	126,252	126,058
Gross balances	**590,579**	**524,140**	**548,196**	**477,045**
Impairment provisions	(457)	(260)	(239)	(157)
Fair value adjustments for hedged risk	(1,457)	(1,457)	(6,721)	(6,721)
	588,665	**522,423**	**541,236**	**470,167**

30. Financial instruments (continued)

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

	Group 2023 £'000	Society 2023 £'000	Group 2022 £'000	Society 2022 £'000
East Midlands	103,646	93,784	105,357	94,885
South East	112,824	101,494	103,263	92,687
North West	54,395	45,633	45,884	37,138
South West	87,872	82,199	82,186	74,550
East	77,747	67,707	75,087	63,367
West Midlands	46,625	39,956	40,221	34,244
Yorkshire	42,432	36,388	36,803	29,295
London	21,436	19,809	20,678	19,036
Wales	30,661	26,320	27,319	22,315
North East	12,941	10,850	11,398	9,528
	590,579	**524,140**	**548,196**	**477,045**

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

	Group 2023				Society 2023			
	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
90%-95%	3,496	-	-	**3,496**	3,496	-	-	**3,496**
85%-90%	15,630	408	-	**16,038**	15,630	408	-	**16,038**
75%-85%	43,186	4,887	131	**48,204**	43,094	4,887	131	**48,112**
50%-75%	201,215	24,641	3,873	**229,729**	172,021	18,414	1,851	**192,286**
<50%	261,697	27,085	4,330	**293,112**	240,560	20,950	2,698	**264,208**
	525,224	**57,021**	**8,334**	**590,579**	**474,801**	**44,659**	**4,680**	**524,140**

30. Financial instruments (continued)

	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**

The Group's average indexed loan to value ratio at the year end date for the residential loan portfolio was 45.5% (2022: 40.5%).

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

	Group 2023				Society 2023			
	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
>95%	117	-	-	**117**	117	-	-	**117**
90%-95%	1	-	-	**1**	1	-	-	**1**
85%-90%	4,910	-	-	**4,910**	4,910	-	-	**4,910**
75%-85%	3,476	5	-	**3,481**	3,476	5	-	**3,481**
50%-75%	34,419	97	5	**34,521**	33,862	97	5	**33,964**
<50%	2,879	95	650	**3,624**	2,879	95	650	**3,624**
	45,802	**197**	**655**	**46,654**	**45,245**	**197**	**655**	**46,097**

30. Financial instruments (continued)

	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**

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

	Group 2023				Society 2023			
	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	525,224	53,783	1,842	**580,849**	474,801	42,297	1,374	**518,472**
Past due 1 to 3 months	-	3,238	2,838	**6,076**	-	2,362	1,329	**3,691**
Past due over 3 months	-	-	3,654	**3,654**	-	-	1,977	**1,977**
	525,224	**57,021**	**8,334**	**590,579**	**474,801**	**44,659**	**4,680**	**524,140**

	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**

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 2023 4 (2021: 1) interest only loans were transferred to stage 2 totalling £487,000 (2022: £nil).

30. Financial instruments (continued)

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

	Group 2023 £'000	Society 2023 £'000	Group 2022 £'000	Society 2022 £'000
Not impaired	1,664,980	1,507,561	1,846,392	1,654,501
Impaired	21,936	11,849	10,586	5,048
	1,686,916	**1,519,410**	**1,856,978**	**1,659,549**

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 2023 was £580,225,000 (2022: £537,523,000) against outstanding debt of £582,187,000 (2022: £544,484,000). In addition, the value of collateral held against 'Impaired' loans at 31 December 2023 was £8,322,000 (2022: £3,703,000) against outstanding debt of £8,334,000 (2022: £3,713,000).

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 £28,000 (2022: £7,000)

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 £105,000 (2022: £61,500).

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 £105,000 (2022: £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.

