# 2022

## Annual Report & Accounts

marsden
BUILDING SOCIETY

# Contents

# Key Financial Highlights

## Key Performance Highlights

- Loans to customers up £16.8m (2.77%) to £624.6m
- Gross residential mortgage advances of £133.3m with 1,043 new members joining the Society
- Share balances up £25.9m (4.59%) to £590.1m with 1,432 new members joining the Society
- Total assets up £36.7m (5.27%) to £733.8m
- Net Interest Margin increased by 0.02% to 1.80%
- Admin expenses as a proportion of mean assets up 0.01% to 1.26%
- Profit after tax up 75.14% at £5.4m and profit to mean assets up 29bps to 0.7bps due to significant fair value gains on hedging instruments of £2.1m
- Underlying profit after tax up 11.16% at £3.3m and underlying profit to mean assets up 1bp to 0.46%
- Core Tier 1 Solvency Ratio of 20.83%, up 1.64% of which 0.86% is attributable to significant fair value gains on hedging instruments in year
- Leverage Ratio of 6.91% up 0.45%

## 5 Year Financial Highlights

| Year ended 31 December | 2022 | 2021 | 2020 | 2019 | 2018 |
|---|---|---|---|---|---|
| Net Interest Income (£000) | 12,904 | 11,864 | 9,660 | 9,004 | 8,280 |
| Net Interest Margin (%) | 1.80% | 1.78% | 1.59% | 1.65% | 1.68% |
| Administrative Expenses (£000) | 8,983 | 8,354 | 7,583 | 7,375 | 6,480 |
| Administrative Expenses to Mean Assets (%) | 1.26% | 1.25% | 1.35% | 1.31% | 1.33% |
| Profit After Tax (£000) | 5,395 | 3,081 | 1,883 | 1,843 | 1,761 |
| Profit to Mean Assets | 0.75% | 0.46% | 0.31% | 0.34% | 0.36% |
| Underlying Profit After Tax (£000) Excluding FTVPL | 3,306 | 2,974 | 1,920 | 1,842 | 1,732 |
| Underlying Profit to Mean Assets (%) Excluding FTVPL | 0.46% | 0.45% | 0.32% | 0.34% | 0.35% |

| As at 31 December | | | | | |
|---|---|---|---|---|---|
| Share Balances (£000) | 590.1 | 564.2 | 535.8 | 498.1 | 433.0 |
| Share Balance Growth (%) | 4.59% | 5.30% | 7.57% | 15.04% | 12.28% |
| Loans to Customers (£000) | 624.6 | 607.8 | 545.7 | 471.8 | 417.8 |
| Loans to Customers Growth (%) | 2.77% | 11.21% | 15.56% | 12.84% | 9.05% |
| Total Assets (£000) | 733.8 | 697.1 | 638.6 | 575.2 | 514.2 |
| Total Asset Growth (%) | 5.27% | 9.17% | 11.01% | 11.86% | 8.75% |
| Reserves (£000) | 50.8 | 45.3 | 42.2 | 40.5 | 38.7 |
| Reserves Growth (%) | 12.17% | 7.29% | 4.37% | 4.67% | 4.78% |
| Liquidity (£000) | 100.9 | 86.1 | 89.5 | 99.4 | 92.2 |
| Wholesale Funding (£000) | 78.9 | 79.4 | 54.0 | 24.5 | 34.5 |
| Loan to Deposit Ratio (incl. Reserves) (%) | 103.48% | 101.08% | 106.51% | 115.11% | 113.87% |
| Core Tier 1 Solvency (%) | 20.83% | 19.19% | 19.70% | 21.66% | 23.16% |
| Leverage Ratio | 6.91% | 6.46% | 6.57% | 6.98% | 7.46% |

# Chairman's Statement

On behalf of your Board of Directors, I am delighted to present Marsden Building Society's Annual Report and Accounts for the year ended 31 December 2022.

Despite the challenges brought by unprecedented global and domestic economic issues, the Society has again delivered a strong performance. During the year, we saw continued growth in our mortgage and savings business, an increase in our trading profitability and a further strengthening of our capital resources. Alongside our strong business and financial performance, we have continued our strategic investment programme, as well as increasing the financial support which will be available to communities via the Marsden Building Society Charitable Foundation.

It has been another challenging year for our members. The cost-of-living pressures and the rapid rise in interest rates has put household finances under real strain. We continue to monitor the situation closely, with the full impact yet to be seen on our borrowers. The emerging risk will be for those refinancing from lower priced fixed rate mortgages in the year ahead.

While the outlook steers us towards lower inflation, this is not expected to produce a short-term correction in the pressure on household finances. Our purpose in providing a trusted home for our members' money, to support their financial well-being and help them reach their financial goals takes on increased importance. The need to align the support from the Society to those less financially resilient has never been more pressing.

At the Marsden, we recognise the important role we play within our communities who continue to face many challenges around financial education and well-being, social inclusion, environmental protection and regeneration. The work of the Charitable Foundation to support charities and organisations represents our commitment to helping those who make a real difference and have a positive impact at a 'grass-roots' level.

We are proud of our mutual heritage and the simplicity of our business model which focuses on savings and mortgages. Our strategy will continue to ensure that the needs of our savers and borrowers are aligned to our future plans for product, services and distribution – delivered with purpose that provides long-term value and maintains financial resilience.

The challenges we will face in the coming year will only become clear in time, but we do appreciate that in working together we will continue to support our members and to invest in our future for many years to come. We are looking forward to the year ahead, building upon our financial strength and organisational capability to implement plans we have set for the Society, ensuring that we remain a forward looking and sustainable organisation.

I am very proud to be part of the Marsden team who have worked so hard, with enthusiasm and dedication. To my branch colleagues and those within our Principal Office functions, the leadership team and my Board colleagues, I want to acknowledge your achievements and thank you on behalf of the members whom you continue to support.

The importance of membership within the mutual business model should not be underestimated. At the Marsden, we care passionately about our members, reflected in the service we provide and in the investment decisions we take to remain a successful mutual building society.

J L Walker
Chairman

2 March 2023

# Chief Executive's Review

2022 proved to be another challenging year for many households, brought on by the rising cost of living and increased borrowing costs, alongside wider concerns about the strength and outlook for the economy. We saw the impact of labour mobility with higher colleague departures which brought additional pressure to our teams and challenges around recruitment. Our response was diligent and purposeful, our financial performance has strengthened and we have continued with our strategic investment. As a member-owned organisation, we have a central purpose in supporting our borrowers and savers, rewarding and recognising our people, and extending support to our communities.

## Purposeful and trusted

As a purpose-led business, providing a trusted home for our members' money and supporting home ownership, we are extending our reach to support communities with the many challenges they face. We have once again increased the financial resources available to the Marsden Building Society Charitable Foundation, with a further £250,000 contribution in year, taking the overall endowment fund, which includes our participation in the Alternative Reclaim Fund, to over £675,000. This will ensure that the work of the Foundation will continue to provide support for our communities both today and into the future.

We will continue to maintain our commitment to retail branches on the high-street, with the ongoing review to evaluate new locations, and with it, the consideration of different retail models in our communities to deliver services & support. During the year, we completed the refurbishment of our Burnley branch, to be followed in the spring by the refurbishment of the branch within the Society's Principal Office in Nelson.

## A strong performance

This year, our financial position has strengthened. For the Society, lending responsibly is central to our purpose, increasing our mortgage base to £624.6m (2021: £607.8m). Despite a modest reduction in total gross lending for the year, £133.3m (2021: £159.1m), we welcomed 1,043 new borrowers to the Society. We were satisfied with the lending performance in year, against a backdrop of rising interest rates and growing cost of living pressures for households. These challenges will remain a key focus for the Society as we set our lending plans for the year ahead and align our resources to support borrowers reaching the end of their initial product period facing an increase in their mortgage financing and in welcoming new borrowers facing additional affordability pressures.

The level of growth in mortgages was supported by growth in our savings balances, which increased to £590.1m (2021: £564.2m), attracting 1,432 new savers to the Society. The rise in interest rates was welcomed by savers and we saw increased demand across our entire savings range. The increase in savings is linked to our lending activities, the Society returning to branch retail funding having previously supplemented our funding by utilising the Bank of England's TFSME scheme. We once again gave priority to customers within our retail branch communities, aligned to our purpose of improving access to savings and supporting savings resilience.

Our statutory profit after tax increased to £5.4m (2021: £3.1m), reserves increased by 12.17% to £50.8m and our Core Tier 1 Solvency Ratio has increased in the year by 1.64% to 20.83% (2021: decrease of 0.51% to 19.19%), highlighting the strength and stability of the Marsden, demonstrating that we remain a safe and secure home for our members' money. Included in statutory profit after tax were the gains we saw through derivative financial instruments which we use to manage interest rate risk arising in mortgages. In year, due to the considerable market volatility which increased swap valuations, gains of £2.6m (2021: £0.1m) were recognised. The strategic report details the driver of these gains and how they impact the financial statements both in year and forward. The Board is focused on underlying performance, excluding the impact of fair value gains and losses.

As a result of performance in core markets which increased our revenues, we have delivered an increase in underlying profitability for the fifth consecutive year, rising to £3.3m (2021: £3.0m).

## Investment & transformation

We continued to make good progress in setting the foundations for our strategic agenda during the year.

With agreements now in place with our partners supporting the Charitable Foundation, its financial resources enhanced further in 2022, and having revisited the areas where support is needed within our communities, we will be announcing our programme imminently. We know through the outcome of our annual colleague survey, the importance to all of us at the Marsden of our planned philanthropic activity.

During 2022 we reviewed our people strategy, seeking to improve upon the overall high levels of engagement, with a focus on organisation design and our operating model. We announced changes to our senior management team, which has proven to be a blend of internal progression and new colleagues set to join in the coming year. We also redesigned our pay and reward framework, intended to drive cultural change through a flatter, more inclusive team structure, but also to ensure that all roles in the Society moved to newly benchmarked remuneration levels from January. For 2023, our people strategy is the most significant investment we will make in the year.

Our IT investments focused on architecture, cloud services and the strengthening of our operational and cyber resilience. We know we have work to do in improving our customer digital experience and in optimising our core systems to deliver improvements for our colleagues. These areas sit on our strategic roadmap for 2024-2025, and having set our investment plans, we do so accepting lower profitability in these years.

## Path to sustainability

Over the course of 2022, we have spent time better understanding the environmental impact we have as an organisation and considering strategies that focus on the sustainability of the business. We have already completed the first phase in assessing the financial risk arising from climate change and the future impact for our lending business. The key risks are related to our customers' homes, through changes in the environment that may cause damage such as flood, subsidence, or coastal erosion; through to transitional risks arising from changes in moving to a lower carbon economy. Our plans for phase 2 surround assessing the impact we have as an organisation, working closely with external consultants to determine our carbon footprint and to develop strategies that support our ambition to be carbon net zero. I look forward to sharing our sustainability goals in the coming year.

We also recognise the role we have to play in raising awareness and supporting our members transitioning to a low-carbon economy, whether through heightened carbon literacy, the introduction of mortgage products that support the retrofit of existing properties or lending criteria changes that keep pace with new greener house building technologies.

## Extraordinary people

During the year, we have worked hard to maintain our high level of colleague engagement, with 95% of colleagues completing the latest survey, where we once again received a one-star accreditation for "very good" engagement levels. Delivering service to members through highly engaged and dedicated teams contributes to our members view of the service they receive - our latest Net Promoter Score (NPS) was +90.1 (2021: +76.4).

Our commitment to making the Marsden an even better place to work is driven through a focus on well-being, inclusion and in supporting personal development and a sense of belonging. The next phase of our People Strategy will seek to raise engagement levels even further, focusing on personal development and broadening participation in business and community activities through more inclusive representation of colleagues at all levels.

We have continued to promote hybrid working, with the majority of our Principal Office based colleagues choosing to combine time spent with colleagues in the office with remote working. I am extremely proud of how colleagues have adapted, reflected in the Society's performance in recent years. We recognise that working remotely brings challenges around well-being, collaboration, and the induction and mentoring of colleagues. Another challenge that emerged during the year was the increased competition for talent. This led to an increase in turnover and a requirement to replace skills from within a tight labour market, no longer bound by regional restrictions brought about by hybrid working.

Our colleague engagement platform is used to closely monitor well-being and we have maintained our Team Charters to structure hybrid working within our teams to ensure we continue to provide support. Decisions surrounding our future operating model and ways of working will be taken with full consultation from colleagues, respecting that, in embracing new ways of working, we retain all that is great about working at the Marsden.

## Trusted by you

Alongside our colleagues, members are a high priority and to support them we will ensure we continue to be a responsible, sustainable and future focused mutual building society.

We are aware of the high standards expected of us. We endeavour to engage in an open dialogue with our various stakeholders in order to identify their needs and interests, to develop appropriate solutions and to take account of key challenges when evolving our strategy.

We will continue to reflect this within our strategic plans that will see:

- Our IT Strategy continuing to improve our efficiency and driving digital enablement as mobile technologies support engagement and transactional services.
- Our CSR Strategy, influenced by the challenges faced by the region in helping to define our philanthropic responsibility.
- Our People Strategy, promoting diversity and ensuring we have an inclusive environment where everyone feels able to participate and achieve their potential.
- Our Climate Strategy, integrated into our business strategy and operations, considering how we deploy our product and services, structure our business operations and respond to customer demand in relation to green products and how we service evolving client needs.

## Looking forward

We have achieved so much during 2022 and have set our 2023 strategic priorities for the coming year which I look forward to updating you on in my next report.

We have adjusted the business origination volumes within our lending and savings business to reflect the changes in customer sentiment, which is expected to crystallise in a period of slower growth for the Society. Our underlying profitability will reduce in the coming years as we deliver on our plans to enhance our digital services, strengthen our operational resilience and build our future skills base.

We have supported our members through the challenges brought by the rise in interest rates and the cost-of-living stretch to household finances. We see no easing of these challenges in the short term and therefore this focus will continue.

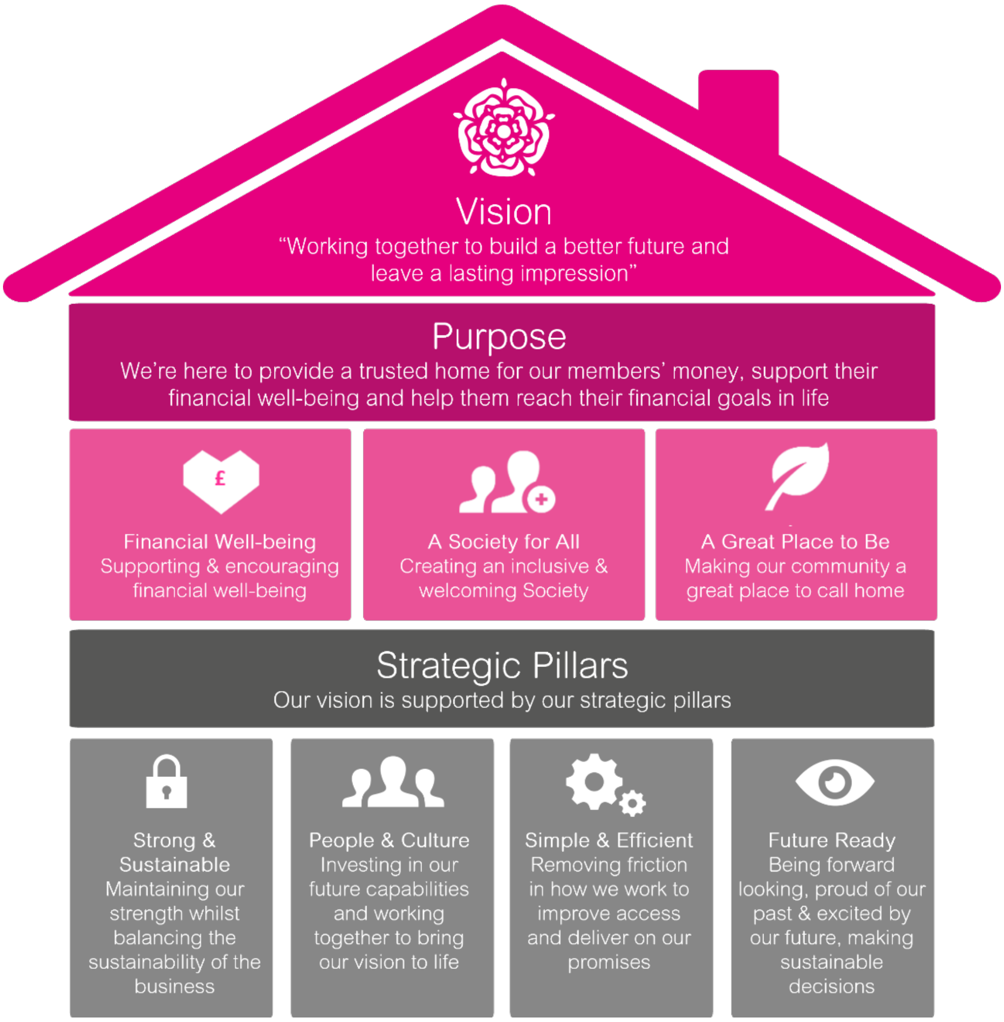
I would like to thank our members, colleagues and partners for their support and look forward to delivering on our plans for the coming year.

**R M Pheasey**
CEO
2 March 2023

# Strategic Report

Marsden Building Society is the 22nd largest building society in the United Kingdom with assets of £733.8m (2021: £697.1m). The Society was established in February 1860 by people with the purpose of helping each other become homeowners. Members would pay monthly subscriptions to a central pool of funds and this would then be used to build houses for the members. We continue to support members achieve home ownership today, primarily by raising funds from savers to lend to borrowers to purchase their own home, but also set out to make a difference to our members and in our community and this is reflected in all that we do.

The Society Vision, Purpose and Strategic Pillars are illustrated below. The Society vision of "working together to build a better future and leave a lasting impression" extends beyond supporting members through savings, mortgage, and other financial products to a heightened sense of broader corporate responsibility.




Our purpose extends beyond the provision of core products and services to members, to having a positive impact on members, colleagues and the communities and region in which we operate. Delivery of the strategy is built around the four strategic pillars identified above. In addition to a review of the year, the Chief Executive's review on pages 4 to 7 provides an update on delivery of the strategy in terms of progress in year and plans for the future.

## Business Model

As a mutual, we're owned by our members, run for your benefit and not for shareholders, which is why we always aim to deliver the best products and customer service possible. Being a member means you have a say in how we're run by taking part in our Annual General Meeting (AGM), voting on resolutions and putting your questions to our Board of Directors.

We provide individual members with a secure home for their savings across Lancashire through our branch network. Funding is supplemented by medium term central bank facilities and very modest levels of wholesale funding. We support individuals to purchase their own home, and to a lesser extent, support the private rented sector through provision of Buy to Let mortgages, across the British Isles. Our lending focus is around mortgages which require an individual assessment of loan requirements and personal circumstances. Our business model and proposition are supplemented by the sale of third-party products, income being predominantly from sales of general insurance to members.

Our Net Interest Income represents the difference between interest received from our borrowers and liquid assets less interest paid to our savings members and the central bank and wholesale funding. Net Interest Income plus income from sale of insurance policies to members and fees covers our administrative expenses in terms of our people, systems, premises and other costs plus impairment losses and other provisions and taxation. The remaining net profit after tax is added to reserves to maintain our financial strength and support our activities for the benefit of current and future members. As a mutual we do not pay dividends to external shareholders.

Our business model is illustrated as follows:


### Where the money comes from…

- Members deposits (88%)
- Medium Term Central Bank Facilities (11%)
- Wholesale Markets (1%)
- Retained earnings from past profits accumulated by the Society

### What we do with it…

We lend money secured on residential property to provide:

- Residential mortgages (75%)
- Buy to let mortgages (25%)

### How we generate income…

- Net interest income: The difference between interest received from our borrowers and liquid assets less interest paid to our savings members and the central bank and wholesale funding
- Other income: The net of insurance commission received less commission payable and fee income

### What we use our profits for…

- Maintaining financial strength
- Investing in the future of the Society through people and systems to improve the service to members
- Supporting the community we operate in through the Marsden Building Society Charitable Foundation

### What we incur costs on…

- Administrative expenses in terms of our people, systems, premises and other costs
- Mortgage impairment losses and other provisions
- Taxation payable

## Key Performance Indicators

The progress of the Society is monitored by using a set of key performance indicators (KPIs). The outcome of the KPIs adopted during 2022, with comparison against 2021 results are reported below with explanatory comment.

| Indicator | Description | 2022 | 2021 |
|---|---|---|---|
| Underlying Society Profit | Underlying profit after tax to mean assets ratio excluding fair value gains and losses, this being the primary profit KPI. | 0.46% | 0.45% |
| Statutory Society Profit | Statutory profit after tax to mean assets ratio, this being the secondary profit KPI. | 0.75% | 0.46% |
| Net Interest Margin | Net interest income to mean assets. | 1.80% | 1.78% |
| Management Expense Ratio | Administrative expenses and depreciation and amortisation to mean assets. | 1.26% | 1.25% |
| Mortgage Arrears | The proportion of residential mortgage assets which are past due by 3 months or more. | 0.20% | 0.15% |
| Total Assets | Movement in total assets. | 5.27% | 9.17% |
| Loans to Customers | Movement in mortgage assets. | 2.77% | 11.21% |
| Retail Shares Balances | Movement in share balances from members. | 4.59% | 5.30% |
| Core Equity Tier 1 Solvency Ratio | Regulatory Capital expressed as a percentage of Risk Weighted Assets (RWA's). | 20.83% | 19.19% |
| Overall Liquidity Adequacy Ratio | Board defined Liquidity Resources to stressed 90 days Liquidity Requirements. | 117% | 99% |
| Colleague Engagement | Best Companies measure of workplace engagement. | Very Good | Very Good |

The Chief Executive's Review on pages 4 to 7 provides an overview of the Society's performance during 2022 which should be read in conjunction with this report.

## Financial Performance

### FRS102

The Society has adopted Financial Reporting Standard (FRS) 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and has elected to apply the recognition and measurement provisions of IAS39, Financial Instruments Recognition and Measurement. This has a material impact on the accounting treatment of certain financial instruments. We are required to recognise these at fair value which can have a significant effect on the results of the Society. Whilst we have elected to adopt Hedge Accounting, to reduce volatility where we can demonstrate a highly effective hedge relationship, we remain exposed to volatility in fair value for the period between executing an Interest Rate Swap and it entering a hedge relationship and following that, more limited volatility as a result of a degree of ineffectiveness in the relationship. In summary, volatility cannot be eliminated entirely.