Group & Society	Concessions 2023 £'000	Payment Holiday 2023 £'000	Total 2023 £'000	Concessions 2022 £'000	Payment Holiday 2022 £'000	Total 2022 £'000
Not impaired	1,136	-	**1,136**	724	520	**1,244**
Past due up to three months	1,179	-	**1,179**	-	-	**-**
Past due up to 3 months	-	-	**-**	-	23	**23**
Total forbearance	**2,315**	**-**	**2,315**	**724**	**543**	**1,267**

30. 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 2023 £'000	Society 2023 £'000	Group 2022 £'000	Society 2022 £'000
Investment property	17,232	17,320	15,143	15,262
Owner occupied	52	52	66	66
Loans secured on commercial property	17,284	17,372	15,209	15,328
Impairment provisions	(63)	(63)	(688)	(688)
	17,221	**17,309**	**14,521**	**14,640**

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

	Group 2023 £'000	Society 2023 £'000	Group 2022 £'000	Society 2022 £'000
East Midlands	13,180	13,268	11,479	11,567
West Midlands	3,194	3,194	2,344	2,356
Yorkshire	577	577	884	890
South West	333	333	502	515
	17,284	**17,372**	**15,209**	**15,328**

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

	Group 2023				Society 2023			
	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
75%-100%	3,686	855	-	**4,541**	3,686	855	-	**4,541**
50%-75%	9,266	-	-	**9,266**	9,266	-	-	**9,266**
<50%	3,477	-	-	**3,477**	3,565	-	-	**3,565**
	16,429	**855**	**-**	**17,284**	**16,517**	**855**	**-**	**17,372**

30. Financial instruments (continued)

	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
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**

As at the 31 December 2023 mortgage offer commitments for the commercial portfolio were £15,304,000 (2022: £9,476,000).

The Group's average indexed loan to value ratio at the year end date for the commercial loan portfolio was 54.0% (2022: 62.0%).

The above analysis includes no loans (2022: 5) which were impaired at year end. The loans had a value of £nil (2022: £1,895,000), an average LTV of nil (2022: 124%) and a loan loss provision of £nil (2022: £605,000) was held in relation to them.

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

Group and Society	Unindexed Group 2023 £'000	Unindexed Society 2023 £'000	Unindexed Group 2022 £'000	Unindexed Society 2022 £'000
Not impaired	32,624	32,624	22,084	22,084
Impaired	-	-	1,625	1,625
	32,624	**32,624**	**23,709**	**23,709**

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 2023 was £17,284,000 (2022: £13,231,000) against outstanding debt of £17,284,000 (2022: £13,344,000).

There were no loans within the commercial loan portfolio receiving forbearance as at 31 December 2023 or 31 December 2022.

30. Financial instruments (continued)

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.

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

	Group 2023 £'000	Society 2023 £'000	Group 2022 £'000	Society 2022 £'000
Concentration by credit rating:				
AAA to AA-	138,477	138,476	131,198	131,198
A+ to A-	6,571	6,353	5,971	5,579
Other	265	266	216	216
	145,313	**145,095**	**137,385**	**136,993**

'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 2023 £'000	Society 2023 £'000	Group 2022 £'000	Society 2022 £'000
Concentration by sector:				
Sovereign	128,413	128,412	120,633	120,633
Financial institutions	16,900	16,683	16,752	16,360
	145,313	**145,095**	**137,385**	**136,993**
Concentration by region:				
UK	145,313	145,095	137,385	136,993
	145,313	**145,095**	**137,385**	**136,993**

30. Financial instruments (continued)

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 of the subsidiary. At the 31 December 2023 a write-off of £190,000 (2022: £nil) was recognised based on future expected cash flows of the subsidiary undertakings.

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.

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 Director of Risk & Compliance, including key risk indicators relating to liquidity and funding, and access to all ALCO papers.

30. 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 2023	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	Total £'000
Financial assets						
Cash and balances with the Bank of England	100,741	-	-	-	-	**100,741**
Loans and advances to credit institutions	14,509	-	-	-	-	**14,509**
Debt securities	-	3,974	16,572	6,035	3,482	**30,063**
Total liquid assets	115,250	3,974	16,572	6,035	3,482	**145,313**
Derivative financial instruments	-	849	1,900	3,062	-	**5,811**
Loans and advances to customers	-	8,080	24,171	87,570	486,065	**605,886**
Other assets	-	50	348	-	-	**398**
	115,250	**12,953**	**42,991**	**96,667**	**489,547**	**757,408**
Financial liabilities						
Shares	205,342	58,950	114,944	219,237	-	**598,473**
Amounts due to credit institutions	4,634	6,500	13,500	83,335	-	**107,969**
Amounts due to other customers	3,309	3,232	7,481	-	-	**14,022**
Derivative financial instruments	-	239	664	1,142	-	**2,045**
Other liabilities	-	1,223	869	691	-	**2,783**
	213,285	**70,144**	**137,458**	**304,405**	**-**	**725,292**
Loan commitments	46,654	-	-	-	-	**46,654**
Net liquidity gap	**(144,689)**	**(57,191)**	**(94,467)**	**(207,738)**	**489,547**	**(14,538)**

30. Financial instruments (continued)

Society at 31 December 2023	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	Total £'000
Financial assets						
Cash and balances with the Bank of England	100,741	-	-	-	-	**100,741**
Loans and advances to credit institutions	14,291	-	-	-	-	**14,291**
Debt securities	-	3,974	16,572	6,035	3,482	**30,063**
Total liquid assets	115,032	3,974	16,572	6,035	3,482	**145,095**
Derivative financial instruments	-	849	1,900	3,062	-	**5,811**
Loans and advances to customers	-	7,000	22,191	76,057	434,484	**539,732**
Investments in subsidiary undertakings	64,621	-	-	-	-	**64,621**
Other assets	-	37	414	-	-	**451**
	179,653	**11,860**	**41,077**	**85,154**	**437,966**	**755,710**
Financial liabilities						
Shares	205,342	58,950	114,944	219,237	-	**598,473**
Amounts due to credit institutions	4,634	6,500	13,500	83,335	-	**107,969**
Amounts due to other customers	3,309	3,232	7,481	-	-	**14,022**
Derivative financial instruments	-	239	664	1,142	-	**2,045**
Other liabilities	-	1,314	1,151	647	-	**3,112**
	213,285	**70,235**	**137,740**	**304,361**	**-**	**725,621**
Loan commitments	46,097	-	-	-	-	**46,097**
Net liquidity gap	**(79,729)**	**(58,375)**	**(96,663)**	**(219,207)**	**437,966**	**(16,008)**

30. Financial instruments (continued)

Group at 31 December 2022 (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	Total £'000
Financial 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	-	592	-	-	-	**592**
	133,171	**7,113**	**24,996**	**95,429**	**442,811**	**703,520**
Financial liabilities						
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	-	1,039	1,029	149	-	**2,217**
	215,387	**72,995**	**128,563**	**254,112**	**-**	**671,057**
Loan commitments *	61,405	-	-	-	-	**61,405**
Net liquidity gap	**(143,621)**	**(65,882)**	**(103,567)**	**(158,683)**	**442,811**	**(28,942)**

30. Financial instruments (continued)

Society at 31 December 2022 (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	Total £'000
Financial 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	-	-	-	-	**70,231**
Other assets	-	401	-	-	-	**401**
	203,010	**6,116**	**22,839**	**83,701**	**386,552**	**702,218**
Financial liabilities						
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	-	1,073	1,029	149	-	**2,251**
	215,387	**73,029**	**128,563**	**254,112**	**-**	**671,091**
Loan commitments *	56,042	-	-	-	-	**56,042**
Net liquidity gap	**(68,419)**	**(66,913)**	**(105,724)**	**(170,411)**	**386,552**	**(24,915)**

* Loan commitments were incorrectly excluded from the analysis above in 2022 and have now been included. The impact is purely presentational within the notes to the accounts with no impact on the Income Statement or Statement of Financial Position.

30. Financial instruments (continued)

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

Group & Society at 31 December 2023	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	264,142	117,214	243,830	**625,186**
Amounts owed to credit institutions and other customers	13,233	21,443	89,988	**124,664**
Derivative financial instruments	252	702	1,244	**2,198**
	277,627	**139,359**	**335,062**	**752,048**

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**

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.