## Income Statement

### Overview

As a mutual, the maximisation of profit is not a key aim, however, maintenance of an appropriate level of profit on ordinary activities is important to maintain financial strength and provide cover against negative impacts on capital.

The Society has had a strong trading year with statutory profit before tax up £2.940m (78.4%) to £6.689m.

### Statutory Income Statement

| Income Statement | 2022 £m | 2021 £m |
|---|---|---|
| Net Interest Receivable | 20.804 | 16.126 |
| Net Interest Payable | (7.900) | (4.262) |
| Net Interest Income | 12.904 | 11.864 |
| Other Income | 0.230 | 0.267 |
| Net Gains from Financial Instruments | 2.579 | 0.132 |
| Total Income | 15.713 | 12.263 |
| Management Expenses & Depreciation | (8.983) | (8.354) |
| Operating Profit | 6.730 | 3.909 |
| Impairment Losses | (0.090) | (0.274) |
| Provisions for Liabilities | 0.000 | 0.112 |
| Gains on Disposal | 0.049 | 0.002 |
| Profit on Ordinary Activities | 6.689 | 3.749 |
| Tax | (1.294) | (0.668) |
| **Profit After Tax** | **5.395** | **3.081** |

A significant driver of this improvement was net gains on financial instruments.

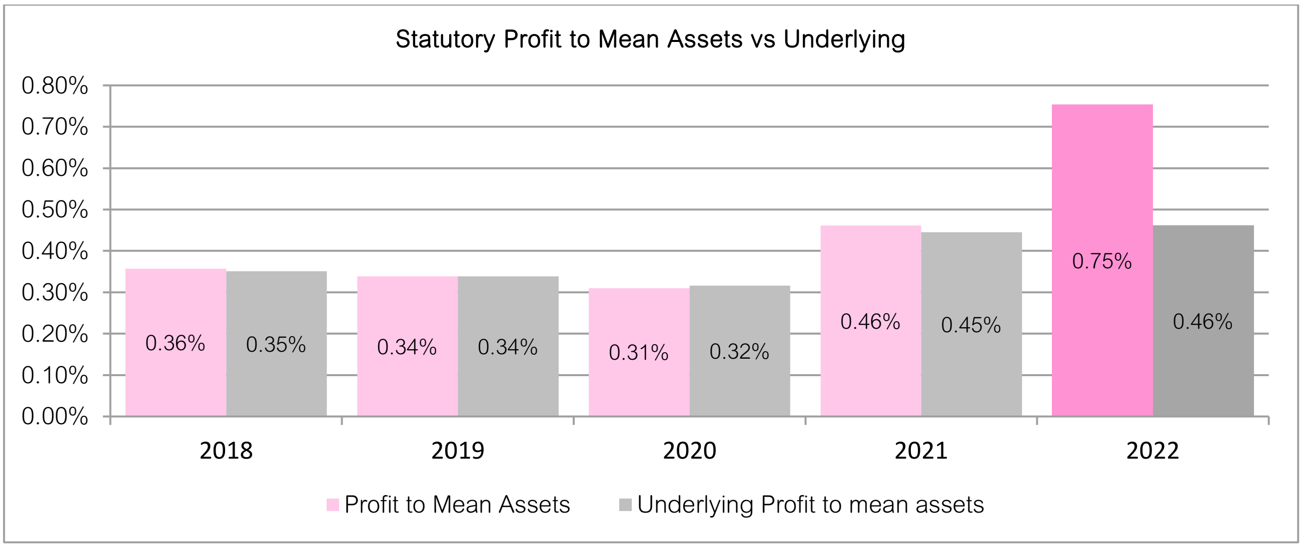
In terms of measuring financial performance, the Board takes the view that risk management considerations should drive management decisions in relation to use of derivatives to manage interest rate risk. Accordingly, the secondary risk of volatility in fair value of these instruments is less able to be managed therefore it should be isolated when considering trading performance. Accordingly, the Board tracks underlying performance, excluding fair value gains and losses as set out in the Underlying Income Statement on the following page.

## Underlying Income Statement

| Income Statement | 2022 £m | 2021 £m |
|---|---|---|
| Net Interest Receivable | 20.804 | 16.126 |
| Net Interest Payable | (7.900) | (4.262) |
| Net Interest Income | 12.904 | 11.864 |
| Other Income | 0.230 | 0.267 |
| Underlying Total Income | 13.134 | 12.131 |
| Management Expenses & Depreciation | (8.983) | (8.354) |
| Underlying Operating Profit | 4.151 | 3.777 |
| Impairment Losses | (0.090) | (0.274) |
| Provisions for Liabilities | 0.000 | 0.112 |
| Gains on Disposal | 0.049 | 0.002 |
| Underlying Profit on Ordinary Activities | 4.110 | 3.617 |
| Tax | (0.804) | (0.643) |
| **Underlying Profit After tax** | **3.306** | **2.974** |
| Net Gains from Financial Instruments | 2.579 | 0.132 |
| Tax on Net Gains from Financial Instruments | (0.490) | (0.025) |
| Statutory Profit After Tax | 5.395 | 3.081 |

Underlying performance reveals an increase in underlying profit after tax of £0.333m (11.2%) to £3.306m.

Statutory profit after tax as a percentage of mean assets, relates the level of profitability to the average of total assets on the balance sheet at the beginning and end of the year. Underlying profit as a percentage of mean assets represents the same ratio, with the post-tax impact of net gains on financial instruments excluded. During the year, the statutory ratio widened by 29bps to 0.75% (2021: +15bps to 0.46%). The underlying ratio increased by 1bp to 0.46% (2021: +13bps to 0.45%).

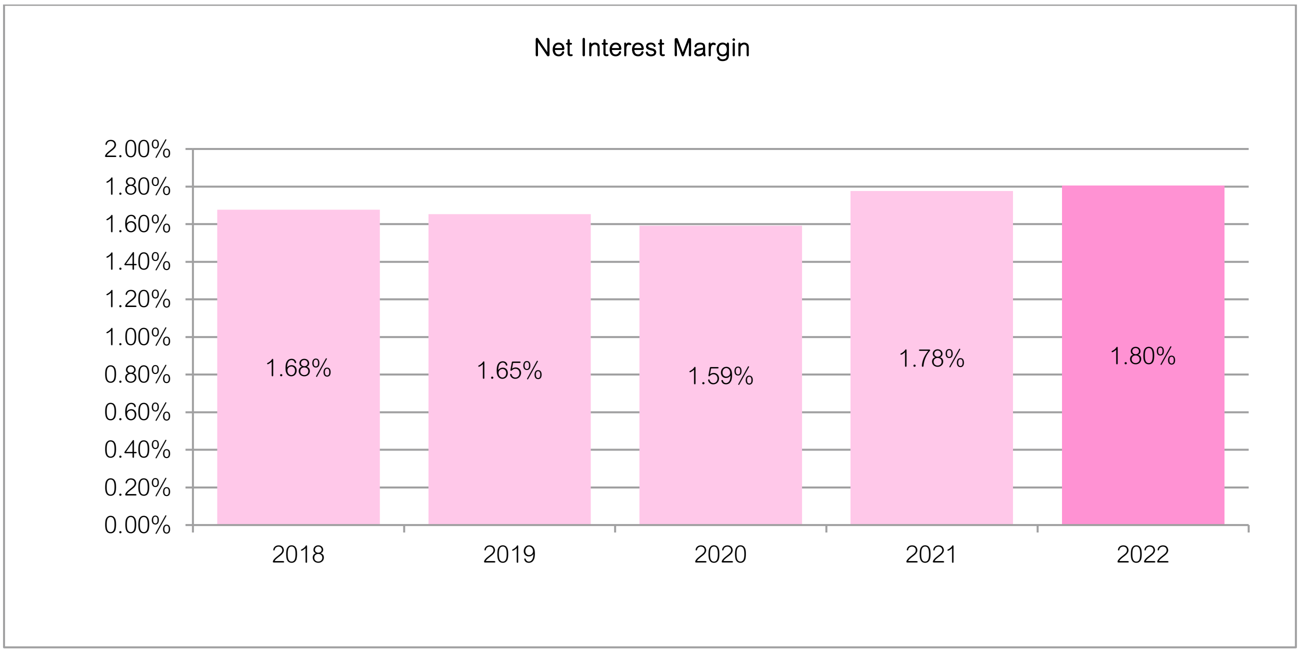



Looking forward, profitability is anticipated to reduce as a result of a combination of increased operating costs and re-pricing of mortgages hedged with derivatives at very low cost in 2020 and 2021.

As detailed below, a charge in relation to financial instruments at fair value through profit and loss is anticipated, placing additional downward pressure on profitability. Despite this, profit is anticipated to remain within recent peer group averages for the sector and be sufficient to maintain appropriate capital resources to sustain the Society and protect members interests.

## Net Interest Income

The Net Interest Margin (NIM) represents the average rate received on assets less the average rate paid on liabilities during the year. The principal drivers of the margin are the net interest received from borrowers and liquid assets, less interest paid to investing members and wholesale counterparties.




During the year, the NIM increased modestly by 2bps to 1.80% (2021: +29bps to 1.78%). In response to changes in Bank Rate during the year, changes to administered rate savings have been applied at the same time as administered mortgage rates, with margins managed to ensure funding costs remain aligned to market levels to manage funding flows and pass through of increases in mortgage administered rates is minimised to ensure appropriate margins are maintained.

Looking forward into 2023, market pricing on both mortgage and savings is still adjusting to the sharp rise in Bank Rate in 2022 and adjustments to Bank Rate in 2023 so far. At the time of writing, market pricing for variable rate deposits has not fully followed Bank Rate, limiting the pass through to variable mortgage rates, and the pricing of fixed rate mortgages appears to be moderating from the peaks in the autumn with a degree of moderation in fixed funding cost levels. Mortgage demand is anticipated to moderate in response to higher rates, reducing demand for retail funding when supply looks to be increasing.

The Board will continue to manage the NIM to deliver the level of profitability judged appropriate to support a sustainable level of growth in both assets and capital in the long term.

## Other Income

Other income represents a combination of general insurance commission receivable, bank charges payable and fees receivable by customers which are not included within effective interest rate calculations. Other income for 2022 was £0.230m, down £0.037m (2021: £0.267m, down £0.051m) as a result of declining general insurance commission and increased bank charges.

## Net Gains from Financial Instruments

The Society enters into derivative contracts for risk management purposes only, in accordance with Section 9A of the Building Societies Act 1986 (as amended).

As a result of significant market volatility in the autumn of 2022, the Society experienced a material increase in net gains on financial instruments of £2.579m, up £2.447m (2021: £0.132m, up £0.178m).

| | 2022<br>£m | 2021<br>£m |
|---|---|---|
| Designated hedge relationships: Initial amortisation and ineffectiveness | (0.019) | 0.041 |
| Gains on derivatives not in/prior to designated hedge relationships | 2.598 | 0.091 |
| | 2.579 | 0.132 |

This was driven in the main by gains on pipeline hedging of fixed rate mortgages using Sterling Overnight Index (SONIA) swaps. Until mortgages complete and the swaps enter into a hedge relationship, the fair value changes are recognised in full in the Income Statement, this being the driver of the significant increase in gains in year, set out above.

When mortgages complete, the swaps enter a hedge relationship and a broadly offsetting hedged item is recognised. The offsetting hedged item at fair value when introduced will also be amortised to the Income Statement over the life of the instrument, which will offset the gain or loss from the fair value of the hedge prior to entering into a hedge relationship.

As a result, in future years there will be a negative charge to the Income Statement on financial instruments at fair value through profit and loss over the remaining life of the financial instruments. For the remaining proportion of these swaps which did not enter into a hedge relationship by 31 December 2022, the risk of further volatility in profit remains into early 2023 until mortgages complete and hedge relationships are established.

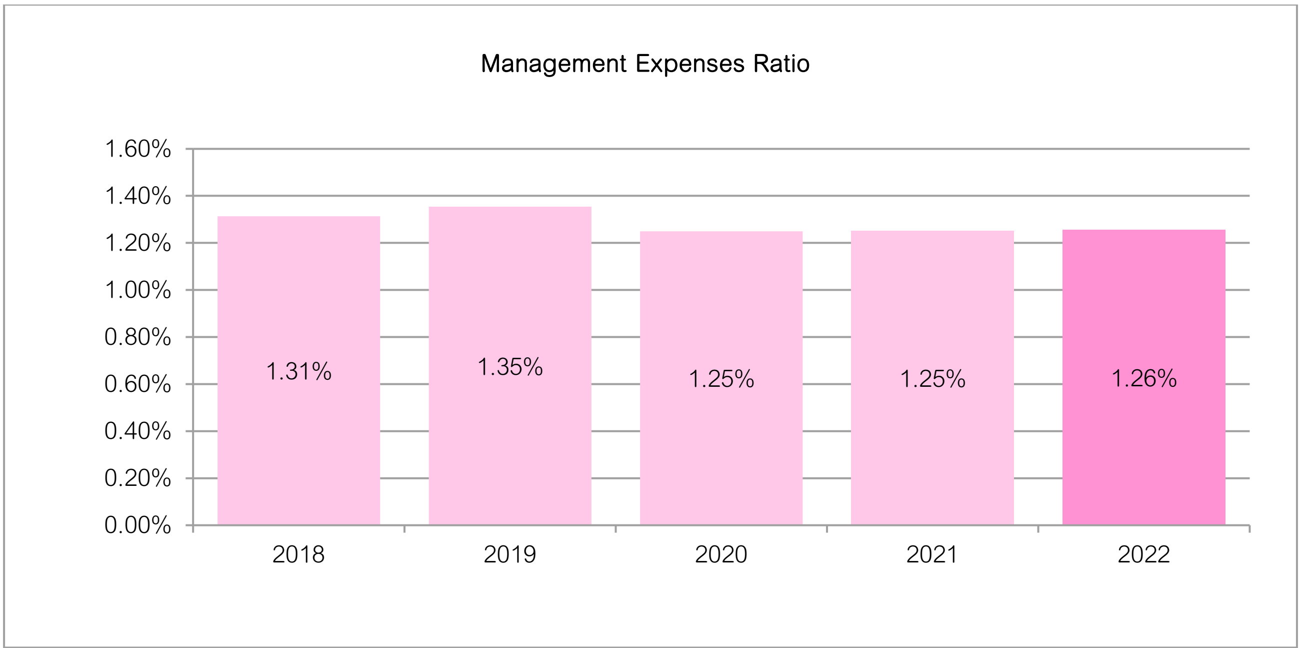
## Management Expenses

Management expenses include staff costs, IT and all other operating overheads. Together with depreciation and amortisation these represent the total costs for operation of the Society. The Board balances the requirement to control costs with the strategic imperative to maintain the right calibre of people and continue to invest to support the strategic objectives of the Society.

During 2022, the absolute value of management expenses and depreciation increased by £0.629m to £8.983m (2021: +£0.771m to £8.354m). The majority of the increase was attributable to staff costs, with the remainder attributable to IT and professional services, these being essential to support provision of services to members.

In pursuit of the Society vision, which extends beyond supporting members through savings, mortgages and other financial products to a heightened sense of broader corporate responsibility, in 2021 the Society established the Marsden Building Society Charitable Foundation. In recognition of the exceptional nature of market conditions and in year profitability, the Board has again made a significant donation to the endowment of the Foundation of £250,000 (2021: £190,000) to support its objectives for many years to come. Further donations to the Foundation will be guided by the judgement of the Board rather than a commitment to donate a fixed proportion of profitability per annum.

The ratio of management expenses represents the cost of operating the Society when measured against mean total assets. This represents a measure of the Society's net cost efficiency.




During the year, the ratio of management expenses increased by 1bps to 1.26% (2021: no change at 1.25%) indicating cost growth moving marginally faster than asset growth.

Looking ahead, upward pressure on absolute cost continues. The impact of high inflation in the economy cannot be ignored, bringing upward pressure on salaries to ensure they remain commensurate with the market and a rise in the cost of goods and services. In addition to this, continued investment in IT will be required as we review of our core systems in 2023 for implementation in 2024.

## Loan Impairment

The performance of the Society loan portfolio remains strong, driven by our control over lending policy and criteria and manual underwriting approach.

During the year, the collective provisioning charge has increased by £0.152m to £0.567m (2021: (£0.018m) to £0.415m), driven primarily by forecast house price decline and a combination of increased unemployment and cost of living pressures. Individual provisions have reduced by £0.062m to £0.276m (2021: +£0.291m to £0.338m) as prospects of recovery have improved. No provisions were utilised in year.

## Mortgage Arrears and Forbearance

At 31 December 2022, only 0.20% of the residential portfolio was 3 months or more in arrears or impaired (2021: 0.15%). In terms of forbearance, only two accounts (£0.283m) have benefited from forbearance (2021: one account of £0.182m).

In terms of the commercial portfolio, no loans were past due or impaired (2021: none).

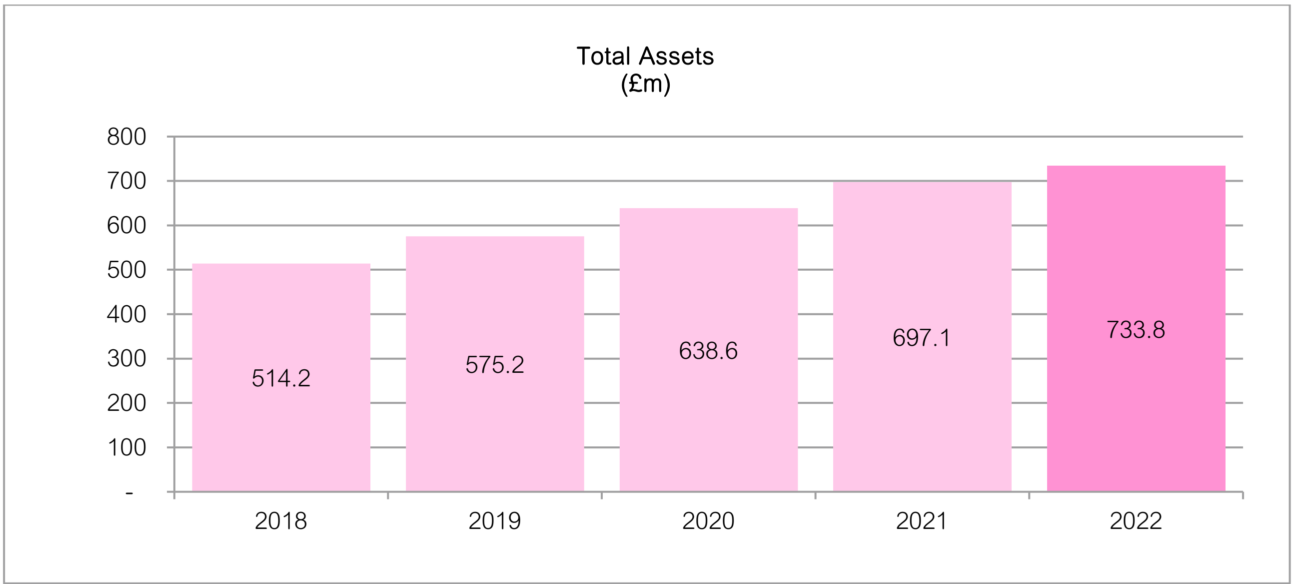
Looking forward, due to the economic outlook, the risk of increased arrears and impairments is recognised. Whilst the Society operates a prudent lending policy to ensure borrowers affordability is stressed appropriately when loans are underwritten, the combined impact of sharp increases in interest rates, cost of living pressures and potential increased unemployment will mean some borrowers experience payment difficulties and require our support. The Society is ready to assist members having difficulty servicing their mortgage.

## Taxation

The Corporation Tax charge in the year to 31 December 2022 was £1.294m (2021: £0.668m) representing an effective rate of 19.3% (2021: 17.8%). Further detail is provided in Notes 9 and 22 the accounts.

## Statement of Financial Position

During the year, the Society continued to achieve asset growth with an increase of £36.7m to £733.8m, up 5.3% (2021: £58.6m to £697.1m, up 9.2%).




The medium-term objective remains to continue to grow the balance sheet to maintain and improve economies of scale given the pressure on both costs and the net interest margin. However, the Society has to refinance borrowing under the Term Funding Scheme for Small and Medium Sized Entities (TFSME) of £70m across 2024 and 2025. As we will have to generate additional funding to fund mortgages already on the balance sheet, the pace of growth will be moderated.

## Liquid Assets

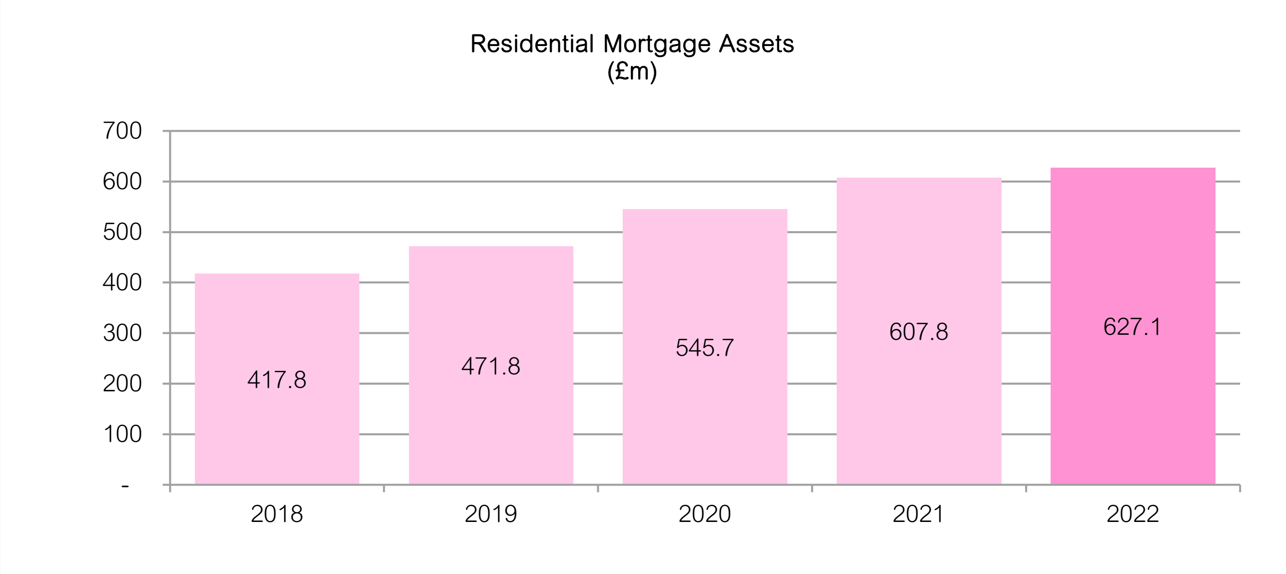
The Society maintains a portfolio of liquid assets to ensure it holds sufficient resources to meet its obligations as they become due in accordance with Board Risk Appetite. This involves maintaining cover to meet anticipated stressed withdrawals of retail and wholesale funding, net mortgage flows and other cashflows, which are quantified in accordance with internal stress assumptions approved by the Board.