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.

30. Financial instruments (continued)

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.

	Group 2023 £'000	Group 2022 £'000
Sensitivity to profit and reserves		
Parallel shift of +2%	566	(174)
Parallel shift of -2%	(566)	174

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 2023 £4,310,000 (2022: £8,520,000) collateral had been received against derivative contracts.

The Group is not exposed to foreign currency risk.

31. 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 2023 £'000	Group 2022 £'000
General reserves	42,644	42,329
Revaluation reserve	(270)	(435)
Fair value reserve	146	(85)
Deduction for net pension asset	(1,841)	(2,681)
Deduction for intangible assets	(205)	(371)
Other regulatory adjustments	225	168
Common Equity Tier 1 Capital	**40,699**	**38,925**
Total Regulatory Capital	**40,699**	**38,925**
Risk Weighted Assets (unaudited)	286,701	254,735
Total leverage exposures (unaudited)	678,623	605,301

Capital ratios (unaudited)	%	%
Common Equity Tier 1	14.2%	15.3%
Total capital ratio	14.2%	15.3%
Leverage ratio	6.0%	6.4%

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

32. 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 Objectives. The principal activities of the subsidiary are disclosed in Note 18(b) to the accounts.

b) Average number of employees: 151 (2022: 134)

c) Annual turnover: £15,900,000 (2022: £13,295,000)

Profit before tax: £811,000 (2022: £4,012,000)

d) Corporation tax paid £782,000 (2022: £504,000)

e) Public subsidies: there were none received in the year (2022: none)

Basis of preparation

The Country by Country information for the year ended 31 December 2023 has been prepared on the following basis:

The number of employees has been calculated as the average number of full and part-time employees, on a monthly basis, as disclosed in note 9.

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 25.

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

The Directors of the Society are responsible for preparing the CBCR Information for the year ended 31 December 2023 in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013.
In preparing the CBCR information, the Directors are responsible for:

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

Annual Business Statement

for the year ended 31 December 2023

1. Statutory percentages

	Group 2023	Statutory Limit
Lending Limit	3.22%	25.00%
Funding limit	17.50%	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 2023	Group 2022
As a percentage of shares and borrowings:		
Gross capital	5.90%	6.26%
Free capital	4.80%	5.36%
Liquid assets	20.17%	20.58%
As a percentage of mean total assets:		
Profit for the financial year	0.08%	0.49%
Group management expenses	2.01%	1.75%
Society management expenses	1.87%	1.59%

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 2023

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 British Business Investments Ltd Nexa Finance Limited NHS Business Services Authority
Jonathan George FARRINGTON	1 March 2018	Company Director	1969	Farrington Associates Ltd
Elizabeth Anne LOCKWOOD	1 July 2022	Consultant & Building Society Director	1973	Cambridge & Counties Bank Cawthorne and Cooke Limited Nexa Finance Limited
Andrew John LUMBY	1 July 2021	Building Society Chief Financial Officer	1978	MBS Lending Ltd MMBS Services Limited Nexa Finance Limited 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	Nexa Finance Limited MBS Lending Ltd Monument Bank Limited
Simon James TAYLOR	1 June 2020	Building Society Chief Executive	1970	MBS Lending Ltd MMBS Services Limited Nexa Finance Limited Nexa Lending & Security Services Ltd Half Acre Management Consultancy Limited
Simon George THOMAS	1 May 2021	Building Society Director	1964	National Deposit Friendly Society Limited

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	De Montfort University Students Union
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.

Glossary

Arrears
A customer is in arrears when they are behind in meeting their contractual obligations with the result that an outstanding loan payment is overdue. The value of the arrears is the value of any payments that have been missed.

Application to offer
Application to offer is a measure of the time taken between the receipt of a mortgage application form to a full offer being made. The Society measures the movement in application to offer year on year using the results in December of each year.

Buy-to-let loans (BTL)
Buy-to-let loans are those loans which are offered to customers buying residential property specifically to let out and generate a rental income.

Carrying value
The carrying value is the measure of the Group's assets and liabilities as reported in the Statement of Financial Position.