At 31 December 2022, the Society maintained liquidity resources of 117% of its internally modelled stress requirement. The Society held High Quality Liquid Assets (HQLA) of £97.386m, £97.000m of which represented balances in Central Bank Reserves and £0.386m in cash.

In terms of regulatory metrics, the Liquidity Coverage Ratio was 316%, the Society holding HQLA of £97.386m vs. an outflow requirement of £30.797m, a surplus of £66.589m. Net Stable Funding Ratio was 153%, the Society having available stable funding of £682.786m vs. required stable funding of £444.861m, a surplus of £227.925m.

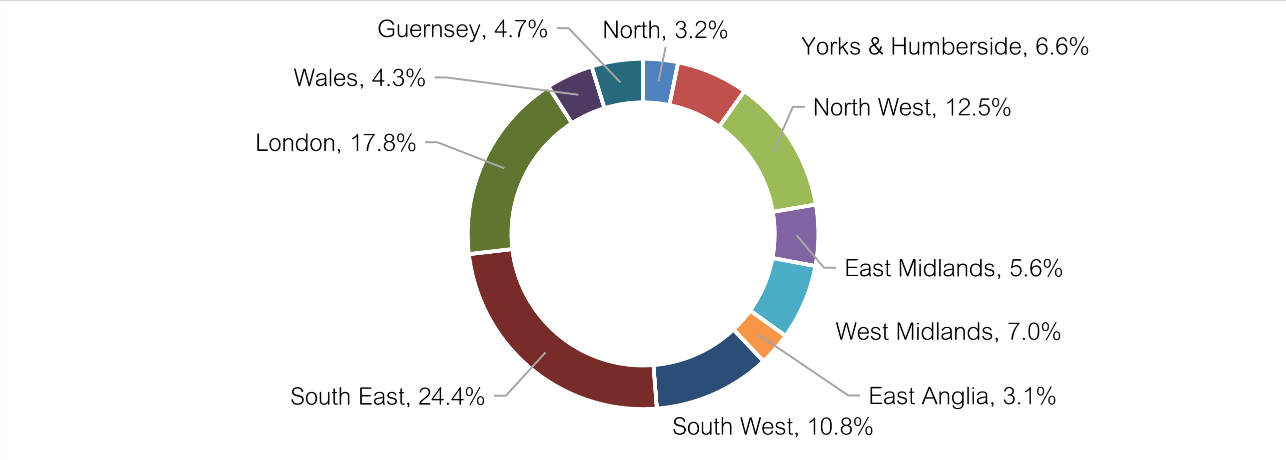
## Mortgage Assets

Total residential lending, before effective interest rate, impairment and fair value adjustments was £627.1m, up £19.5m (2021: £607.6m, up £61.9m). Gross new lending in year was £133.3m (2021: £159.1m). Whilst the Society performed strongly during the year in relation to mortgage retention on product maturity in the final quarter of the year, a spike in non-contractual overpayments and redemptions was experienced, which is attributed to borrowers re-mortgaging within product periods or reducing debt in response to the spike in mortgage rates following the market turmoil in the autumn.




Society lending is focused primarily on loans to owner occupiers and buy to let. Loans to owner occupiers represent 75.3% (2021: 75.1%) of mortgages secured on residential property with the remaining 24.7% (2021: 24.9%) being secured on residential buy to let property.

The Society has a nationally diversified portfolio of loans secured on residential property with the largest concentrations of 24.4% in the South East (2021: 25.3%), 17.8% in London (2021: 18.6%) and 12.5% in the North West (2021: 12.5%).




The average indexed loan to value is 30.4% (2021: 33.3%), the ratio having benefited from increases in house prices during the year and no growth in lending above 80% loan to value at origination.

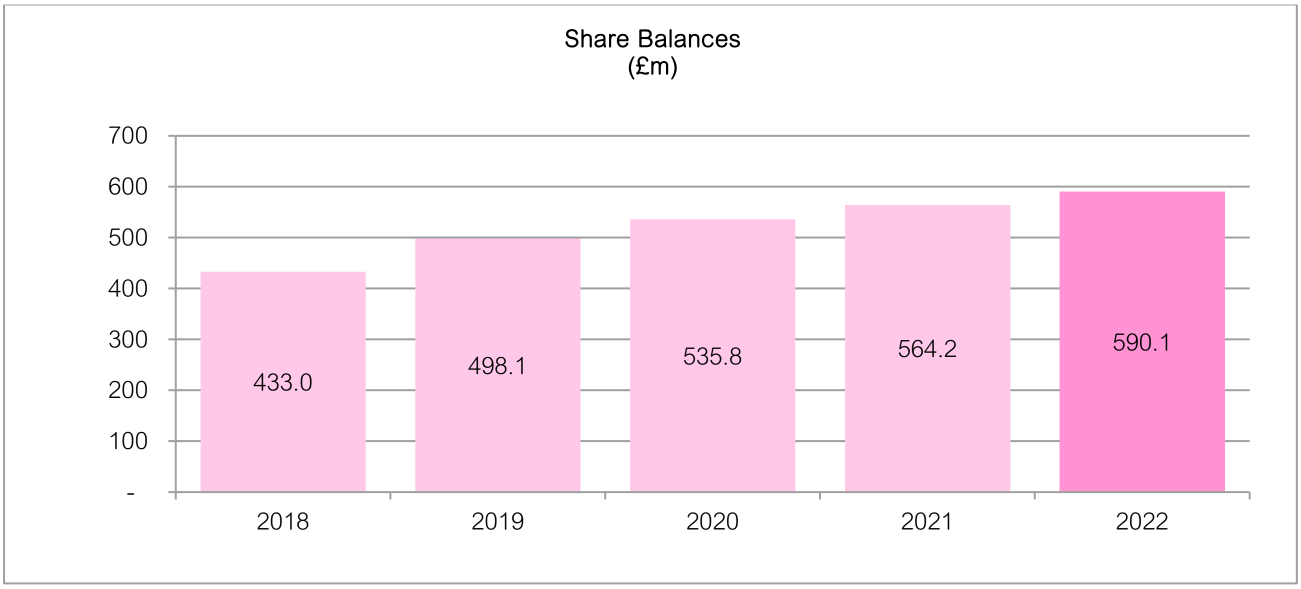
The Society retains a modest exposure to commercial lending, this aspect of the loan book being managed down. At 31 December 2022, these loans net of impairment provisions amounted to £0.451m (2021: £0.791m). These exposures are predominantly on commercial premises purchased by borrowers as an investment and to a lesser extent premises occupied by the business owning the property. In terms of geographical location, these exposures are located in North West England and Yorkshire and Humberside.

Further analysis on Credit Risk is contained within Note 26 to the accounts.

## Funding

As a mutual, the Society is required to fund the majority of its lending through retail deposits from members. The net change in share balances reflects the net movement in and out of share balances held by individuals with the Society.

During the year, the Society managed retail inflows to broadly equate to growth in mortgage lending with net growth in share balances of £25.9m to £590.1m, up 4.6% (2021: £28.8m to £564.2m, up 5.3%).




Looking forward, the Society continues to focus on generation of growth in retail funding through the branch network across Lancashire. The Society has positioned its mortgage asset strategy to support payment of competitive savings rates relative to high street competitors and continues to work hard to provide a high-quality customer experience in terms of both service and branch environment. The extent of growth in retail funding in the coming year will be determined by net mortgage lending growth and plans for phasing repayment of TFSME funding from the Bank of England due in 2024 and 2025.

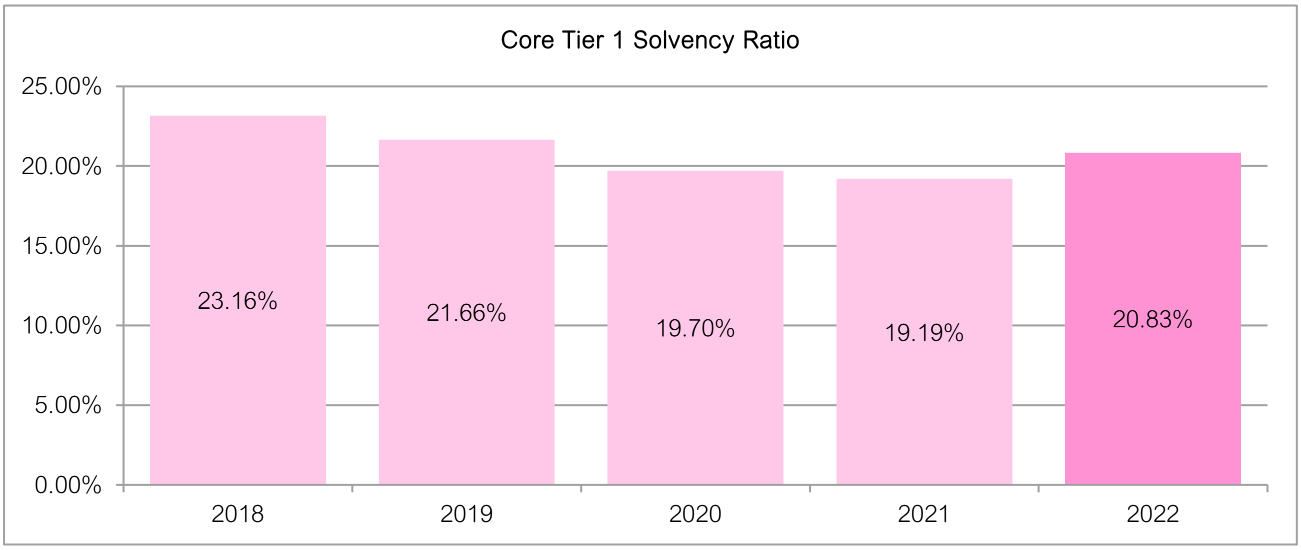
The Society also maintains other deposit funding, predominantly from small and medium sized companies of £5.4m (2021: £4.9m). To provide further diversification, the Society maintains a degree of funding from the wholesale markets through a combination of central bank funding schemes and term deposits from local authorities and other building societies of £78.9m (2021: £79.4m). The proportion of funding not in the form of individual shares is 12.5% of total shares and borrowings (2021: 13.0%), the modest reduction reflecting funding requirements.

## Capital

A strong capital position provides a financial cushion against any difficulties which might arise in the business of the Society and provides protection for members and depositors. Society capital is made up almost entirely of retained profits accumulated over its 162-year history.

Free capital represents gross capital and collective mortgage loss provisions less tangible and intangible assets as shown in the balance sheet. Society free capital is £50.2m or 7.45% of total share and deposit liabilities (2021: £44.5m or 6.86%). Gross capital comprises reserves, as shown in the balance sheet. Gross capital is £50.8m or 7.54% of share and deposit liabilities (2021: £45.3m or 6.98%).

In addition to the size of capital resources relative to assets, it is important to measure asset size relative to the risk of assets on the balance sheet. The Core Tier 1 Solvency Ratio measures the ratio of Society Reserves against Risk Weighted Assets calculated under Capital Requirements Directive IV. In the case of the Society, this is under the standardised approach to credit risk which uses standard risk weights and places no reliance on internally developed capital models.




The ratio has increased in the year by 1.64% to 20.83% (2021: decrease of 0.51% to 19.19%) of which 86bps is attributable to significant fair value gains on hedging instruments in year.

The Society must also maintain at all times, minimum capital requirements under Pillar 1 of the Capital Requirements Directive plus requirements under Pillar 2A as specified by the Prudential Regulation Authority (PRA). At the balance sheet date, Society Total Capital Requirement was £19.668m, with total requirements constituted of £19.499m relating to Pillar 1 and £0.169m relating to Pillar 2A (2021: £19.017m, of which £18.846m Pillar 1 and £0.171m Pillar 2A).

In terms of quality of capital, Prudential Regulation requires a Core Tier 1 requirement of 4.5% (56.25%), a Total Tier 1 requirement of 6% (75%) and a Total Capital Ratio of 8% (100%). The Society is required to hold a minimum of £11.063m in Core Equity Tier 1 Capital (2021: £10.697m), a minimum of £14.751m in Tier 1 Capital (including the minimum CET1 plus £3.688m Tier 1) and a maximum of £4.917m in Tier 2 Capital (2021: £14.263m Tier 1 and £4.754m Tier 2).

Regulatory Capital held by the Society at the balance sheet date was £51.280m of which £50.713m was CET1 and £0.567m Tier 2, well in excess of Individual Capital Guidance (2021: £45.633m of which £45.218m CET1 and £0.415m Tier 2).

The Leverage Ratio, defined as the ratio of Tier 1 capital to the total exposure defined as total on and off balance sheet exposures less deductions from Tier 1 Capital. The ratio increased by 0.45% to 6.91% (2021: decreased by 0.13% to 6.45%).

The Pillar 3 Disclosure as at 31 December 2022, which contains key pieces of information on the Society's Capital, Risk Exposures, Risk Assessment Process and Individual Capital Guidance, is available on the website at www.themarsden.co.uk.

## Principal Risks and Uncertainties

The Society's Risk Management Framework categorises the risks facing the Society. Risk management policies, aligned to these categories, are in place to ensure that all operations are within the Board-approved risk appetite.

The table below provides a summary of the principal risks, a Society risk overview and a summary of how the risks are controlled and mitigated.

| Source of Risk | Society Risk Overview | Risk Control and Mitigation |
|---|---|---|
| **Macro-Economic Environment**<br>The risk that the economic, political or regulatory changes arising from the wider environment cause detriment to the Society, including the post Covid-19 environment, economic outlook, cost of living crisis and conflict in Ukraine | During the year, Bank Rate increased from 0.5% to 3.5%, and in February 2023 from 3.50% to 4.0%. As a result of political events in autumn 2022, interest rate expectations spiked well above these levels causing significant turmoil in the mortgage markets and increasing mortgage pay rates to c6%, albeit these have eased subsequently. Both these factors, in addition to the high inflation environment and significant increases in energy costs, have combined to place significant pressure on household finances with implications for both mortgage demand and loan performance. The economy is forecast to experience a protracted recession, although forecasts of the depth and length of this have eased somewhat since the turn of the year, with the prospect of increased unemployment and with it declines in house prices. This may impact the Society in a number of ways including:<br>• Payment shock for existing mortgage borrowers, with customers on variable rate loans already experiencing a steep but phased payment shock, whilst fixed rate borrowers with mortgages repricing in 2023 and 2024 set to experience a sudden increase in payment. Borrowers on interest only terms and those with repayment loans with terms beyond 30 years will experience greater relative payment shock. This may result in increased defaults and credit losses.<br>• Volatility in interest rate expectations has a material impact on mortgage pricing decisions and related hedging of interest rate risk giving rise to volatility in earnings as a result of fair value gains or losses on pipeline hedge transactions where Interest Rate Swaps are utilised, particularly for medium term instruments at 5 years duration. In addition, there is increased risk to management of | • To date, evidence of emergence of payment difficulties and impairment are modest. However, impairment provisions have increased, reflecting the risk of default yet to emerge and the prospect of forecast reductions in house prices. The combination of prudent credit risk management by the Society in terms of both affordability and a low loan to value book should minimise losses.<br>• In respect of interest rate risk management, the Society has taken interest rate risk management decisions based on sound risk management considerations and accepts the accounting impact of profit volatility arising from pipeline hedging as a result.<br>• In terms of achievement of mortgage growth, the Society benefits from its modest scale relative to larger peers and plans to continue to grow the mortgage book where assets are available at an acceptable risk reward. In the event of greater demand and flow of retail savings relative to mortgages, the Board will consider prepayment of TFSME borrowings currently concentrated for repayment in 2024 and 2025.<br>• In relation to management expenses, cost inflation can be minimised to a degree through management with adjustment to the mix of assets and liabilities and ultimately margins and/or reductions in targeted levels of profitability for a period. |

| Source of Risk | Society Risk Overview | Risk Control and Mitigation |
|---|---|---|
| | interest rate risk and achievement of the desired margin.<br>• A general reduction in mortgage market activity has the potential to impact loan book growth and generation of increased net interest income to offset significant cost pressures from both staff costs, inflation and IT investment.<br>• Increased costs in terms of pay and reward for colleagues, driven both by increased hybrid working opportunities and working practice post Covid-19 and cost of living pressures, and sharp inflation in cost from existing contracts. | |
| Strategic Risk<br>The risk that internal and external events impact the ability to achieve objectives and strategic goals. | The principal drivers of strategic risk are the Society fails to:<br>• adopt an appropriate business model<br>• set appropriate goals and targets in the Corporate Plan<br>• adapt to external events or the strategy fails to live up to expectations. | • The Society maintains a strategic planning process, which involves routine discussion of risks to strategic objectives with a focal strategy event each year.<br>• The Board monitors management in the delivery of strategic plans and objectives.<br>• Stress testing and monitoring of position to Board risk appetite is monitored routinely. |
| Mortgage Credit Risk<br>The risk that mortgagors will fail to meet their obligations as they fall due, which results in a potential loss following enforcement of the loan and realisation of the mortgage security and related additional security. | The principal driver of credit risk in relation to mortgage lending remains a slowdown in the UK economy leading to higher unemployment and falling house prices which would result in increased arrears and impairment losses. | • All mortgage loans are underwritten according to a Board-approved Credit Risk Management Policy to assess the credit quality of the customer, their ongoing ability to continue to be able to afford their mortgage repayments and the value of the Society's security.<br>• The Society has a series of Board-approved risk appetite limits and all lending must be done within appetite.<br>• The performance of the loan portfolio is monitored closely to ensure it is performing as expected so that swift action can be taken if necessary.<br>• The full impact of increased mortgage rates/payment shock and the cost-of-living crisis on credit portfolios is yet to be seen and the impact is likely to be uneven across borrower profile and loan portfolio. The Society continues to monitor loan book performance closely. |
| Counterparty Credit Risk<br>The risk that Market Counterparties will fail to meet their obligations as they fall due and subsequently default resulting in a loss. | Prudential Regulation requires that regulatory liquidity is held in High Quality Liquid Assets reducing risk exposure.<br>Due to a range of prudential regulatory reforms, the health of the UK Banking System has improved, however, the risk of counterparty default remains. | • Risk is managed in line with a Board-approved policy and risk appetite.<br>• The significant majority of exposures are with the Bank of England and UK Government Treasury Bills alongside limited short-term deposits with approved bank and building society counterparties domiciled and authorised in the UK. |

| Source of Risk | Society Risk Overview | Risk Control and Mitigation |
|---|---|---|
| Climate Change Risk<br>The risks climate change could create for the Society as a result of physical impact and transition risks. | Physical risks arise from a number of factors, most notably extreme weather events and longer terms shifts in the climate. Primary drivers of physical risks on the Society include increased risk of flooding, subsidence and coastal erosion, impacting on the value of, and longer-term ability to insure, mortgaged properties resulting in increased risk of financial loss.<br>Transition risks arise from the process of adjustment to a low-carbon economy, driven by a number of factors, most notably changes in policy and regulation, shifting sentiment and societal preference and emergence of disruptive technology and business models. | • The Society is increasingly cognisant of these risks and is continuing to refine its approach to managing the financial risks associated with climate change.<br>• The Board has engaged an external consultancy to assess the impact of climate change on its lending portfolio. This has revealed below average exposure to flood risk, and coastal erosion, average exposure to subsidence and above average exposure to F or G rated mortgage securities. This assessment included modelled capital impacts in four climate change scenarios and extreme weather events, the outcome of which has been assessed within the Internal Capital Adequacy Assessment Process.<br>• Whilst physical risks are anticipated to crystallise in the long-term transition risks, as a result of changes in policy and regulation, are anticipated to impact in the short to medium term as Government policy change is formalised and implemented, for example in relation to minimum EPC ratings for the private rented sector.<br>• The Society is increasing its focus in the management of this risk and will both continue to monitor the impact of climate change on its portfolio, taking action on the same as judged appropriate, and seek to both quantify and minimise its carbon footprint. |
| Interest Rate Risk<br>The adverse impact on the Society's future cashflows arising from changes in interest rates including:<br>• Economic Value (NPV) – The risk to the capital value of the Society as a result of changes in interest rates.<br>• Earnings Risk (NII) – The risk to profitability of the Society as a result of changes in interest rates.<br>• Basis Risk – The risk to profitability arising from non-parallel movement in net exposures to | The Society is exposed to this risk as a retailer of financial instruments, in the form of mortgage and savings products and the investment of both liquid assets and wholesale borrowing.<br>The outlook for interest rates as implied by the market at the time of writing is for a series of rate increases which collectively represent a material increase by post financial crisis standards. Volatility in market expectations may cause the actual margin achieved to deviate from plan due to the timing of the interest rate hedge. | • The risk is primarily managed by match funding retail savings to mortgages on balance sheet or through interest rate swaps in a manner consistent with the Building Societies Act 1986.<br>• Interest rate risk is managed within a Board-approved Financial Risk Management Policy, predominantly on balance sheet or off balance sheet with minimal basis risk to minimise volatility in earnings.<br>• The Board has set out clear quantified statements of risk appetite for each aspect of Interest Rate Risk.<br>• Exposure is stressed monthly to ensure it is managed in compliance with the policy. |

| Source of Risk | Society Risk Overview | Risk Control and Mitigation |
|---|---|---|
| different interest rate bases.<br>• Optionality – The risk to profit arising from provision of embedded optionality in products such as early prepayment or access with or without penalty. | | |
| **Liquidity Risk**<br>The risk that the Society, though solvent, either does not have sufficient financial resources available to enable it to meet its obligations when they fall due or can secure them only at excessive cost. | The primary liquidity risks arise from the nature of the retail deposit base and its maturity profile and the extent to which customers would seek to withdraw funds in response to a loss of confidence in the ability of the Society to meet its obligations as they fall due. | • The Society manages this risk through continuous forecasting of cashflow requirements and assessment of retail and wholesale funding risk, in particular the characteristics of the deposit base and concentration of the maturity profile of fixed-term funding.<br>• The required amount, quality and type of liquid assets required to ensure obligations can be met at all times is maintained in accordance with the Liquidity and Funding Policy.<br>• Periodic stress testing is performed to ensure obligations can be met in both normal and stressed circumstances.<br>• The Society is actively planning for TFSME repayment due across 2024 and 2025. |
| **Cyber Risk**<br>The risk of harm to the Society as a result of breaches of, or attacks on, information systems. | The Society recognises the increasing threat that cyber-attacks present to the financial system, so this is a distinct risk in the Society's Risk Management Framework. Failure to protect the Society from cyber-attacks poses risks of direct financial losses as well as impacting the ability to perform significant business operations. | • Cyber security forms part of the Society's Information Security Policy Framework.<br>• The Society has chosen to base its Cyber Security Strategy around the National Cyber Security Centre's (NCSC) framework pillars and continues to have regard to the FCA initiative Cyber Coordination Group that maintains a cyber risk 'radar'.<br>• The Society continues to invest in systems infrastructure and software to mitigate risk. |
| **Operational Risk and Resilience**<br>The risk of loss resulting from inadequate or failed internal processes, people and systems. Operational resilience is the Society's ability to maintain important business services in the event of experiencing adverse external or internal events. | Within the Society, Operational Risk is an umbrella term that covers a range of risk types including financial crime, legal and regulatory, people and reputational risk.<br>With Covid-19, operational risk has increased as the Society has moved much of the Principal Office staff to working from home. | • The Society has processes and procedures in place to manage operational losses, and the effectiveness of these controls are managed through the Operational and Conduct Risk Committee.<br>• The Society has undertaken Business Impact Assessments to identify and map important business services and set specific impact tolerances that are consistent with Board risk appetite.<br>• To manage the additional risks of home working and changes to working practice, additional controls have been implemented to manage risk. |

| Source of Risk | Society Risk Overview | Risk Control and Mitigation |
| --- | --- | --- |
| **Conduct Risk**<br>The risk that any action, either by the Society or staff, leads to customer detriment or has an adverse impact on market stability or effective competition. | The Society is committed to the fair treatment of customers and to ensure that the systems and controls in place both prevent and detect misconduct. | • The Society has policies and procedures in place to ensure that fair customer outcomes are delivered.<br>• The Society's Compliance function is in place to ensure that the Society and staff comply with all applicable legislation and regulation.<br>• The Society is currently reviewing policy, process and practice to ensure compliance with the FCA Consumer Duty. |

Further information regarding how the Board ensures the Society operates within a framework of prudent controls which enables risk to be assessed and managed is provided within the Corporate Governance Report.

On behalf of the Board of Directors

J L Walker
Chairman

2 March 2023

# Meet Your Board

The Board is made up of Executive and Non-Executive Directors. Executive Directors are full-time employees of the Society and lead the Executive and Senior Leadership Team in managing the day-to-day business. We consider that all Non-Executive Directors are independent in accordance with the criteria set out in the UK Corporate Governance Code 2018. All Directors are put up for annual re-election at the Society's AGM.

## Rob Pheasey BSc (Hons)

### Chief Executive

Having joined the Society in 1989, Rob became a member of the Society's Senior Management Team in 2000. He was appointed to the Board in December 2008 as Operations Director before becoming Chief Executive in March 2011.

Rob has overall responsibility for managing the Society and implementing strategies agreed by the Board. Rob chairs the Executive Committee and is a member of the Management Assets & Liabilities Committee.

Outside the Society, Rob is Vice Chairman of the Building Societies Association and Chairman of Pendle Education Trust.

## John Walker ACIB

### Chairman

John joined the Board as Non-Executive Director in March 2018 and was appointed Chairman on 1st June 2018. A qualified banker, John spent time with Barclays before moving to Barclays Private Equity, latterly Equistone, where he remained for 21 years.

John brings diverse experience as a Non-Executive Director having sat on boards across a range of sectors. He chairs the Nominations Committee and is a member of the People, Remuneration & Culture Committee.

Outside the Society, John is Chair at River Capital Management and Global Autocare Holding Limited and a Non-Executive Director at Worldwide Recruitment Solutions.

## Neal Walker BA (Hons) ACIB

### Finance Director

Neal joined the Society in 1987, becoming a member of the Senior Management Team in 2000 prior to being appointed to the Board in December 2008 as Finance Director & Secretary.

As Finance Director, Neal is responsible for the Society's finance and treasury activities, ensuring the integrity of financial and regulatory reporting and managing the Society's liquidity, funding and capital positions. Neal chairs the Management Assets & Liabilities Committee.

Outside the Society, Neal is a Non-Executive Director of Northern Star Academies Trust.

## Michele Ibbs BA (Hons) PGDip

### Senior Independent Director

Michele joined the Board as Non-Executive Director in April 2014. She has a breadth of brand, development and partnership experience with a very strong customer led focus across a number of sectors.

Michele is the Senior Independent Director and chairs the Board People, Remuneration & Culture Committee. She is also a member of the Board Audit & Compliance, Board Nominations and Board Customer & Distribution Committees.

Outside the Society, Michele is Chair of Connexus Housing Group.

## Chris McDonald BSc (Hons)

### Non-Executive Director

Chris joined the Board as a Non-Executive Director in June 2018. Previously Operations & HR Director at Cumberland Building Society, Chris has a strong marketing focus with extensive knowledge of change management and operations within the financial services sector.

Chris is Chair of the Board Customer & Distribution Committee and is a member of the Board Risk and Board People, Remuneration & Culture Committees.

## Mark Gray BA (Hons)

### Non-Executive Director

Mark joined the Board as a Non-Executive Director in June 2018. He has extensive risk and governance experience gained within the financial sector holding previous positions at Shawbrook Bank, GMAC (General Motors Acceptance Corporation) and The British Business Bank.

Mark is currently Chief Risk Officer for the Money and Pensions Service (MaPS), a Government agency providing guidance on pensions, debt advice and helping to improve the nation's overall financial understanding and capability.

For the Society, Mark chairs the Board Risk Committee and sits on the Board Audit & Compliance and Board Nominations Committees.
Outside the Society, Mark is also a Non-Executive Director of Sopra Steria Financial Services Limited.

## Carol Ritchie BA (Hons) ACA CTA

### Non-Executive Director

Carol was appointed Non-Executive Director to the Board in April 2014. She has significant Board financial and risk experience gained during interim and permanent positions, including roles at OneFamily, Engage Mutual, Royal Liver and HBOS Business Banking.

Carol chairs the Board Audit & Compliance Committee. She is also a member of the Board Risk and Board Nominations Committees.

## Maura Sullivan FCA

### Non-Executive Director

Maura was appointed Non-executive Director to the Board in September 2021. She has over 25 years' experience in financial services gained with Credit Suisse, JP Morgan Chase and Morgan Stanley. She has broad accounting and finance experience including treasury, capital and liquidity planning.

Maura is a member of the Board Audit & Compliance, Board Risk and Board People, Remuneration & Culture Committees.

Outside the Society, Maura is currently Deputy Chief Financial Officer with one of the UK's leading wealth firms and holds Non-Executive Director roles at Railpen Limited and is Chair of the Audit & Risk Assurance Committee of Gov Facility Services Limited.

# Directors' Report

The Directors have pleasure in presenting their Annual Report, together with the Annual Accounts and Annual Business Statement of the Society for the year ended 31 December 2022.

## Business Objectives

Information on the business objectives of the Society are detailed within the Strategic Report on pages 8 to 25.

## Business Review

The Chairman's Statement on page 3, the Chief Executive's Review on pages 4 to 7 and the Strategic Report on pages 8 to 25 report on the performance of the Society, referring to key performance indicators, and its future objectives.

## Principal Risks and Uncertainties

The Strategic Report on pages 8 to 25 provides information on the Principal Risks and Uncertainties facing the Society.

## Financial Risk Management Policies and Objectives

The Society's objective is to minimise the impact of financial risk upon its performance. The financial risks facing the Society are summarised together with an overview of arrangements for managing risk in the Strategic Report on pages 8 to 25 and Notes 25 Financial Instruments on pages 85 to 87, 26 Credit Risk on pages 88 to 93, 27 Liquidity Risk on pages 94 to 95 and 28 Market Risk on pages 96 to 97.

## Profits and Capital

In 2022, the Society profit before tax was £6.689m (2021: £3.749m). Underlying performance profit before tax was £3.306m (2021: £2.974m). Total comprehensive income after tax transferred to general reserves was £5.517m (2021: £3.080m).

Total Society reserves at 31 December 2022 were £50.839m (2021: £45.322m).

Free capital represents gross capital and collective mortgage loss provisions less fixed assets as shown in the balance sheet. Society free capital is £50.2m or 7.45% of total share and deposit liabilities (2021: £44.5m or 6.86%). Gross capital comprises reserves, as shown in the balance sheet. Gross capital is £50.8m or 7.54% of share and deposit liabilities (2021: £45.3m or 6.98%).

## Mortgage Arrears

At 31 December 2022, there were two (2021: nil) mortgage accounts, including those in possession, which were twelve or more months in arrears.

## Charitable Donations

During the year, the Society made an accrual for a further donation of £250,000 (2021: £190,000) to the endowment fund of the Marsden Building Society Charitable Foundation, administered by the Community Foundation for Lancashire and Merseyside.

In addition, the Society pledged a donation of £1,265 (2021: £1,437) to the Community Foundation for Lancashire's Red Rose Responding Fund in respect of votes received at the AGM.

In connection with Affinity Account relationships, the Society made donations of £27,483 (2021: £23,775) to the following charities in connection with Affinity Account relationships:

- North West Air Ambulance
- Burnley and Pendle Hospice
- Sight Advice South Lakes
- Burnley FC in the Community

The Society accrued for donations of £25,929 (2021: £25,865) which will be paid over during 2023 to the following Charities in connection with Affinity Account relationships:

- North West Air Ambulance
- Burnley and Pendle Hospice
- Sight Advice South Lakes
- Burnley FC in the Community

No contributions were made for political purposes.

## Supplier Payment Policy

It is the Society's policy to:

- Agree payment terms at the commencement of trading with all suppliers;
- Ensure there is a system for dealing with queries and advising suppliers of contested invoices; and
- Settle invoices in accordance with payment terms unless there is prior agreement to extend these terms.

The creditor days outstanding at 31 December 2022 were 11 days (2021: 13 days).

## Stakeholder Engagement

The Chief Executive's Review on pages 4 to 7 provides commentary on our members, our people and the wider community.

## Directors' responsibilities in respect of the Annual Report, the Annual Business Statement, the Directors' Report and the Annual Accounts

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

The Building Societies Act 1986 ("the Act") requires the Directors to prepare Society annual accounts for each financial year. Under that law, they have elected to prepare Society annual accounts in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

The Society annual accounts are required by law to give a true and fair view of the state of affairs of the Society as at the end of the financial year and of the income and expenditure of the Society for the financial year.

In preparing the Society annual accounts, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the annual accounts;
- Assess the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- Use the going concern basis of accounting unless they either intend to liquidate the Society or to cease operations or have no realistic alternative but to do so.

In addition to the annual accounts, the Act requires the Directors to prepare, for each financial year, an Annual Business Statement and a Directors' Report, each containing prescribed information relating to the business of the Society.

## Directors' responsibilities for accounting records and internal controls

The Directors are responsible for ensuring that the Society:

- Keeps proper accounting records that disclose with reasonable accuracy at any time the financial position of the Society, in accordance with the Act; and
- Takes reasonable care to establish, maintain, document and review such systems and controls as are appropriate to its business in accordance with the rules made by the Financial Conduct Authority and Prudential Regulation Authority under the Financial Services and Markets Act 2000.

The Directors are responsible for such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Society and to prevent and detect fraud and other irregularities. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Society's website. Legislation in the UK governing the preparation and dissemination of annual accounts may differ from legislation in other jurisdictions.

## Going concern

The Directors have prepared forecasts of the Society's capital, liquidity and financial position for the foreseeable future. As part of the annual Internal Capital and Internal Liquidity Adequacy Assessment Process (ICAAP and ILAAP), the Group stresses its capital and liquidity plans respectively, under "severe but plausible" stress test scenarios, in line with PRA requirements. The Board has the responsibility for ensuring that the Society remains solvent; has adequate capital and liquidity over the planning horizon. The ICAAP ensures that the plan projections for capital requirements and capital generation are resilient to stresses should the environment deteriorate beyond the levels currently envisaged in the Corporate Plan. A capital buffer is held to ensure the Group can deal with any erosion in its capital and meet its capital requirements at all times. The ILAAP test ensures that the Group holds sufficient liquid assets to meet its liquidity needs not only under normal circumstances but if the Society were to enter into a period of stress.

The Directors are satisfied that the Society has adequate resources to continue in business for a period of 12 months from signing the accounts. In making the assessment, the Directors have reviewed the Society profit, capital and liquidity positions and considered arrangements to ensure operational resilience. This assessment takes into account both planned and stressed outcomes, the severity of which are judged sufficient to reflect risks generally. After considering all this information, the Directors are satisfied that the Society has sufficient resources to continue in business for a minimum of 12 months from the date of signing the accounts. For this reason, they continue to adopt the going concern basis in preparing the annual accounts (refer Note 1.1 on page 63).

## Post Balance Sheet Events

The Directors consider that no events have occurred since the year end to the date of this report that are likely to have a material effect on the financial position of the Society as disclosed in the accounts.

## Directors

The Directors of the Society during the year and to the date of this report were as follows:

J L Walker
M R Gray
M L Ibbs
C McDonald
R M Pheasey
C A Ritchie
M Sullivan
N Walker

Biographies of the Directors appear on pages 26 and 27.

All Directors will retire and being eligible, will seek re-election at the AGM. At 31 December 2022, none of the Directors had any interest in the shares, or debentures of any connected undertakings of the Society.

## Statement of disclosure to auditors

So far as each Director is aware, there is no relevant audit information of which the Society's auditors are unaware.

Each of the Directors, whose name is listed on the previous page have taken all steps that he or she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and establish that the Society's auditors are aware of that information.

## Auditors

The Society's Auditors, Deloitte LLP, have expressed their willingness to continue and in accordance with Section 77 of the Building Societies Act 1986, a resolution is to be proposed at the AGM for the re-appointment of Deloitte LLP as auditors of the Society.

Approved by the Board of Directors and signed on its behalf

**J L Walker**
Chairman

2 March 2023

# Corporate Governance

The Board believes that good governance is vital in providing effective leadership and ensuring the Society continues as a successful organisation run for the benefit of its current and future members.

The Financial Reporting Council published the UK Corporate Governance Code in July 2018. The Code applies to publicly quoted companies. In the interests of transparency, the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) also encourage each building society to explain in its annual report and accounts whether, and to what extent, it adheres to the Code.

The Board is committed to having regard to the UK Corporate Governance Code, to the extent that its provisions are relevant to a building society of this scale, in the continuing development of corporate governance practice at the Society. This report describes the Society's governance practices.

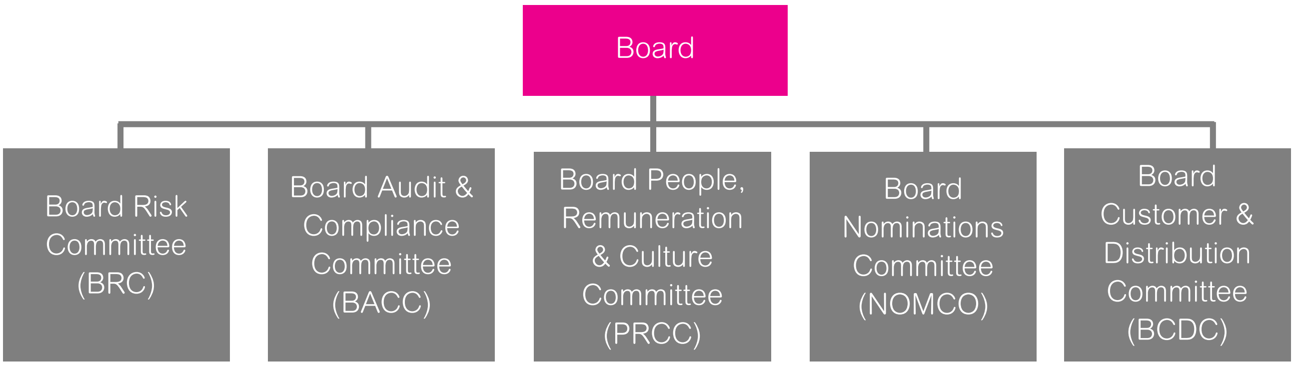
## Board Leadership and Company Purpose

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

The Society is led by an effective Board whose role is to set the strategic aims of the Society, ensure sufficient financial and human resources are in place to meet the objectives set and to review management performance.

The Board also has a duty to ensure the Society operates within a framework of prudent controls which enables risk to be assessed and managed.

The Board has a formal schedule of matters which are reserved to it and has delegated authority in other matters to Board Committees as described below.




**Board Risk Committee** meets at least four times a year and is responsible for oversight and provision of advice to the Board on risk appetite, tolerance and strategy, including strategy for capital and liquidity management, and the embedding and maintenance of a supportive culture in relation to the management of risk.

| | |
|---|---|
| BRC Committee composition 31 December 2022 | M R Gray (Chair) |
| | C McDonald |
| | C A Ritchie |
| | M Sullivan |
| | By invitation – Chief Risk Officer |

**Board Audit and Compliance Committee** meets at least four times each year and monitors the integrity of the financial statements and considers all matters relating to internal control and risk management systems and regulatory compliance. The Committee receives regular updates from Internal Audit, the Compliance function and External Audit.

| | |
|---|---|
| BACC Committee composition 31 December 2022 | C A Ritchie (Chair) |
| | M R Gray |
| | M L Ibbs |
| | M Sullivan |

**Board People, Remuneration and Culture Committee** meets at least twice a year and has responsibility for policy on remuneration of the Executive Directors, senior management and the Chairman. The Chairman and Chief Executive take no part in the discussion concerning their individual remuneration.

| | |
|---|---|
| PRCC Committee composition 31 December 2022 | M L Ibbs (Chair) |
| | C McDonald |
| | M Sullivan |
| | J L Walker |
| | By invitation – Chief Executive |

**Board Nominations Committee** meets at least once a year and has responsibility for succession planning and the appointment of new Directors.

| | |
|---|---|
| NOMCO Committee composition 31 December 2022 | J L Walker (Chair) |
| | M R Gray |
| | M L Ibbs |
| | C A Ritchie |
| | By invitation – Chief Executive |

**Board Customer and Distribution Committee** meets at least three times each year to oversee and promote good governance of the strategy and activities of the Society in relation to its customers, key distribution partners and the products and services that it provides to them.

| | |
|---|---|
| BCD Committee composition 31 December 2022 | C McDonald (Chair) |
| | M L Ibbs |
| | By invitation – Chief Executive |

All committees report to the Board. The Board meets as often as is necessary for the proper conduct of business and there are usually ten meetings a year with a further two days focused on strategy. Non-Executive Directors also meet informally without the Executive Directors being present.

The Society maintains appropriate liability insurance cover in respect of any legal action against its Directors and Officers. The Board has access to independent professional advice, at the expense of the Society, if required.

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

The Board considers its strategy annually together with the Society's purpose and values, to ensure our culture is aligned. More detail is set out in the Strategic Report beginning on page 8. The Board through its committees regularly receives information to provide assurance that culture is aligned to our purpose and values.

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

During the year, a Society dashboard detailing key indicators and reformatting reporting templates from key areas of the business was maintained. The Board receives regular reporting on both business performance relative to plan and risk management, including strategic risks, risk assurance on an enterprise-wide basis and risk governance arrangements.

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

As a mutual organisation, the Society does not have shareholders but is responsible to its members.

The Society values its mutual status and seeks the views of its members in a variety of ways, including customer feedback surveys. Members are invited to attend the AGM, where they can ask questions and voice their opinions. All members of the Board are present at the AGM each year unless there are exceptional circumstances. The Chairs of the Board and of its committees are available to answer member questions. The Society is active on social media and has run campaigns to increase member engagement both on the Society website and in branch. The Board Customer and Distribution Committee met four times to discuss new and updated product propositions together with the Charitable Foundation, Consumer Duty, Vulnerability, Corporate Social Responsibility, Environment and Climate Change, Employee Engagement and our Retail Franchise.

M L Ibbs, the Senior Independent Director, also acts as a point of contact for members wishing to make representation to the Board.

**E. 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.**

In year, the Board People, Remuneration and Culture Committee reviewed employee remuneration alongside Executive and Director remuneration to ensure that related policies, incentives and rewards are aligned with our culture to promote long-term sustainable success. The Chair of the People, Remuneration and Culture Committee is the designated Non-Executive Director for workforce engagement; supported by the HR Manager and members of the Executive Committee utilising a variety of forums such as the annual staff engagement survey.

The Board is cognisant of developments in relation to Diversity and Inclusion, and recognises the potential benefits increased diversity can bring. This will be a focus of the Board and its Committees in the coming year.

The Society has an established 'Speak up' (Whistleblowing) policy designed to support our values and ensure employees can raise concerns without fear of suffering retribution or victimisation, providing a transparent and confidential process for dealing with concerns. The Society's Whistleblowing Champion was C A Ritchie during 2022.

## Division of Responsibilities

**F. The Chairman 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 Chairman facilitates constructive Board relations and the effective contribution of all Non-Executive Directors, and ensures that Directors receive accurate, timely and clear information.**

The Chairman sets the direction and culture of the Board, facilitating effective contribution from Directors, maintaining constructive relations both in and outside the boardroom between the Executive team and Non-Executive Directors and ensuring that Directors receive accurate, timely and clear advice and information. The Chairman leads the annual board evaluation with support from the Senior Independent Director as appropriate and acts on the results. Appointed in March 2018, the Chairman was considered to be independent at that time.