Common Equity Tier 1 capital (CET1)
CET1 capital consists of internally generated capital generated from retained profits, other reserves less intangible assets and other regulatory deductions. CET1 capital is fully loss absorbing.

Contractual maturity
The final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal and interest is due to be repaid.

Counterparty
The other party to a financial transaction with the Group.

Credit risk
This is the risk that a customer or counterparty is unable to pay the interest or to repay the capital on a loan when required.

Debt securities
Assets held by the Group representing certificates of indebtedness of credit institutions, public bodies or other undertakings excluding those issued by central banks.

Derivative financial instruments
A derivative financial instrument is a type of financial instrument (or an agreement between two parties) whose value is based on the underlying asset, index or reference rate to which it is linked. The Group uses derivative financial instruments to hedge its exposures to market risks, such as interest rate and currency risk.

Effective interest rate method (EIR)
The method used to measure the carrying value of a financial asset or a liability and to allocate associated interest income or expense to produce a level yield over the relevant period.

Expected credit loss (ECL)
Expected credit loss is a calculation of the present value of the amount expected to be lost on a financial asset over its expected life.

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

FCA
The statutory body responsible for conduct of business regulation and supervision of UK authorised firms.

General reserves
The accumulation of the Group's historic and current year profits which is the main component of Common Equity Tier 1 capital.

Impaired loans
Loans where there is objective evidence that an impairment event has occurred, meaning that the Group does not expect to collect all the contractual cash flows or expect to collect them when they are contractually due.

Impairment losses
An amount recognised to reduce the carrying value of an asset where there has been a reduction in expected cash flows following an impairment event.

Interest rate risk
The risk of loss due to a change in market interest rates. Interest rate risk can have an impact on Group's mortgages and savings products.

Interest margin

Represents net interest income divided by mean total assets.

Liquidity

Treasury assets which are either in the form of cash or are readily convertible into cash. The total of cash in hand and balances with the Bank of England, loans and advances to credit institutions and debt securities.

Loan to value ratio (LTV)

LTV expresses the amount of a mortgage as a percentage of the value of the property.

Loans past due

Loans on which a payment has not been made by its due date.

Management expenses

Management expenses are the aggregate of administrative expenses, depreciation and amortisation.

Management expenses ratio

The management expenses ratio is management expenses expressed as a percentage of mean total assets.

Mean total assets

Represents the average of the total assets at the beginning and end of the financial year.

Member

A person who has a share investment or a mortgage loan with the Society.

Operational risk

The risk of loss arising from inadequate or failed internal processes, people and systems, or from external events.

Prudential Regulation Authority (PRA)

The statutory body responsible for the prudential supervision of banks, building societies, insurers and small number of significant investment firms in the UK. The PRA is a subsidiary of the Bank of England.

Residential loans

Loans that are made to individuals rather than institutions and which are secured against residential property.

Risk appetite

The articulation of the level of risk that the Group is willing to take (or not take) in order to safeguard the interests of the Group's members whilst achieving business objectives.

Risk weighted assets (RWA)

The value of assets, after adjustment, under the relevant Basel III capital rules to reflect the degree of risk they represent.

Shares

Funds deposited by a person in a retail savings account with the Group. Such funds are recorded as liabilities for the Group.

Stage 1

Stage 1 assets are assets which have not experienced a significant increase in credit risk since the asset was originally recognised on the balance sheet.

Stage 2

Stage 2 assets have experienced a significant increase in credit risk since initial recognition.

Stage 3

Stage 3 assets are those which are credit impaired.

TFSME

Term Funding Scheme with additional incentives for SMEs. A term funding scheme offered by the Bank of England for an original four-year term.

Underlying profit

A measure that aims to present management's view of the Group's underlying performance for the reader of the Annual Report & Accounts with like for like comparisons of performance across years without the distortion of one-off volatility and items which are not reflective of the Group's ongoing business activities.

Underwriting

The process which the Group undertakes in assessing mortgage applications.

Wholesale funding

The total of amounts owed to credit institutions and amounts owed to other customers.

Melton
Building
Society