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

At 31 December 2022, the Board comprised six Non-Executive and two Executive Directors providing a balance of skills appropriate to the requirements of the business.

All Non-Executive Directors have held office for less than nine years.

The Board has considered the independence of all Non-Executive Directors. The UK Corporate Governance Code confirms that the test of independence is not appropriate to the position of Chairman. Under the Code, the Board considers all its Non-Executive Directors to be independent in character and judgement.

The roles of Chairman and CEO are held by different individuals, with a clear division of responsibilities. The Chairman, who is a part-time Non-Executive Director, is responsible for leading the Board and ensuring it acts effectively. The CEO has responsibility for managing the Society and for the implementation of the strategies and policies agreed by the Board.

M L Ibbs is the Society's Senior Independent Director acting as a sounding board for the Chairman and with other Non-Executive Directors, appraises the Chairman's performance at least annually.

**H. Non-Executive Directors should have sufficient time to meet their Board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.**

The requirement for Directors to devote sufficient time to discharge their responsibilities effectively is stated in the letter of engagement supplied on appointment. This point is considered as part of the annual performance evaluation review. Details of the number of Board and Committee meetings in 2022 and the attendance record of individual Directors are set out on the following page. All Directors have the right of attendance at Committee meetings, however only the attendance record of those who were members of the respective Committee meeting is detailed overleaf.

| Director | Board | Risk | Audit & Compliance | People, Remuneration & Culture | Nominations | Customer & Distribution |
|---|---|---|---|---|---|---|
| J L Walker (Chairman) | 11 (11) | | | 7 (7) | 9 (9) | |
| M R Gray | 11 (11) | 5 (5) | 4 (4) | | 9 (9) | |
| M L Ibbs (Senior Independent Director) | 11 (11) | | 4 (4) | 7 (7) | 7 (9) | 4 (4) |
| C McDonald | 10 (11) | 4 (5) | | 6 (7) | | 4 (4) |
| R M Pheasey (Chief Executive) | 11 (11) | | | | | |
| C A Ritchie | 11 (11) | 4 (5) | 3 (4) | | 9 (9) | |
| M Sullivan | 11 (11) | 5 (5) | 4 (4) | 7 (7) | | |
| N Walker (Finance Director) | 10 (11) | | | | | |

() = number of meetings eligible to attend    Not a member of this committee

Where Directors have other significant commitments, these are set out in the Annual Business Statement on pages 100 to 101 under section 3, information relating to Directors.

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

The Directors receive timely, accurate and relevant information to enable them to fulfil their duties.

All Directors have access to the advice and services of the Secretary who is responsible for ensuring compliance with all Board procedures and advising the Board, through the Chairman, on governance matters. The Board has access to independent professional advice, at the expense of the Society, if required.

## Composition, Succession and Evaluation

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

The Nominations Committee has responsibility for succession planning for both the Board and senior management, recommending to the Board the appointment of new Directors. Appointments to the Board are subject to a formal, rigorous and transparent process. The Society will utilise executive search and selection consultants to support the process of making new appointments to the Board unless it is judged appropriate not to do so. Where this is not deemed necessary an explanation will be provided within the Corporate Governance Report in the year the appointment is made.

The Society values diversity and reflects this within policy. In making appointments, the Board will seek to achieve a diversity and balance of skills, with independence and experience being key determinants, where selection of the most suitable candidate is paramount. For these reasons it does not have a measurable diversity objective.

The Terms of Reference of the Nominations Committee are published on the Society's website. The terms and conditions of appointment of Non-Executive Directors are available on request from the Secretary of the Society.

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

Information relating to Directors is set out on pages 26 to 27. This demonstrates that the Society's Board has a strong mix of skills and experience relevant to the Society and its strategy.

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

At least annually, the Chairman conducts a review of the contribution of individual Directors taking account of the views of other Directors. The Senior Independent Director reviews the performance of the Chairman taking into account the views of other Directors. The Board also maintains processes for evaluation of performance of both the Board and individual sub-Committees.

The Board is of the view that all Directors contribute effectively and are considered suitable for election/re-election (where appropriate) at the AGM 2023.

## Audit, Risk and Internal Control

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

The Board Audit and Compliance Committee meets at least four times a year. Prior to each meeting, the external auditors and internal auditors meet with the Committee without the Executive Directors being present. Minutes of the committee's meetings are provided to the subsequent Board Meeting.

The Committee implements the Society's policy on the use of the external auditor for non-audit work, the purpose of which is to ensure the continued independence and objectivity of the external auditor.

The Chairman of the Board is not a member of the Committee.

The Audit Committee Report on pages 41 to 44 describes how the Audit and Compliance Committee applies the Code principles in relation to corporate reporting and internal control.

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

The responsibility of the Directors in respect of preparation of the annual accounts, accounting records and internal controls and the statement that the Society's accounts are prepared on a going concern basis, are set out on pages 30 to 31 in the Directors' Report. The Chief Executive's Review on pages 4 to 7 and the Strategic Report on pages 8 to 25 provides members with a detailed review of the position of the Society and its future prospects.

Prior to approval, the Directors review and resolve that the Annual Report and Accounts, taken as a whole:

- Are fair, balanced and understandable; and
- That narrative reports are consistent with the financial statements and accurately reflect performance of the Society; and
- Contains the information necessary for members to assess the Society's performance, business model and strategy.

The Audit Committee report on pages 41 to 44 describes the main areas of accounting judgement considered by the Audit Committee.

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

The Board has a duty to ensure the Society operates within a framework of prudent controls which enables risk to be assessed and managed.

The Board of Directors has overall responsibility for the Society's internal control system and for reporting its effectiveness to the members in the annual financial statements. The Board is also responsible for defining and influencing the culture of risk management across the Society including:

- Determining the Society's appetite for risk;
- Determining which types of risk are acceptable and which are not;
- Providing guidance to management on conduct and probity;
- Review and approval of the Society Internal Capital Adequacy Assessment Process (ICAAP), Individual Liquidity Adequacy Assessment Process (ILAAP) and Recovery Plan (RP).

The Board has overall responsibility for ensuring the Society maintains adequate financial resources, both in terms of capital and liquidity, through review and approval of both the Society ICAAP and ILAAP. The Board monitors the role of Management in identification, monitoring and review of major risks facing the Society through the following Committee structure:

- Board Risk Committee - Responsible for ensuring that both the entire risk management framework and monitoring and oversight of significant risk positions are effective and advising the Board on overall and local risk appetite.
- Board, Audit and Compliance Committee - Responsible for ensuring that monitoring of the effectiveness of systems and controls over the whole risk universe, in particular control over significant risks, is effective.
- Executive Committee - The management committee responsible for monitoring and review of strategic risks prior to review at Board.
- Management Assets and Liabilities Committee – Responsible for managing significant Financial Risks including Interest Rate, Counterparty Credit, Liquidity, Funding and Encumbrance Risk and Product Pricing and the Net Interest Margin.
- Management Credit Risk Committee - Responsible for reviewing changes in the credit risk profile of the Society, discussing and, where appropriate, recommending changes to lending policy.
- Management Operational & Regulatory Risk Committee - The management committee responsible for monitoring and review of operational, conduct and regulatory risks prior to review at the Board Risk Committee.

The Society operates a three lines of defence model as summarised below:

- The first line of defence is management within the business which through implementation of the Society risk framework identifies, assesses and manages risk.
- The second line of defence is comprised of distinct Risk and Compliance functions. The Interim Chief Risk Officer oversaw the Risk function in year. The General Manager & Secretary oversees the Compliance function. These functions challenge and guide the business in managing risk exposure and are represented on various risk committees detailed overleaf which feed up to the Board Risk Committee, which is responsible for oversight of the risk management framework and monitoring risk profile against Board Risk Appetite.

- The third line of defence is the outsourced Internal Audit function which provides independent assurance to the Board, via the Board Audit and Compliance Committee, of the adequacy and effectiveness of systems and controls in the first and second lines in identifying and managing risk.

Senior management are responsible for designing, implementing, maintaining and monitoring the systems of internal control. The Board and each Board Committee has oversight responsibility for risks within its remit. The Society's internal auditors provide assurance that systems and controls are effectively applied.

Each year the Board conducts a review of the effectiveness of the risk management and internal control systems. The review involves consideration of material risks facing the Society and related controls, the adequacy of controls in place to ensure compliance with standards under the regulatory system and the findings of Internal Audit activity in the year. The Board has concluded that the Society operates effective systems and controls which are appropriate to the nature, scale and complexity of the Society's business.

## Remuneration

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.

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.

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

The Directors' Remuneration Report on pages 45 to 47 details the Board's position on code principles related to remuneration.

On behalf of the Board of Directors

**J L Walker**
Chairman

2 March 2023

# Audit and Compliance Committee Report

An overview of the responsibilities of the Committee is as follows:

- Monitoring the integrity of financial statements of the Society.
- Reviewing effectiveness of the internal controls and risk management systems.
- Approving the arrangements for whistleblowing.
- Appointment, re-appointment and removal of providers of Internal Audit services.
- Reviewing the effectiveness of the provider of Internal Audit services including consideration of quarterly reports and monitoring the delivery of the Internal Audit Plan.
- Making recommendations to the Board on the appointment, re-appointment and removal of external auditors and approval of their remuneration and terms of engagement.
- Reviewing and monitoring the independence, objectivity and effectiveness of the external auditors and setting and monitoring policy for the engagement of the external auditors to supply non-audit services.
- Reviewing the effectiveness of the Compliance functions including consideration of quarterly reports.

Membership of the committee is drawn from four independent Non-Executive Directors. The composition of the Committee as at 31 December 2022 was C A Ritchie (Chair), M R Gray, M L Ibbs and M Sullivan. At the invitation of the Chair of the Committee, the Chief Executive, Finance Director and Chief Risk Officer together with representatives from both Internal and External Audit attend meetings. The Committee meets with representatives of Internal Audit and External Audit without management present prior to the commencement of each meeting. The Board is satisfied that the composition of the Audit and Compliance Committee contains relevant and recent financial sector experience to provide appropriate challenge to management.

## Financial Reporting

In relation to financial reporting, the role of the Committee is to monitor the integrity of the financial statements. In order to discharge this responsibility, the Audit and Compliance Committee considered the accounting policies adopted by the Society, the presentation and disclosure of financial information and key accounting judgements made by management. During the year, the Committee focused on matters having regard to the significance of their impact on the reported position and the involvement of a high degree of complexity, judgement or estimation by management with specific focus in the following areas.

## Fair Value and Hedge Accounting

The Society issues fixed rate mortgage products and to manage interest rate risk these are either:

- match funded by fixed retail savings; or
- funded by variable rate savings with interest rate risk hedged with an Interest Rate Swap.

To minimise volatility in the Income Statement, the Society has adopted Hedge Accounting, where subject to a highly effective hedge relationship being demonstrated, a broadly offsetting hedged item (mortgage) is recognised. Whilst when a hedge relationship is established, volatility is minimised, it cannot be fully eliminated.

The Society enters into Interest Rate Swaps to manage interest rate risk. In a volatile and sharply rising interest rate environment, the Society engages in hedging of mortgage commitments. Until mortgages complete and the swaps enter into a hedge relationship the fair value changes are recognised in full in the Income Statement, this being the driver of the significant increase in gains in year. The offsetting hedged item at fair value when introduced is also be amortised to the Income

Statement over the life of the instrument, which will offset the gain or loss from the fair value of the hedge prior to entering into a hedge relationship.

Due to the material impact of Fair Value Gains on the Income Statement in year and the subsequent impact of the amortisation of offsetting hedged items in future years, this was a key focus of the Committee during the year.

### Provisioning for Loan Impairment

The Committee monitored loan impairment provisions through review of the key inputs and assumptions to the Society provisioning model. In the absence of historical loss experience by the Society, the Committee focused closely on the methodology and model inputs developed by management, including the appropriateness of any external information used. The Committee paid attention to the variation in impact of movement in provision input assumptions, including assumptions for house prices, probability of default and management overlays, having particular regard to current and forecast economic conditions. The Committee also considered anonymised sector benchmarking data on provision input assumptions.

### Effective Interest Rate

Income in the form of interest receivable, together with fees earned and incurred as a result of bringing mortgages onto the balance sheet, are measured under the effective interest rate method. This approach involves consideration of both the effective life of the loan, and degree of amortisation of balance over the effective life, based on observed behaviour of mortgages and management judgement. The Committee reviewed empirical data prepared by management on both effective life and amortisation of balance and conclusions formed on the same for utilisation in determining the approach taken and judgements applied by management in recognition of income on mortgages and is satisfied that the estimates and accounting treatment are appropriate. The introduction of follow-on rates for new mortgage products was also an area of focus.

### Pension Obligation

The Committee has overseen the refresh of the pension obligation input assumptions including the latest yield curve based on the iBoxx GBP AA Corporate Non-Financial Index there having been no update on the ONS National Population Projections Lifetable (2020 based) Cohort Life Expectancy.

### Risk Management and Internal Control

The Society recognises the importance of maintenance of a sound system of internal control.

Management is responsible for designing an internal control framework appropriate to the nature, scale and complexity of its operations. The Audit and Compliance Committee is responsible for keeping under review the Society’s internal financial controls and systems that identify, assess, manage and monitor financial risks, and other internal control and risk management systems, confirming performance by receipt of reports from Internal Audit and Compliance plus any second line of defence risk monitoring.

RSM Risk Assurance Services LLP deliver internal audit services to the Society and provide independent assurance to the Board, via the Audit and Compliance Committee, on the effectiveness of the Internal Control Framework. The Committee receives, considers and approves the Internal Audit Strategy and Plan, including the budget for and focus of assurance activity. Internal Audit provides the Committee with reports on its findings and recommendations as part of its work and updates on progress by management in implementing agreed actions, including verification actions have been implemented as agreed.

The following aspects of internal control were reviewed by the Committee during the year:

- Mortgage Underwriting and Processing
- Recovery Plan and Resolution Pack
- Regulatory Reporting
- Climate Change
- Vulnerable Customers
- General IT Controls
- Risk Management Framework
- Cyber Risk Assessment
- Project Management Framework Review

The General Manager and Secretary provides second line assurance on systems and controls over compliance with regulatory obligations across Society Operations. The Committee receives, considers and approves the annual plan of Compliance activity. The Committee receives a report on activity in respect of implementation of the plan including activity on assurance over regulatory risk and compliance support provided to business units.

### External Audit

The Committee is responsible for overseeing the Society's relationship with the External Auditor including appointment and tendering, terms of engagement and remuneration, assessment of independence and the annual audit cycle.

At the start of the audit cycle each year the Committee undertakes a review of the Audit Strategy put forward by the External Auditor and receives a formal update on conclusion of the Interim and Final Audit, including details of any material control weaknesses brought to its attention. The Committee is also responsible for monitoring the performance, objectivity and independence of the external auditor, ensuring the policy on provision of non-audit services by the external auditor is strictly applied. In the year, the external auditor was not engaged to provide any non-audit services to the Society, the ratio of non-audit services relative to the audit fee during the year being nil (2021: 11.4%).

In order to retain independence and objectivity, the Society's policy is to tender for audit services on a regular basis and at least every 10 years. The external auditors are required to rotate every 20 years. The current auditors are Deloitte LLP who have held the role since April 2020.

### Whistleblowing

The Committee is responsible for reviewing and approving the Society's Whistleblowing Policy annually. The Committee continues to be satisfied that the Society's Whistleblowing Policy remains appropriate and that the requisite arrangements are in place to enable colleagues to raise concerns about possible improprieties on a confidential basis.

## Conclusion

Having regard to the work outlined in this report and following a review of the financial statements, the Committee concluded that taken as a whole, the Annual Report and Accounts were fair, balanced and understandable and provide a clear and accurate representation of the Society's financial position and prospects.

**C A Ritchie**
Chair of the Audit and Compliance Committee

2 March 2023

# Directors' Remuneration Report

The purpose of this report is to inform members about the policy for the remuneration of Executive, senior management and Non-Executive Directors and the process for determining the level of remuneration. The Society has adopted a Remuneration Policy which describes how the Society has complied with the requirements of the Remuneration Code, as defined by the Regulator. We are committed to best practice in corporate governance and will ask members to vote, on an advisory basis, on the Directors' Remuneration Report at the forthcoming AGM.

The Society's remuneration policy supports our achievement of our strategic objectives to deliver long-term sustainable value to our members, avoiding a focus on short-term performance. The Society's people live by our five core values, which underpin delivery of our strategy:

- Make a lasting impression
- Proud of our past, excited by our future
- Passionate about people
- Work together and
- Deliver on promises.

We believe that remuneration of Executive Directors and senior managers should be comparable with that of similar organisations in the financial sector to attract, retain, and motivate individuals with the required skills and competence. The remuneration of Executive Directors and senior management is basic salary, an annual bonus (when payable), pension, death in service benefits, company car and private medical insurance.

Basic salaries are reviewed annually, taking into account the Society's overall performance; individual performance; the salaries and incentives payable to Executives in similar roles within building societies and levels generally within the wider financial services industry.

Executive Directors, senior managers and colleagues participate in the Society's Bonus Scheme. The level of bonus paid is based on criteria set by the Board each year, linked to the overall performance of the Society including both business and risk management objectives. From 1 July 2011 the Society introduced a Salary Sacrifice Scheme for all colleagues including Executive Directors.

In addition, Executive Directors can receive an amount in excess of the Society Bonus Scheme reflecting performance in delivering long-term business plan objectives and/or individual performance in delivering outcomes in excess of planned performance of the Society. Any payment is taxable but non-pensionable.

In recognition of the results achieved by the Society, the outturn being ahead of forecast despite the operating challenges experienced in 2022, the Committee approved a 15% bonus, as a proportion of reference salary prior to any salary sacrifice (2021: 15%). This represented 6% in respect of the Society Bonus Scheme and 9% in recognition of the scheme for Executive Directors (2021: 9% plus 6%). Payments under the scheme are made during the first half of the year following that in question and are not currently subject to deferral.

Executive Directors also participated in a defined contribution Group Personal Pension Scheme which is available to all eligible employees of the Society at a contribution rate of 10% of salary per annum.

There are currently no formal service contracts in existence for Executive Directors at the Society. The employment of Executive Directors can be terminated by either party giving one year's notice with compensation for loss of office being 12 months remuneration.

The People, Remuneration and Culture Committee is responsible for determination of policy on the level of remuneration payable to the Executive Directors, the senior management team and the Chairman. The Chairman takes no part in the discussion in respect of his own remuneration. The Committee takes account of information on remuneration payable at comparable building societies and the time commitment and responsibility in respect of the Chairman.

The People, Remuneration and Culture Committee had seven meetings during 2022. The composition of the Committee as at 31 December 2022 was M L Ibbs (Chair), C McDonald, M Sullivan and J L Walker. The Chief Executive attends each meeting by invitation. Neither the Chairman nor Chief Executive take part in the discussions on their individual remuneration.

The terms of reference of the People, Remuneration and Culture Committee are published on the Society's website.

Remuneration of Non-Executive Directors, excluding the Chairman, is determined by the Non-Executive Director Remuneration Committee taking account of the time commitment and responsibility of the role and the remuneration and conditions for Non-Executive Directors at comparable societies and financial institutions. The composition of the Committee at 31 December 2022 was J L Walker (Chairman) and R M Pheasey. The remaining Non-Executive Directors take no part in discussion in respect of their own remuneration.

Non-Executive Directors do not participate in the Society's Bonus Scheme or receive other benefits or any pension entitlement. There are no service contracts in existence for Non-Executive Directors of the Society.

## Directors' remuneration (audited information)

### 2022

| Non-executive | | Fees/Salary £ | Variable Remuneration £ | Benefits £ | Pensions and group life contributions £ | Total £ |
|---|---|---|---|---|---|---|
| J L Walker | Chairman | 52,750 | - | - | - | 52,750 |
| M R Gray | | 31,125 | - | - | - | 31,125 |
| M L Ibbs | Senior Independent Director | 31,125 | - | - | - | 31,125 |
| C McDonald | | 28,550 | - | - | - | 28,550 |
| C A Ritchie | | 31,125 | - | - | - | 31,125 |
| M Sullivan | | 28,550 | - | - | - | 28,550 |
| | | 203,225 | - | - | - | 203,225 |
| **Executive** | | | | | | |
| R M Pheasey | Chief Executive | 193,832 | 31,126 | 38,997 | 15,231 | 279,186 |
| N Walker | Finance Director | 144,291 | 23,438 | 25,690 | 12,379 | 205,798 |
| | | 338,123 | 54,564 | 64,687 | 27,610 | 484,984 |

### 2021

| Non-executive | | Fees/Salary £ | Variable Remuneration £ | Benefits £ | Pensions and group life contributions £ | Total £ |
|---|---|---|---|---|---|---|
| J L Walker | Chairman | 50,550 | - | - | - | 50,550 |
| M R Gray | | 29,250 | - | - | - | 29,250 |
| A M Hope | | 27,375 | - | - | - | 27,375 |
| M L Ibbs | Senior Independent Director | 29,250 | - | - | - | 29,250 |
| C McDonald | | 27,375 | - | - | - | 27,375 |
| C A Ritchie | | 29,250 | - | - | - | 29,250 |
| M Sullivan | From 1 September 2021 | 9,167 | - | - | - | 9,167 |
| | | 202,217 | - | - | - | 202,217 |
| **Executive** | | | | | | |
| R M Pheasey | Chief Executive | 181,808 | 29,044 | 48,582 | 13,391 | 272,825 |
| N Walker | Finance Director | 136,728 | 22,279 | 35,947 | 11,850 | 206,804 |
| | | 318,536 | 51,323 | 84,529 | 25,241 | 479,629 |

From 1 July 2017, in response to implementation of changes to personal taxation in respect of pension contributions, the Board resolved to transition from a contribution of 10% of salary in respect of pension contributions to a cash allowance of 10% of salary paid in lieu of pension contributions. Executive Directors' salaries are disclosed net of salary sacrificed under the scheme available to all colleagues, within which the Executive Directors participate, with salary sacrificed disclosed within pensions and group life contributions.

M L Ibbs
Chair of the People, Remuneration and Culture Committee

2 March 2023

# Independent Auditor's Report to the Members of Marsden Building Society

Report on the audit of the financial statements

## 1. Opinion

In our opinion, the financial statements of Marsden Building Society (the 'Society'):

- Give a true and fair view of the state of the Society's affairs as at 31 December 2022 and of the Society's income and expenditure for the year then ended;
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- Have been prepared in accordance with the requirements of the Building Societies Act 1986.

We have audited the financial statements which comprise:

- The Income Statement;
- The Statement of Comprehensive Income;
- The Statement of Financial Position
- The Statement of Changes in Members' Interests;
- The Cash Flow Statement;
- The Statement of Accounting Policies; and
- The related notes 1 to 32.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

## 2. 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 are independent of the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the Society.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## 3. Summary of our audit approach

| | |
|---|---|
| Key audit matters | The key audit matters that we identified in the current year were:<br>• Impairment on loans and advances to customers<br><br>Within this report, key audit matters are identified as follows:<br><br>Similar level of risk to the prior period |
| Materiality | The materiality that we used for the financial statements was £ 507,000 (2021: 452,000) which was determined on the basis of *1% of net assets (2021: 1% of net assets)*. |
| Scoping | Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team. |
| Significant changes in our approach | Our risk assessment process has resulted in the key audit matters reported upon remaining broadly consistent with the previous year. |

## 4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the Directors' assessment of the Society's ability to continue to adopt the going concern basis of accounting included:

- Obtaining an understanding of relevant controls around management's going concern assessment;
- Assessing the Society's compliance with regulations, including capital and liquidity requirements;
- Involving prudential risk specialists in assessing the information supporting the liquidity and capital forecasts, including the stress testing and reverse stress testing performed by management;
- Assessing the assumptions such as cashflows, capital and liquidity, used in the forecasts;
- Assessing historical accuracy of forecasts prepared by management; and
- Assessing the appropriateness of the going concern disclosures.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Society's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

## 5. 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. These matters included 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.

### 5.1. Impairment on loans and advances to customers

| | |
|---|---|
| Key audit matter description | Under IAS 39, the Directors are required to assess whether there is objective evidence of impairment of any financial assets that are measured at cost or amortised cost. If there is objective evidence of impairment, management should recognise an impairment loss within the Income Statement immediately.<br><br>The Society currently holds total loans and advances to customers on its balance sheet in relation to residential mortgages of £627m (2021: £608m). As at the 31 December 2022, the Society held provisions against residential mortgages of £839k (2021: £745k). This comprises of a collective provision for losses incurred but not reported of £563k (2021: £407k) and a specific provision for loans where there has been an observable impairment trigger of £276k (2021: £338k)<br><br>Determining impairment provisions against loans and advances to customers is a judgemental area requiring an estimate to be made of the losses incurred within the residential mortgage lending portfolios. This requires the formulation of assumptions relating to potential impairment indicators, customer default rates and property values and movements, all of which may be sensitive to changes in the economic environment.<br><br>We have pinpointed our key audit matter in the current year audit to reflect the valuation and the rights and obligations of the collateral including the appropriateness of the forward house price assumption. This is driven by the significant impact that these factors have on the overall loan loss provision. Judgement is required to select the most appropriate data sets from the external sources, including management adjustments, to reflect the specific characteristics of the Society's portfolio and the current economic environment.<br><br>We have considered that given the size of this balance and the focus on it from users of the financial statements, there is incentive that may exist by management to manipulate this account through using unsupportable or inappropriate assumptions. As such, we have considered there to be risk for potential fraud related to this matter.<br><br>The Society's associated accounting policies in relation to impairment provisions against loans and advances to customers are detailed on pages 70 to 71 and the supporting note is on pages 78 to 79 (note 14). This key audit matter was discussed by the Board Audit and Compliance Committee as detailed in their report on pages 41 to 44. |
| How the scope of our audit responded to the key audit matter | We obtained an understanding of the relevant controls over the loan loss provisioning process. This included assessment of the key management review controls.<br><br>In conjunction with our internal IT specialists, we tested the general IT controls over the loan administration systems.<br><br>We assessed the value of the collateral of the security taking into consideration the indexed property valuations at the balance sheet date and the forward-looking house price assumptions incorporated into the model. This challenge included consulting with our internal real estate |

| | |
|---|---|
| | specialists. For a sample of loans, we also tested that the Society had the rights over the collateral.<br><br>We assessed the forward-looking house price assumptions included within the residential provisioning model through comparison against both internally generated information, third party industry data and peer benchmarking.<br><br>We assessed the methodology and mechanical accuracy of the loan loss provisioning model.<br><br>We reconciled the mortgage book used within the residential provisioning model to the book on which we had performed our substantive testing procedures, to assess whether the data was accurate and complete. |
| Key observations | Based on the procedures we have performed; we have concluded that the impairment provisions against loans and advances to customers is materially appropriate. |

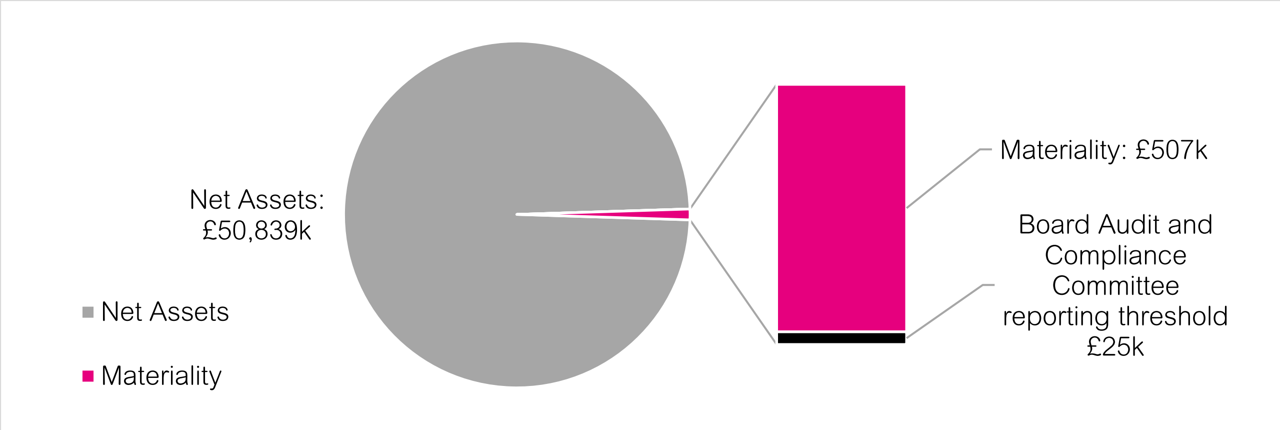
## 6. Our application of materiality

### 6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | Society financial statements |
|---|---|
| Materiality | £507k (2021: £452k) |
| Basis for determining materiality | 1% of net assets (2021: 1% of net assets) |
| Rationale for the benchmark applied | We have determined it appropriate to use net assets as a benchmark for materiality. This is based on the Society's aim to maintain a strong asset base that will allow the Society to invest in activities for its members including increasing future lending, which is a key focus for the Society's members and regulators. |




### 6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2022 audit (2021: 70%). In determining performance materiality, we considered the following factors:

a. Our risk assessment, including our assessment of the Society's overall control environment;
b. The quality of the control environment and we were able to rely on controls over loans and advances to customers and depository liabilities; and
c. The low number of uncorrected misstatements identified in prior periods.

### 6.3. Error reporting threshold

We agreed with the Board and Audit Compliance Committee that we would report to the Committee all audit differences in excess of £25,350 (2021: £22,600), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Board Audit and Compliance Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

## 7. An overview of the scope of our audit

### 7.1. Scoping

Our audit was scoped by obtaining an understanding of the Society and its environment including internal controls and assessing the risks of material misstatement. Audit work to respond to the risk of material misstatements was performed directly by the audit engagement team.

### 7.2. Our consideration of the control environment

We took a controls reliance approach over the following business cycles for the Society:

- Loans and advances to customers
- Depository liabilities.

We took a controls reliance approach over the following IT systems as being key to the financial reporting processes in the Society:

- Core mortgage system
- Core savings system.

Through involving our IT specialists, we have tested the relevant General IT controls ('GITCs') associated with the above-mentioned systems. We also tested key automated controls as identified during our walkthroughs of the business cycles described in the preceding section.

### 7.3. Our consideration of climate-related risks

In planning our audit, we have considered the potential impact of climate change on the Society's business and its financial statements. The Society continues to develop its assessment of the potential impacts of environmental, social and governance ("ESG") related risks, including climate change, as outlined on page 23.

As a part of our audit, we have performed our own qualitative risk assessment of the potential impact of climate change on the Society's account balances and classes of transactions and did not identify any additional risks of material misstatement. We have considered the Society's current actions towards their climate change risk by inspecting and analysing the climate risk framework in response to climate change risk.

## 8. Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the annual report.

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 during the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## 9. Responsibilities of Directors

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

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

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

Our objectives are to obtain reasonable assurance about whether the financial statements 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 based on these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

## 11. Extent to which the audit was considered 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.

### 11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- The nature of the industry and sector, control environment and business performance including the design of the Society's remuneration policies, key drivers for Directors' remuneration, bonus levels and performance targets;
- The Society's own assessment of the risks that irregularities may occur either as a result of fraud or error that was approved by the Board on 30 January 2023;
- Results of our enquiries of management, and the Board Audit and Compliance Committee about their own identification and assessment of the risks of irregularities, including those that are specific to the Society's sector;
- Any matters we identified having obtained and reviewed the Society's documentation of their policies and procedures relating to:
  - Identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance
  - Detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud
  - The internal controls established to mitigate risks of fraud or non-compliance with laws and regulations.
- The matters discussed among the audit engagement and relevant internal specialists, including tax, valuations, pensions, IT and prudential risk regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: impairment on loans and advances to customers. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the Society operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the Building Society Act 1986.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Society's ability to operate or to avoid a material penalty. These included the Society's regulations set by the Prudential Regulatory Authority relating to capital and liquidity requirements.

### 11.2. Audit response to risks identified

As a result of performing the above, we identified impairment on loans and advances to customers as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- Reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- Enquiring of management, the Board Audit and Compliance Committee and external legal counsel concerning actual and potential litigation and claims;
- Performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- Reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC / the Prudential Regulatory Authority and the Financial Conduct Authority; and
- In addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

## Report on other legal and regulatory requirements

## 12. Opinions on other matters prescribed by the Building Societies Act 1986

In our opinion, based on the work undertaken in the course of the audit:

- The annual business statement and the Directors' report have been prepared in accordance with the requirements of the Building Societies Act 1986;
- The information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The information given in the annual business statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given.

In the light of the knowledge and understanding of the Society and its environment obtained in the course of the audit, we have not identified any material misstatements in the Directors' report.

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

In our opinion, the information given in note 30 to the financial statements for the financial year ended 31 December 2022 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by Country Reporting) Regulations 2013.

## 14. Opinion on other matter prescribed by our engagement letter

In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the provisions of the Companies Act 2006 that would apply were the Society a quoted company.

## 15. Matters on which we are required to report by exception

### 15.1. Adequacy of explanations received and accounting records

Under the Building Societies Act 1986 we are required to report to you if, in our opinion:

- Adequate accounting records have not been kept; or
- The financial statements are not in agreement with the accounting records and returns; or
- We have not received all the information and explanations and access to documents we require for our audit.

We have nothing to report in respect of these matters.

## 16. Other matters which we are required to address

### 16.1. Auditor tenure

Following the recommendation of the Board Audit and Compliance Committee, we were appointed by members on 29 April 2020 to audit the financial statements for the year ending 31 December 2020 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 3 years, covering the years ending 31 December 2020 to 31 December 2022.

### 16.2. Consistency of the audit report with the additional report to the Board Audit and Compliance Committee

Our audit opinion is consistent with the additional report to the Board Audit and Compliance Committee we are required to provide in accordance with ISAs (UK).

## 17. 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.

Kevin Johnson (Senior Statutory Auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Edinburgh, United Kingdom

2 March 2023

# Income Statement

For the year ended 31 December 2022

| | Note | 2022<br>£000 | 2021<br>£000 |
|---|---|---|---|
| Interest receivable and similar income | 2 | 20,804 | 16,126 |
| Interest payable and similar charges | 3 | (7,900) | (4,262) |
| Net interest income | | 12,904 | 11,864 |
| Fees and commissions receivable | | 49 | 69 |
| Fees and commissions payable | | (95) | (80) |
| Other income | | 276 | 278 |
| Net income from financial instruments at fair value through profit and loss | 4 | 2,579 | 132 |
| Total Income | | 15,713 | 12,263 |
| Administrative expenses | 5 | (8,780) | (8,128) |
| Depreciation and amortisation | 15,16 | (203) | (226) |
| Operating profit before impairment losses and provisions | | 6,730 | 3,909 |
| Impairment losses on loans and advances | 14 | (90) | (274) |
| Provisions for liabilities | 23 | - | 112 |
| Operating Profit | | 6,640 | 3,747 |
| Profit on disposal of tangible and intangible assets | 15,16 | 49 | 2 |
| Profit on ordinary activities before tax | | 6,689 | 3,749 |
| Tax expense on ordinary activities | 9 | (1,294) | (668) |
| Profit for the financial year | | 5,395 | 3,081 |

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. The notes on pages 63 to 99 form part of these accounts.

# Statement of Comprehensive Income

For the year ended 31 December 2022

| | Note | 2022 £000 | 2021 £000 |
|---|---|---|---|
| Profit for the financial year | | 5,395 | 3,081 |
| **Other comprehensive income** | | | |
| Items that will not be reclassified to the income statement | | | |
| Re-measurement of the net defined benefit liability | 24 | 162 | (13) |
| Tax on items that will not be re-classified to the income statement | 9 | (40) | 12 |
| Other comprehensive income for the period | | 122 | (1) |
| Total comprehensive income for the period | | 5,517 | 3,080 |

# Statement of Financial Position

As at 31 December 2022

| | Note | 2022<br>£000 | 2021<br>£000 |
|---|---|---|---|
| **Assets** | | | |
| Liquid Assets | | | |
| Cash in hand | 10 | 386 | 324 |
| Loans and advances to credit institutions | 11 | 100,498 | 85,810 |
| Derivative financial instruments | 12 | 5,958 | 825 |
| Loans and advances to customers | 13 | 624,631 | 607,816 |
| Tangible fixed assets | 15 | 1,062 | 1,082 |
| Intangible assets | 16 | 116 | 104 |
| Deferred tax assets | 22 | 188 | 257 |
| Other debtors | 17 | 978 | 892 |
| **Total Assets** | | 733,817 | 697,110 |
| **Liabilities** | | | |
| Shares | 18 | 590,093 | 564,196 |
| Amounts owed to credit institutions | 19 | 76,525 | 73,027 |
| Amounts owed to other customers | 20 | 7,842 | 11,274 |
| Derivative financial instruments | 12 | 82 | 87 |
| Other liabilities | 21 | 6,826 | 1,400 |
| Accruals and deferred income | | 858 | 842 |
| Deferred tax liabilities | 22 | 110 | 115 |
| Provisions for liabilities | 23 | - | - |
| Retirement benefit obligations | 24 | 642 | 847 |
| **Total Liabilities** | | 682,978 | 651,788 |
| **Reserves** | | | |
| General reserves | | 50,839 | 45,322 |
| Total reserves attributable to members of the Society | | 50,839 | 45,322 |
| **Total reserves and liabilities** | | 733,817 | 697,110 |

The notes on pages 63 to 99 form part of these accounts.

These accounts were approved by the Board of Directors on 2 March 2023 and signed on its behalf:

J L Walker
Chairman

R M Pheasey
Chief Executive

N Walker
Finance Director

# Statement of Changes in Members Interests

As at the year ended 31 December 2022

| | General Reserve | Total |
|---|---|---|
| | 2022 | 2022 |
| | £000 | £000 |
| Balance at 1 January 2022 | 45,322 | 45,322 |
| | | |
| Total comprehensive income for the period | | |
| Profit for the year | 5,395 | 5,395 |
| Other comprehensive income | 122 | 122 |
| Total comprehensive income for the period | 5,517 | 5,517 |
| | | |
| Balance at 31 December 2022 | 50,839 | 50,839 |

| | General Reserve | Total |
|---|---|---|
| | 2021 | 2021 |
| | £000 | £000 |
| Balance at 1 January 2021 | 42,242 | 42,242 |
| | | |
| Total comprehensive income for the period | | |
| Profit for the year | 3,081 | 3,081 |
| Other comprehensive income | (1) | (1) |
| Total comprehensive income for the period | 3,080 | 3,080 |
| | | |
| Balance at 31 December 2021 | 45,322 | 45,322 |

# Cash Flow Statement

For the year ended 31 December 2022

| | 2022 £000 | 2021 £000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit before tax | 6,689 | 3,749 |
| *Adjustments for* | | |
| Depreciation and amortisation | 203 | 226 |
| Profit on disposal of tangible fixed assets | (49) | (2) |
| Revaluation of tangible fixed assets | 9 | - |
| Write-down of intangible fixed assets | 3 | - |
| Net gain / (loss) on re-measurement of the net defined benefit liability | 162 | (13) |
| Charge on impairment on loans and advances to customers | 90 | 274 |
| Loans and advances written off net of recoveries | - | (1) |
| Total | 7,107 | 4,233 |
| | | |
| **Changes in operating assets and liabilities** | | |
| (Increase) / Decrease in prepayments, accrued income and other assets | (86) | 40 |
| Increase / (Decrease) in accruals, deferred income and other liabilities | 8,263 | (151) |
| (Increase) in loans and advances to customers | (19,322) | (62,302) |
| (Increase) in fair values of derivatives and associated hedge items | (2,579) | (132) |
| Increase in shares | 23,371 | 28,709 |
| Increase in amounts owed to credit institutions | 3,000 | 23,395 |
| Decrease) / Increase in amounts owed to other customers | (3,452) | 3,473 |
| (Decrease) in retirement benefit obligation | (205) | (33) |
| Taxation paid | (1,189) | (538) |
| Net cash generated / (used in) by operating activities | 14,908 | (3,306) |
| | | |
| **Cash flows from investing activities** | | |
| Purchase of debt securities | - | - |
| Disposal of debt securities | - | - |
| Purchase of tangible fixed assets | (184) | (59) |
| Disposal of tangible fixed assets | 83 | 23 |
| Purchase of intangible assets | (57) | (47) |
| Net cash generated in investing activities | (158) | (83) |
| | | |
| Net increase / (decrease) in cash and cash equivalents | 14,750 | (3,389) |
| | | |
| Cash and cash equivalents at 1 January | 86,134 | 89,523 |
| | | |
| Cash and cash equivalents at 31 December | 100,884 | 86,134 |

# Notes to the Accounts

## 1 Accounting Policies

Marsden Building Society (the "Society") has prepared these annual accounts:

- In accordance with the Building Societies Act 1986, the Building Societies (Accounts and Related Provisions) Regulations 1998 and Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"). The Society has also chosen to apply the recognition and measurement provisions of IAS 39 Financial Instruments: Recognition and Measurement (as adopted for use in the United Kingdom). All amounts in the annual accounts have been rounded to the nearest £1,000.
- The annual accounts are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments classified at fair value through the profit or loss ("FVTPL") or available-for-sale.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the Directors, in the application of these accounting policies that have significant effect on the annual accounts and estimates with a significant risk of material adjustment in the next year, are discussed in section 1.14.

### 1.1 Going Concern

The Directors have prepared forecasts of the Society's capital, liquidity and financial position for the foreseeable future. As part of the annual Internal Capital and Internal Liquidity Adequacy Assessment Process (ICAAP and ILAAP), the Group stresses its capital and liquidity plans respectively, under "severe but plausible" stress test scenarios, in line with PRA requirements. The Board has the responsibility for ensuring that the Society remains solvent; has adequate capital and liquidity over the planning horizon. The ICAAP ensures that the plan projections for capital requirements and capital generation are resilient to stresses should the environment deteriorate beyond the levels currently envisaged in the Corporate Plan. A capital buffer is held to ensure the Group can deal with any erosion in its capital and meet its capital requirements at all times. The ILAAP test ensures that the Group holds sufficient liquid assets to meet its liquidity needs not only under normal circumstances but if the Society were to enter into a period of stress.

The Directors are satisfied that the Society has adequate resources to continue in business for a period of 12 months from signing the accounts. In making the assessment, the Directors have reviewed the Society Profit, Capital and Liquidity positions and considered arrangements to ensure Operational Resilience. This assessment takes into account both planned and stressed outcomes, the severity of which are judged sufficient to reflect risks generally. After considering all this information, the Directors are satisfied that the Society has sufficient resources to continue in business for a minimum of 12 months from the date of signing the accounts. For this reason, they continue to adopt the going concern basis in preparing the annual accounts.

### 1.2 Changes in Accounting Policy

There have been no changes in accounting policy during the year.

### 1.3 Interest

Interest income and expense are recognised in the Income Statement using the effective interest method. The 'effective interest rate' ("EIR") is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Society estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses. Effective lives are estimated using historic data and management judgment and the calculation is adjusted when actual experience differs from estimates, with changes being recognised immediately in the Income Statement.

The calculation of the effective interest rate includes transaction costs and fees and paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability. The Society also recognises a degree of future early repayment charge income based on experience.

Interest income and expense presented in the Income Statement and other comprehensive income include:

- Interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis; and
- Interest on available-for-sale investment securities calculated on an effective interest basis.

Fair value changes on other derivatives held for risk management purposes, and other financial assets and financial liabilities carried at fair value through profit or loss, are presented in net income from other financial instruments at fair value through profit or loss in the Income Statement.

Interest also includes payments in connection with affinity account relationships, with Charities in receipt of donations listed in the Directors' report.

### 1.4 Fees and commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate (refer 1.3).

Other fees and commission income, including account administration and legal fees and insurance or introductory commission, are recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fees are recognised in the Income Statement as received.

Other fees and commission expense relate mainly to bank charges.

### 1.5 Expenses

#### Operating lease

Payments (excluding costs for services and insurance) made under operating leases are recognised in the Income Statement on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Incentives received on leases commencing on or after 1 January 2015, where material, are recognised in the Income Statement over the term of the lease as an integral part of the total lease expense.

### 1.6 Taxation

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

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the annual accounts. Timing differences arising as a result of differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met are not provided for. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

## 1.7 Financial Instruments

### Recognition

The Society initially recognises loans and advances and deposits on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Society becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

### Classification

### Financial assets

The Society classifies its financial assets into one of the following categories. No assets are classified as held to maturity:

a) Loans and receivables

   'Loans and advances' are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Society does not intend to sell immediately or in the near term.

   Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method (refer 1.3).

   When the Society purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Society's financial statements.

b) Available-for-sale

   'Available-for-sale investments' are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments comprise of debt securities which are measured at fair value after initial recognition. Interest income is recognised in the Income Statement using the effective interest method (refer 1.3). Impairment losses are recognised in the Income Statement.

   Other fair value changes, other than impairment losses, are recognised in other comprehensive income and presented in the available for sale reserve within equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to the Income Statement.

c) At fair value through profit and loss
Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.
On initial designation of the hedge, the Society formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Society makes an assessment, both at inception of the hedge relationship and on an ongoing basis, of whether the hedging instrument(s) are expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item(s) during the period for which the hedge is designated, and retrospectively whether the actual results of regression analysis over the life of the portfolio demonstrate the portfolio is highly effective of a continuing basis within a range of 80 – 125% subject to relief under Amendments to FRS 102 – Interest Rate Benchmark Reform during the period of uncertainty.

These hedging relationships are discussed below.

### Fair value hedges

Where a derivative financial instrument is designated as a hedge of the variability in fair value of a recognised asset or liability or an unrecognised firm commitment, all changes in the fair value of the derivative are recognised immediately in profit or loss. The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged (even if it is normally carried at cost or amortised cost) and any gains or losses on re-measurement are recognised immediately in the Income Statement (even if those gains would normally be recognised directly in reserves). If the fair value of the derivative has changed prior to entering into the hedge relationship the movement will be amortised in the Income Statement over the remaining life of the derivative. If hedge accounting is discontinued and the hedged financial asset or liability has not been derecognised, any adjustments to the carrying amount of the hedged item are amortised in the Income Statement using the effective interest method over the remaining life of the hedged item.

## Financial liabilities

The Society classifies its financial liabilities, other than derivatives, as measured at amortised cost. Derivatives are measured at fair value through profit or loss.

## De-recognition

The Society derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Society neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss. Any interest in transferred financial assets that qualify for de-recognition that is created or retained by the Society is recognised as a separate asset or liability.

The Society enters into transactions whereby it transfers assets recognised on its statement of financial position but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale and repurchase transactions.

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

a) Sterling Monetary Framework/Term Funding Scheme/Term Funding Scheme with additional incentives for SMEs.
   Mortgage Assets are pledged as collateral to access the scheme. Where the risk reward relationship of these assets remains with the Society they are retained on the statement of financial position. The carrying amount of assets pledged as collateral which the Society continues to recognise are included within the total of assets prepositioned at the Bank of England detailed at Note 13.

## Measurement

a) Amortised Cost Measurement

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

b) Fair Value Measurement

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

The Society determines fair values by the three-tier valuation hierarchy as defined within IAS 39 and FRS102.34:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly or indirectly; and
- Level 3 - inputs for the asset or liability that are not based on observable market data. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

Debt Securities fall within level 1 and Derivatives within level 2.

## Identification and measurement of impairment

At each reporting date, the Society assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is 'impaired' when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

The Society first assesses whether objective evidence of impairment exists for financial assets using the following criteria:

- Deterioration in payment status;
- Forbearance being applied; and
- Expected future increase in arrears due to change in loan status and any other information suggesting that a loss is likely in the short to medium term.

If there is objective evidence of an impairment of loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's effective interest rate. This calculation takes into account the Society's and the industry's experience of default rates, loss emergence periods, the effect of regional movements in house prices based upon a recognised index and adjustments to allow for ultimate forced sales values and realisation costs. The amount of the loss is recognised in the Income Statement.

Where a loan is not recoverable, it is written off against the related provision for loan impairment once all the necessary procedures have been completed and the amount of the loss has been determined.

Subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the Income Statement.

If the Society determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment, and for which an impairment loss is or continues to be recognised, are not included in a collective assessment of impairment.

A collective provision is made against a group of loans and advances where there is objective evidence that credit losses have been incurred but not identified at the reporting date.

### Forbearance

A range of forbearance options are available to support customers who are in financial difficulty. The purpose of forbearance is to support customers who have temporary financial difficulties and help them get back on track. The main options offered by the Society include:

- A reduced monthly payment;
- An arrangement to clear outstanding arrears;
- Extension of the mortgage term; and
- Capitalisation of arrears.

During the Financial years to 31 December 2020 and 31 December 2021 these options included the provision of support to borrowing members impacted by Covid-19, in accordance with FCA guidance on how they expected organisations to treat customers fairly during the Covid-19 pandemic.

The Strategic Report and Credit Risk Section of Note 27 Credit Risk provides details of forbearance at the Balance Sheet date and information of Covid concessions in year, including the number and amount of the exposure at the balance sheet date.

## 1.8 Cash and cash equivalents

For the purposes of the Statements of Cash Flows, cash comprises cash in hand and unrestricted loans and advances to credit institutions repayable on demand. Cash equivalents comprise highly liquid unrestricted investments that are readily convertible into cash with an insignificant risk of changes in value with original maturities of less than three months.

### 1.9 Tangible fixed assets

Tangible fixed assets are stated at cost or deemed cost less accumulated depreciation and accumulated impairment losses. Tangible fixed assets include investment property whose fair value cannot be measured reliably without undue cost or effort. The Society capitalises the cost of additions, major alterations to and refurbishments of office premises and equipment as land and buildings.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets, for example land is treated separately from buildings.

The Society assesses at each reporting date whether tangible fixed assets are impaired.

Depreciation is charged to the Income Statement on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are as follows:

- Buildings (freehold) – Between 20 and 50 years.
- Buildings (leasehold) – Over the term of the lease.
- Refurbishment of buildings and roofs – Between 10 and 20 years.
- Plant and equipment, fixtures and fittings – Between 3 and 10 years.

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the Society expects to consume an asset’s future economic benefits.

### 1.10 Intangible assets

#### Computer software

Purchased software is capitalised as an intangible asset where the software is an identifiable asset controlled by the Society which will generate future economic benefits. Other costs relating to internal development of software are recognised as an expense as incurred.

Intangible assets that are acquired by the Society are stated at cost less accumulated amortisation and less accumulated impairment losses.

#### Amortisation

Amortisation is charged to the profit or loss on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- Software – 3 to 5 years

The Society reviews the amortisation period and method when events and circumstances indicate that the useful life may have changed since the last reporting date.

Intangible assets are tested for impairment in accordance with Section 27 Impairment of assets when there is an indication that an intangible asset may be impaired.

## 1.11 Employee benefits

### Defined contribution plans and other long-term employee benefits

A defined contribution plan is a post-employment benefit plan under which the Society pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts.

The Society makes contributions to a Group Personal Pension Scheme through a life insurance company. The scheme is independent of the finances of the Society.

Obligations for contributions to the scheme are recognised as an expense in the Income Statement in the periods during which services are rendered by employees.

### Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan.

The Society has an Employer Financed Retirement Benefit Scheme. This represents a retirement benefit obligation to certain pensioners outside the scope of the Society defined contribution plan. The obligation is funded by the Society and has no scheme assets.

All obligations are in payment and the amount and escalation in benefit cannot change. The Society's net obligation in respect of defined benefit plans is calculated by estimating the amount of future payments due; that benefit is discounted to determine its present value. The entity determines the net interest expense on the net defined benefit liability for the period by applying the discount rate as determined at the beginning of the annual period to the net defined benefit liability taking account of changes arising as a result of benefit payments.

The discount rate is the yield at the balance sheet date on AA credit rated bonds denominated in the currency of and having maturity dates approximating to the terms of the Society's obligations. A valuation is performed annually by the Directors using the details of 'in payment' obligations and escalation terms and the latest discount rate and bi-annual mortality assumptions.

Changes in the net defined benefit liability, the net interest on the net defined benefit liability, and the costs of plan introductions, benefit changes, curtailments and settlements during the period are recognised in the Income Statement.

Re-measurement of the net defined benefit liability is recognised in other comprehensive income in the period in which it occurs.

## 1.12 Provisions and contingent liabilities

A provision is recognised in the statement of financial position when the entity has a present legal or constructive obligation as a result of a past event, that can be reliably measured, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

Contingent liabilities are potential obligations from past events which shall be confirmed by future events. Contingent liabilities are not recognised in the statement of financial position.

## 1.13 Accounting estimates and judgements

In applying the Society's accounting policies, the Society makes estimates and applies judgements that can have a material effect on the reported amounts of assets and liabilities. These estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. No significant judgements were made in the year. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2022 are set out below:

- Loan Loss Impairment Provisions – The Society reviews the portfolio of mortgages regularly during the year to assess for impairment. Impairment provisions are calculated using Fitch Structured Finance Criteria UK, as judged applicable to the Society Mortgage portfolio, Mortality/Morbidity Assumptions in relation to Lending in Retirement and the Society and the Directors assumptions on economic conditions. The accuracy of the provision is dependent on the assumptions regarding probability of default. A 10% increase in PD would increase the impairment provision on loans and advances by £54,837 (2021: £39,269). The accuracy of the provision is also dependent on the assumption for house prices and forced sale discounts. In the current period an increase in the forced sale discount and modest forward house price adjustment is included to reflect the risk of collateral values reducing. A 5% increase in house price discount would increase the provision by £175,294 (2021: £161,086). A 5% decrease in house price discount would reduce the provision by £136,624 (2021: £100,963).
- EIR – The Society determines the effective life of mortgages through analysis of historical data with a qualitative management overlay. The effective life is monitored during the year to ensure assumptions remain reasonable with adjustments applied as appropriate. Any variation in the expected life would change the carrying value in the statement of financial position and the timing of recognition of interest income.
- Fair Value of Financial Instruments – Derivative financial instruments are calculated by projecting expected future principal and interest cash flows, discounted using the prevailing Sterling Overnight Indexed Average (SONIA) curve. The two yield curves are observable market data which is derived from quoted interest rates in similar time bandings which match the timings of cash flows and maturities of the instruments. At the year end, a parallel increase of 50bps in the SONIA curve would change the net fair value of derivative financial instruments and related hedged items where appropriate by £343,743 (2021: £135,960).

## 2 Interest receivable and similar income

| | 2022 | 2021 |
|---|---|---|
| | £000 | £000 |
| On loans fully secured on residential property | 18,940 | 16,104 |
| On other loans | 36 | 40 |
| On liquid assets | 1,222 | 80 |
| Other income | - | - |
| Net interest (expense) on derivatives | 606 | (98) |
| | 20,804 | 16,126 |

## 3 Interest payable and similar charges

| | 2022 | 2021 |
|---|---|---|
| | £000 | £000 |
| On shares held by individuals | 6,727 | 4,126 |
| On deposits and other borrowings | 1,173 | 136 |
| | 7,900 | 4,262 |

## 4 Net gains on derivative financial instruments

| | 2022 | 2021 |
|---|---|---|
| | £000 | £000 |
| Derivatives in designated fair value hedge relationships | 2,398 | 812 |
| Adjustments to hedged items in fair value hedge relationships | (2,417) | (771) |
| Derivatives not in designated fair value hedge relationships | 2,598 | 91 |
| | 2,579 | 132 |

Accounting volatility arises on these items due to accounting ineffectiveness on designated hedge relationships or fair value movements on derivatives where hedge accounting is either not yet achieved or not achievable. The movement is primarily due to timing differences in income recognition between derivative instruments and the hedged items or fair value movements on derivatives not designated for hedge accounting. This gain or loss will trend to zero over time for individual instruments but not the portfolio as a whole.

## 5 Administrative expenses

| | 2022 | 2021 |
|---|---|---|
| | £000 | £000 |
| Wages and salaries | 3,603 | 3,334 |
| Social security costs | 364 | 313 |
| Contributions to defined contribution plans | 567 | 534 |
| Expenses relating to defined benefit plans | 14 | 9 |
| | 4,548 | 4,190 |
| Other administrative expenses | 4,232 | 3,938 |
| | 8,780 | 8,128 |

The remuneration of the external auditor, which is included within other administrative expenses above, is set out below (excluding VAT):

| | 2022 | 2021 |
|---|---|---|
| | £000 | £000 |
| Audit of these annual accounts | 198 | 132 |
| Amounts received by the Society's auditor and its associates in respect of: | | |
| Taxation compliance services | - | - |
| Other advisory services | - | 15 |
| | 198 | 147 |

## 6 Employee numbers

| | 2022 | 2021 |
|---|---|---|
| | No. | No. |
| Full Time | 70 | 72 |
| Part Time | 37 | 34 |
| | 107 | 106 |
| Principal Office | 67 | 68 |
| Branch Offices | 40 | 38 |
| | 107 | 106 |

## 7 Directors' remuneration

Directors' emoluments are set out within the Directors' Remuneration Report.

Total Directors' emoluments for the year amounted to £688,209 (2021: £681,846).

## 8 Directors' loans and transactions

As at 31 December 2022, there were outstanding mortgage loans granted in the ordinary course of business to two Directors (2021: two) and no connected persons (2021: none), amounting in aggregate to £286,531 (2021: £346,408).

A register is maintained by the Society containing details of loans, transactions and agreements made between the Society and the Directors and their connected persons. A register of loans to Directors and connected persons is maintained under Section 68 of the Building Societies Act 1986 at the Principal Office of the Society. This is available for inspection during normal office hours over the period of 15 days prior to the Society's AGM and at the AGM.

## 9 Taxation

| | 2022 | 2021 |
|---|---|---|
| | £000 | £000 |
| **Current tax** | | |
| Current tax on income for the period | 1,271 | 700 |
| Adjustments in respect of prior periods | (1) | (1) |
| Foreign tax relief/other relief | (59) | (50) |
| | 1,211 | 649 |
| Foreign tax suffered | 59 | 50 |
| **Total current tax** | 1,270 | 699 |
| | | |
| **Deferred tax (refer Note 22)** | | |
| Origination and reversal of timing differences | 18 | (7) |
| Adjustment in respect of previous periods | - | - |
| Change in tax rate | 6 | (24) |
| **Total Deferred tax** | 24 | (31) |
| | | |
| **Total tax** | 1,294 | 668 |

| | Current tax | Deferred tax | Total |
|---|---|---|---|
| | **2022** | **2022** | **2022** |
| | **£000** | **£000** | **£000** |
| Recognised in the Income Statement | **1,270** | **24** | **1,294** |
| Recognised in Other Comprehensive Income | **-** | **40** | **40** |
| Total tax | **1,270** | **64** | **1,334** |

| | Current tax | Deferred tax | Total |
|---|---|---|---|
| | 2021 | 2021 | 2021 |
| | £000 | £000 | £000 |
| Recognised in the Income Statement | 699 | (31) | 668 |
| Recognised in Other Comprehensive Income | - | (12) | (12) |
| Total tax | 699 | (43) | 656 |

| Analysis of current tax payable in the income statement | 2022 | 2021 |
|---|---|---|
| | **£000** | £000 |
| Corporation tax | **1,270** | 699 |
| Total current tax | **1,270** | 699 |

| Reconciliation of effective tax rate | 2022 | 2021 |
|---|---|---|
| | **£000** | £000 |
| Profit for the year | **6,689** | 3,749 |
| Total tax expense | **1,294** | 668 |
| Tax using the UK corporation tax rate of 19.00% (2021: 19.00%) | **1,271** | 712 |
| Expenses not deductible for corporation tax purposes | **8** | 1 |
| Income not taxable for corporation tax purposes | **-** | (21) |
| Effect of change in tax rate | **6** | (24) |
| Adjustment from previous periods | **9** | (1) |
| Other | **-** | 1 |
| Total tax charge in the income statement | **1,294** | 668 |

Current tax has been provided at the rate of 19%. The deferred tax asset and liability have been provided at the rate of 25% (2021: 25%) which is the rate applicable when the deferred tax asset and liability is expected to crystallise.

## 10 Cash and cash equivalents

| | 2022 | 2021 |
|---|---|---|
| | £000 | £000 |
| Cash in hand | 386 | 324 |
| Loans and advances to credit institutions (refer Note 11) | 100,498 | 85,810 |
| Cash and cash equivalents per the cash flow statements | 100,884 | 86,134 |

## 11 Loans and advances to credit institutions

| | 2022 | 2021 |
|---|---|---|
| | £000 | £000 |
| Repayable on demand | | |
| Balances with the Bank of England | 97,155 | 80,608 |
| Loans and advances to credit institutions | 3,343 | 5,202 |
| | 100,498 | 85,810 |
| Total loans and advances to credit institutions | 100,498 | 85,810 |
| Total included within cash equivalents | 100,498 | 85,810 |

## 12 Derivative financial instruments

| | Notional Principal | Fair Values Assets | Fair Values Liabilities |
|---|---|---|---|
| | 2022 | 2022 | 2022 |
| | £000 | £000 | £000 |
| Derivatives designated as fair value hedges | | | |
| Interest rate swaps | 87,000 | 4,345 | - |
| Total derivatives designated as fair value hedges | 87,000 | 4,345 | - |
| Derivatives not designated as fair value hedges | | | |
| Interest rate swaps | 45,000 | 1,613 | 82 |
| Total derivatives not designated as fair value hedges | 45,000 | 1,613 | 82 |

| | Notional Principal | Fair Values Assets | Fair Values Liabilities |
|---|---|---|---|
| | 2021 | 2021 | 2021 |
| | £000 | £000 | £000 |
| Derivatives designated as fair value hedges | | | |
| Interest rate swaps | 65,500 | 659 | 3 |
| Total derivatives designated as fair value hedges | 65,500 | 659 | 3 |
| | | | |
| Derivatives not designated in hedge relationships | | | |
| Interest rate swaps | 27,500 | 166 | 84 |
| Total derivatives not designated as fair value hedges | 27,500 | 166 | 84 |

## 13 Loans and advances to customers

| | 2022 | 2021 |
|---|---|---|
| | £000 | £000 |
| Loans fully secured on residential property | 627,121 | 607,594 |
| Loans fully secured on land | 455 | 799 |
| Effective interest rate adjustment | 967 | 828 |
| Provisions for impairment losses | (843) | (753) |
| Fair value adjustment for hedged risk | (3,069) | (652) |
| | 624,631 | 607,816 |
| The remaining maturity of loans and advances to customers from the reporting date is as follows: | | |
| In not more than three months | 3,899 | 4,584 |
| In more than three months but not more than one year | 10,539 | 11,358 |
| In more than one year but not more than five years | 100,068 | 95,487 |
| In more than five years | 510,968 | 497,140 |
| | 625,474 | 608,569 |
| Less allowance for impairment (refer Note 15) | (843) | (753) |
| | 624,631 | 607,816 |

The maturity analysis above is based on contractual maturity; not behavioural or expected maturity.

At 31 December 2022 £113.3m (2021: £141.0m) of mortgage assets were prepositioned with the Bank of England, including assets which are both encumbered and unencumbered.

## 14 Allowance for impairment

| | Loans fully secured on residential property | Loans fully secured on Land | Total |
|---|---|---|---|
| | 2022 | 2022 | 2022 |
| | £000 | £000 | £000 |
| At 1 January 2022 | | | |
| Individual impairment | 338 | - | 338 |
| Collective impairment | 407 | 8 | 415 |
| | 745 | 8 | 753 |
| Income statement | | | |
| Impairment losses on loans and advances | | | |
| Individual impairment | (62) | - | (62) |
| Collective impairment | 156 | (4) | 152 |
| | 94 | (4) | 90 |
| At 31 December 2022 | | | |
| Individual impairment | 276 | - | 276 |
| Collective impairment | 563 | 4 | 567 |
| | 839 | 4 | 843 |

| | Loans fully secured on residential property | Loans fully secured on Land | Total |
|---|---|---|---|
| | 2021 | 2021 | 2021 |
| | £000 | £000 | £000 |
| At 1 January 2021 | | | |
| Individual impairment | 4 | 43 | 47 |
| Collective impairment | 429 | 4 | 433 |
| | 433 | 47 | 480 |
| Amounts written off during the year, net of recoveries | | | |
| Individual impairment | (1) | - | (1) |
| Collective impairment | - | - | - |
| | (1) | - | (1) |
| Income statement | | | |
| Impairment losses on loans and advances | | | |
| Individual impairment | 335 | (43) | 292 |
| Collective impairment | (22) | 4 | (18) |
| | 313 | (39) | 274 |
| At 31 December 2021 | | | |
| Individual impairment | 338 | - | 338 |
| Collective impairment | 407 | 8 | 415 |
| | 745 | 8 | 753 |

## 15 Tangible fixed assets

| | Land and buildings 2022 £000 | Equipment fixtures fittings and vehicles 2022 £000 | Total 2022 £000 |
|---|---|---|---|
| Cost | | | |
| Balance at 1 January 2022 (restated) | 1,107 | 1,731 | 2,838 |
| Acquisitions | - | 184 | 184 |
| Disposals | - | (185) | (185) |
| Balance at 31 December 2022 | 1,107 | 1,730 | 2,837 |
| | | | |
| Depreciation and impairment | | | |
| Balance at 1 January 2022 | 395 | 1,370 | 1,765 |
| Depreciation charge for the year | 17 | 144 | 161 |
| On disposals | - | (151) | (151) |
| Balance at 31 December 2022 | 412 | 1,363 | 1,775 |
| | | | |
| Net book value | | | |
| Balance at 1 January 2022 | 712 | 361 | 1,073 |
| Balance at 31 December 2022 | 695 | 367 | 1,062 |

The Society's freehold and long leasehold land and buildings were revalued during July 1999. Other tangible fixed assets are included at cost.

The cost of Equipment, Fixtures, Fittings and Vehicles as at 1 January 2022 has been restated at £9,000 lower than the closing position as at 31 December 2021 previously published. This is due to an insurance settlement received against the cost of some of the assets purchased during 2020 for the purposes of maintaining business continuity during Covid-19 initial lockdown.

| | 2022 £000 | 2021 £000 |
|---|---|---|
| The net book value of land and buildings comprises: | | |
| Freehold | 695 | 712 |
| | 695 | 712 |

## 16 Intangible assets

| | Purchased Software 2022 £000 |
|---|---|
| Cost | |
| Balance at 1 January 2022 (restated) | 579 |
| Acquisitions | 57 |
| Written off in the year | - |
| Balance at 31 December 2022 | 636 |
| Amortisation | |
| Balance at 1 January 2022 | 478 |
| Amortisation charge for the year | 42 |
| Written off in the year | 0 |
| Balance at 31 December 2022 | 520 |
| Net book value | |
| Balance at 1 January 2022 | 104 |
| Balance at 31 December 2022 | 116 |

Intangible assets are included at cost.

The cost of Intangible Assets as at 1 January 2022 has been restated at £3,000 lower than the closing position as at 31 December 2021 previously published. This is due to an insurance settlement received against the cost of some of the software assets purchased during 2020 for the purposes of maintaining business continuity during Covid-19 initial lockdown.

## 17 Other debtors

| | 2022 £000 | 2021 £000 |
|---|---|---|
| Prepayments and accrued income | 978 | 892 |
| | 978 | 892 |

## 18 Shares

| | 2022 | 2021 |
|---|---|---|
| | £000 | £000 |
| Held by individuals | 589,910 | 563,973 |
| Other shares | 183 | 223 |
| | 590,093 | 564,196 |

| | | |
|---|---|---|
| Shares are repayable with remaining maturities from the date of the reporting as follows: | | |
| Accrued Interest | 4,545 | 2,019 |
| On demand | 236,564 | 221,138 |
| In not more than three months | 199,386 | 189,028 |
| In more than three months but not more than one year | 95,530 | 95,986 |
| In more than one year but not more than five years | 54,068 | 56,025 |
| In more than five years | - | - |
| | 590,093 | 564,196 |

## 19 Amounts owed to credit institutions

| | 2022 | 2021 |
|---|---|---|
| | £000 | £000 |
| Amounts owed to credit institutions are repayable from the date of the statement of financial position as follows: | | |
| Accrued Interest | 525 | 27 |
| On demand | - | - |
| In not more than three months | 1,000 | 2,000 |
| In more than three months but not more than one year | 5,000 | 1,000 |
| In more than one year but not more than five years | 70,000 | 70,000 |
| | 76,525 | 73,027 |

## 20 Amounts owed to other customers

| | 2022 | 2021 |
|---|---|---|
| | £000 | £000 |
| Amounts owed to other customers are repayable from the date of the statement of financial position as follows: | | |
| Accrued Interest | 38 | 18 |
| On demand | 1,699 | 1,572 |
| In not more than three months | 833 | 2,835 |
| In more than three months but not more than one year | 5,272 | 4,449 |
| In more than one year but not more than five years | - | 2,400 |
| | 7,842 | 11,274 |

## 21 Other liabilities

| | 2022 £000 | 2021 £000 |
|---|---|---|
| Corporation tax | 471 | 390 |
| Social Security | 111 | 94 |
| Cash Collateral received against hedging contracts | 5,714 | 695 |
| Other creditors | 530 | 221 |
| | 6,826 | 1,400 |

## 22 Deferred tax assets and liabilities

| | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| | 2022 £000 | 2021 £000 | 2022 £000 | 2021 £000 | 2022 £000 | 2021 £000 |
| Accelerated capital allowances | - | - | 110 | 115 | (110) | (115) |
| FRS 102 transitional adjustment | - | 34 | - | - | - | 34 |
| Employee benefits | 173 | 222 | - | - | 173 | 222 |
| Other short term timing differences | 15 | 1 | - | - | 15 | 1 |
| | 188 | 257 | 110 | 115 | 78 | 142 |

The majority of deferred tax assets and liabilities are anticipated to be recoverable after one year.

## 23 Provisions

| | 2022 £000 | 2021 £000 |
|---|---|---|
| At 1 January 2022 | - | 137 |
| Additions/Adjustments | - | - |
| Provision utilised | - | (25) |
| Recovered | - | (112) |
| At 31 December 2022 | - | - |

## 24 Employee benefits

### Defined benefit scheme

### Net pension liability

The Society has an Employer Financed Retirement Benefit Scheme. This represents a retirement benefit obligation to certain pensioners. All obligations are in payment with the obligation funded from the financial resources of the Society, the scheme having no distinct assets independent of the Society. The information disclosed below relates to this scheme alone.

| | 2022 | 2021 |
|---|---|---|
| | £000 | £000 |
| Defined benefit obligation | 642 | 847 |
| Net pension liability | 642 | 847 |

Movement in present value of defined benefit obligation

| | 2022 | 2021 |
|---|---|---|
| | £000 | £000 |
| At 1 January | 847 | 880 |
| Interest expense | 14 | 9 |
| Re-measurement: actuarial gains | (162) | 13 |
| Benefits paid | (57) | (55) |
| A 31 December | 642 | 847 |

Principal actuarial assumptions

| | 2022 | 2021 |
|---|---|---|
| | % | % |
| Discount rate | 4.63 | 1.67 |
| Future pension increases | 2.87 | 2.89 |

The obligation is measured internally by the Directors on at least an annual basis using the following inputs:

- iBoxx AA Sterling Corporate Non-financial Bond Index (2021: iBoxx AA Sterling Non-financial Bond Index)
- ONS National Population Projections (Lifetable) (2020 Based) Cohort Life Expectancy (2021: ONS National Population Projections (Lifetable) (2020 Based) Cohort Life Expectancy)
- Rate of future pension increases provided for under the terms of the agreement.

### Defined contribution scheme

The Society contributes to a defined contribution group personal pension scheme which is open to contracted employees over eighteen years of age. The Scheme is funded separately through a life assurance company and the funding is independent of the Society's finances. The Society's contributions are charged against profits in the year in which they are made.

Total expense relating to this plan in the current year was £567,000 (2021: £534,000). There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

## 25 Financial Instruments

A financial instrument is a contract which gives rise to a financial asset of one entity and a financial liability of another entity. The Society uses financial instruments to invest liquid asset balances and raise wholesale funding. The Society also uses derivative financial instruments (derivatives) to manage the risks arising from its operations. The Society uses derivatives for economic hedging purposes only in accordance with the Building Societies Act 1986 to limit the extent to which the Society will be affected by changes in interest rates. The Society does not run a trading book.

Where an on balance sheet hedge cannot be achieved the principal derivatives used are interest rate swaps. These instruments are used to hedge exposures arising from underlying business activities in the form of fixed rate mortgage lending, fixed rate savings products and fixed rate deposit funding. The duration of the off balance sheet contracts and the maturity profile reflect the nature of the exposures arising from the underlying business activities being hedged.

### Categories of financial assets and liabilities

Financial assets and liabilities are measured on an on-going basis either at fair value or at amortised cost. Note 1.7 ‘Financial instruments’ describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The tables below analyse the Society’s assets and liabilities by financial classification:

| Carrying values by | Measured at amortised cost | | Measured at fair value | | | |
|---|---|---|---|---|---|---|
| category at 31 December 2022 | Loans and Receivables | Financial assets and liabilities at amortised cost | Available for sale | Derivatives designated as fair value hedges | Unmatched Derivatives | Total |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Assets | | | | | | |
| Cash in hand | - | 386 | - | - | - | 386 |
| Loans and advances to credit institutions | 100,498 | - | - | - | - | 100,498 |
| Derivative financial instruments | - | - | - | 4,345 | 1,613 | 5,958 |
| Loans and advances to customers | 624,631 | - | - | - | - | 624,631 |
| Other assets | - | 2,344 | - | - | - | 2,344 |
| Total assets | 725,129 | 2,730 | - | 4,345 | 1,613 | 733,817 |
| Liabilities | | | | | | |
| Shares | - | 590,093 | - | - | - | 590,093 |
| Amounts owed to credit institutions | - | 76,525 | - | - | - | 76,525 |
| Amounts owed to other customers | - | 7,842 | - | - | - | 7,842 |
| Derivative financial instruments | - | - | - | 82 | - | 82 |
| Other liabilities | - | 59,275 | - | - | - | 59,275 |
| Total liabilities | - | 733,735 | - | 82 | - | 733,817 |

| Carrying values by category at 31 December 2021 | Measured at amortised cost | | Measured at fair value | | | |
|---|---|---|---|---|---|---|
| | Loans and Receivables | Financial assets and liabilities at amortised cost | Available for sale | Derivatives designated as fair value hedges | Unmatched Derivatives | Total |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Assets | | | | | | |
| Cash in hand | - | 324 | - | - | - | 324 |
| Loans and advances to credit institutions | 85,810 | - | - | - | - | 85,810 |
| Derivative financial instruments | - | - | - | 659 | 166 | 825 |
| Loans and advances to customers | 607,816 | - | - | - | - | 607,816 |
| Other assets | - | 2,335 | - | - | - | 2,335 |
| Total assets | 693,626 | 2,659 | - | 659 | 166 | 697,110 |
| Liabilities | | | | | | |
| Shares | - | 564,196 | - | - | - | 564,196 |
| Amounts owed to credit institutions | - | 73,027 | - | - | - | 73,027 |
| Amounts owed to other customers | - | 11,274 | - | - | - | 11,274 |
| Derivative financial instruments | - | - | - | 3 | 84 | 87 |
| Other liabilities | - | 48,526 | - | - | - | 48,526 |
| Total liabilities | - | 697,023 | - | 3 | 84 | 697,110 |

At the year end, the Society had loan commitments of £24.1m (2021: £21.9m) measured at cost.

## Valuation of financial instruments carried at fair value

The Society holds certain financial assets and liabilities at fair value, grouped into Levels 1 to 3 of the fair value hierarchy (see below).

*Valuation techniques*

Fair values are determined using the following fair value hierarchy that reflects the significance of the inputs in measuring fair value:

Level 1 - The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable (i.e., developed using market data) for the asset or liability, either directly or indirectly.

Level 3 - Inputs are unobservable (i.e., for which market data is unavailable) for the asset or liability.

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

| | Note | Level 1 £000 | Level 2 £000 | Level 3 £000 | Total £000 |
|---|---|---|---|---|---|
| **At 31 December 2022** | | | | | |
| Financial assets | | | | | |
| Derivative financial instruments | | | | | |
| Interest Rate SWAPs | 12 | - | 5,958 | - | 5,958 |
| | | - | 5,958 | - | 5,958 |
| Financial liabilities | | | | | |
| Derivative financial instruments | | | | | |
| Interest Rate SWAPs | 12 | - | 82 | - | 82 |
| | | - | 82 | - | 82 |
| At 31 December 2021 | | | | | |
| Financial assets | | | | | |
| Derivative financial instruments | | | | | |
| Interest Rate SWAPs | 12 | - | 825 | - | 825 |
| | | - | 825 | - | 825 |
| Financial liabilities | | | | | |
| Derivative financial instruments | | | | | |
| Interest Rate SWAPs | 12 | - | 87 | - | 87 |
| | | - | 87 | - | 87 |

## 26 Credit Risk

'Credit risk' is the risk that a borrower or counterparty of the Society will cause a financial loss for the Society by failing to discharge an obligation.

The Society is exposed to credit risk from its lending to:

- Individual customers (mortgages on residential and commercial property).
- Companies (mortgages to corporates secured on residential and commercial property).
- Wholesale counterparties (investment of liquid assets and derivative financial instruments).

Credit risk arising from mortgage lending to individuals and companies is managed within a framework to ensure risk is underwritten and managed within the risk appetite set by the Board. This involves the use of risk adjusted pricing models, mandates, exposure limits and stress testing and is subject to monitoring by the Board Risk Committee.

Credit risk arising from investment of liquid assets and entering into derivative financial instruments is managed within a framework to ensure risk exposure is managed within the risk appetite set by the Board. This involves the use of strict mandates and both counterparty risk assessment and monitoring.

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

| | 2022 | 2021 |
|---|---|---|
| | £000 | £000 |
| Cash in hand | 386 | 324 |
| Loans and advances to credit institutions | 100,498 | 85,810 |
| Loans and advances to customers | 624,631 | 607,816 |
| Total statement of financial position exposure | 725,515 | 693,950 |
| Off balance sheet exposure: Mortgage Commitments | 24,142 | 21,946 |
| | 749,657 | 715,896 |

Details on collateral held as security that mitigate the Society's exposure to credit risk are provided on page 92. The Society does not use credit derivatives, or similar instruments, to manage its credit risk.

*Credit Risk – Loans and advances to customers*

*Mortgages secured on Residential Property*

The Society currently lends in the prime residential mortgage market, including buy to let.

The table below outlines the mix of loans secured on residential property at the reporting date.

| Lending Analysis | 2022 | | 2021 | |
|---|---|---|---|---|
| | £000 | % | £000 | % |
| Residential | | | | |
| Owner Occupied | 471,978 | 75.26 | 456,201 | 75.08 |
| Buy to Let | 155,143 | 24.74 | 151,393 | 24.92 |
| | 627,121 | 100.00 | 607,594 | 100.00 |
| Effective interest rate adjustment | 967 | | 828 | |
| Provisions for impairment losses | (839) | | (745) | |
| Fair value adjustment for hedged risk | (3,069) | | (652) | |
| Total net exposure | 624,180 | | 607,025 | |

The Society has a diverse exposure to loans secured on residential property across the United Kingdom.

The table below outlines the geographical spread of exposures at the reporting date.

| Geographical Analysis | 2022 | | 2021 | |
|---|---|---|---|---|
| | £000 | % | £000 | % |
| North | 20,139 | 3.21 | 17,516 | 2.88 |
| Yorkshire & Humberside | 41,438 | 6.61 | 40,057 | 6.59 |
| North West | 78,385 | 12.50 | 76,020 | 12.51 |
| East Midlands | 35,225 | 5.62 | 33,029 | 5.44 |
| West Midlands | 43,636 | 6.96 | 41,100 | 6.76 |
| East Anglia | 19,180 | 3.06 | 19,553 | 3.22 |
| South West | 67,703 | 10.80 | 62,575 | 10.30 |
| South East | 153,125 | 24.42 | 153,488 | 25.26 |
| Greater London | 111,324 | 17.75 | 113,094 | 18.61 |
| Wales | 27,264 | 4.35 | 25,013 | 4.12 |
| Guernsey | 29,702 | 4.74 | 26,149 | 4.30 |
| | 627,121 | 100.00 | 607,594 | 100.00 |

The table below outlines the indexed loan to value of exposures.

| Indexed Loan to Value Analysis | 2022 | | 2021 | |
|---|---|---|---|---|
| | £000 | % | £000 | % |
| <=50% | 429,458 | 68.48 | 370,054 | 60.90 |
| >50% <=70% | 166,673 | 26.58 | 143,713 | 23.65 |
| >70% <=80% | 29,038 | 4.63 | 86,001 | 14.15 |
| >80% <=90% | 1,566 | 0.25 | 7,464 | 1.23 |
| >90% <=100% | - | - | - | - |
| >100% | 386 | 0.06 | 362 | 0.06 |
| | 627,121 | 100.00 | 607,594 | 100.00 |

In respect of residential property collateral values are adjusted quarterly according to the Halifax Regional Historic House Price Index (non-seasonally adjusted) administered by IHS Markit to derive the indexed valuation at the reporting date. At the reporting date the average indexed loan to value of residential property was 30.4% (2021: 33.3%).

The table below provides by payment due status:

| Indexed Loan to Value Analysis by Past Due/Impairment Status | 2022 | | 2021 | |
|---|---|---|---|---|
| | £000 | % | £000 | % |
| Neither past due nor individually impaired | 623,441 | 99.41 | 604,319 | 99.46 |
| Past due but not impaired | 3,680 | 0.59 | 3,275 | 0.54 |
| <=70% | 3,294 | 0.53 | 2,614 | 0.43 |
| >70% | 386 | 0.06 | 661 | 0.11 |
| In possession | - | - | - | - |
| Impaired | - | - | - | - |
| <=70% | - | - | - | - |
| >70% | - | - | - | - |
| In possession | - | - | - | - |
| | 627,121 | 100.00 | 607,594 | 100.00 |

*Mortgages secured on Commercial Property*

The Society no longer provides new loans secured on commercial property. An analysis of the type of loans secured by commercial property is outlined below:

| Lending Analysis | 2022 | | 2021 | |
|---|---|---|---|---|
| | £000 | % | £000 | % |
| **Commercial** | | | | |
| Owner Occupied | 135 | 29.67 | 479 | 59.95 |
| Investment | 320 | 70.33 | 320 | 40.05 |
| | 455 | 100.00 | 799 | 100.00 |
| Impairment adjustment | (4) | | (8) | |
| Total net exposure | 451 | | 791 | |

The table below outlines the geographical spread of exposures at the reporting date:

| Geographical Analysis | 2022 | | 2021 | |
|---|---|---|---|---|
| | £000 | % | £000 | % |
| Yorkshire & Humberside | 320 | 70.33 | 320 | 40.05 |
| North West | 135 | 29.67 | 479 | 59.95 |
| | 455 | 100.00 | 799 | 100.00 |

The table below outlines the loan to value of exposures.

| Loan to Value Analysis | 2022 | | 2021 | |
|---|---|---|---|---|
| | £000 | % | £000 | % |
| <=50% | 135 | 29.67 | 145 | 18.15 |
| >50% <=70% | - | - | 334 | 41.80 |
| >70% <=80% | - | - | - | - |
| >80% <=90% | 320 | 70.33 | 320 | 40.05 |
| >90% <=100% | - | - | - | - |
| >100% | - | - | - | - |
| | 455 | 100.00 | 799 | 100.00 |

In respect of commercial property, the loan to value reflects the latest valuation on file. The table below provides by payment due status:

| Loan to Value Analysis by Past due/Impairment Status | 2022 | | 2021 | |
|---|---|---|---|---|
| | £000 | % | £000 | % |
| Neither past due nor individually impaired | 455 | 100.00 | 799 | 100.00 |
| Past due but not impaired | - | - | - | - |
| <=70% | - | - | - | - |
| >70% | - | - | - | - |
| In possession | - | - | - | - |
| Impaired | - | - | - | - |
| <=70% | - | - | - | - |
| >70% | - | - | - | - |
| In possession | - | - | - | - |
| | 455 | 100.00 | 799 | 100.00 |

*Credit quality analysis of loans and advances to customers*

The tables below set out information about the credit quality of financial assets and the allowance for impairment/loss held by the Society against those assets:

| | 2022 | | | | 2021 | | | |
|---|---|---|---|---|---|---|---|---|
| | Loans fully secured on residential property | | Loans fully secured on land | | Loans fully secured on residential property | | Loans fully secured on land | |
| | £000 | % | £000 | % | £000 | % | £000 | % |
| Neither past due nor impaired | 623,441 | 99.41 | 455 | 100.00 | 604,319 | 99.46 | 799 | 100.00 |
| Past due but not impaired | 3,680 | 0.59 | - | - | 2,716 | 0.45 | - | - |
| Past due less than 2 months but not impaired | 1,676 | 0.27 | - | - | 1,911 | 0.31 | - | - |
| Past due =>2 but <3 months | 782 | 0.12 | - | - | 466 | 0.08 | - | - |
| Past due =>3 but <6 months | 450 | 0.07 | - | - | 231 | 0.04 | - | - |
| Past due =>6 but <12 months | 181 | 0.03 | - | - | 108 | 0.02 | - | - |
| Past due over 12 months | 591 | 0.10 | - | - | - | - | - | - |
| Possessions | - | - | - | - | - | - | - | - |
| Impaired | - | - | - | - | 559 | 0.09 | - | - |
| Not past due | - | - | - | - | - | - | - | - |
| Past due less than 2 months | - | - | - | - | - | - | - | - |
| Past due =>2 but <3 months | - | - | - | - | - | - | - | - |
| Past due =>3 but <6 months | - | - | - | - | - | - | - | - |
| Past due =>6 but <12 months | - | - | - | - | 559 | 0.09 | - | - |
| Past due over 12 months | - | - | - | - | - | - | - | - |
| Possessions | - | - | - | - | - | - | - | - |
| | 627,121 | 100.00 | 455 | 100.00 | 607,594 | 100.00 | 799 | 100.00 |
| Allowance for impairment | | | | | | | | |
| Individual | 276 | | - | | 338 | | - | |
| Collective | 563 | | 4 | | 407 | | 8 | |
| Total allowance for impairment | 839 | | 4 | | 745 | | 8 | |

| | Loans fully secured on residential property | | Loans fully secured on land | Loans fully secured on residential property | | Loans fully secured on land |
|---|---|---|---|---|---|---|
| **Value of Collateral held** | Indexed | Unindexed | Unindexed | Indexed | Unindexed | Unindexed |
| Neither past due nor impaired | 2,054,436 | 1,674,760 | 945 | 1,819,481 | 1,573,648 | 1,531 |
| Past due but not impaired | 11,477 | 7,628 | - | 7,156 | 5,842 | - |
| Impaired | - | - | - | - | - | - |
| | 2,065,913 | 1,682,388 | 945 | 1,826,637 | 1,579,490 | 1,531 |

Individual assessments are made of all mortgage loans where objective evidence indicates that losses are likely (for example when loans are past due) or the property is in possession, or where fraud or negligence has been identified. Further information is given in accounting policy 1.7 to the accounts.

The collateral consists of residential or commercial property. In respect of residential property collateral values are adjusted quarterly according to the Halifax Regional Historic House Price Index (non-seasonally adjusted) administered by IHS Markit to derive the indexed valuation at the reporting date. Commercial property reflects the latest valuation on file.

Where the Society holds collateral in excess of the mortgage debt this cannot be used to offset those instances where the outstanding loan exceeds the collateral held. In respect of mortgages secured on residential property, loans past due but not impaired and loans impaired respectively, the amount of collateral, this being the lower of the outstanding balance of the loan or the property, was £3.294m (2021: £2.913m) and £0.591m (2021: nil). In respect of mortgages secured on commercial property, loans past due but not impaired and loans impaired respectively, the amount of collateral, this being the lower of the outstanding balance of the loan or the property, was £nil (2021: £nil) and £nil (2021: nil).

Mortgage indemnity insurance acts as additional security. It is taken out for all loans in excess of 80% Loan to Value at inception of the mortgage.

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

*Forbearance*

A range of forbearance options are available to support customers who are in financial difficulty. The purpose of forbearance is to support customers who have temporary financial difficulties and help them get back on track. The main options offered by the Society include:

- A reduced monthly payment;
- An arrangement to clear outstanding arrears;
- Extension of the mortgage term; and
- Capitalisation of arrears.

Further information is given in accounting policy 1.7 to the accounts.

The table below details the number of forbearance cases within the 'not impaired' category.

| | 2022 | | | | 2021 | | | |
|---|---|---|---|---|---|---|---|---|
| | Loans fully secured on residential property | | Loans fully secured on land | | Loans fully secured on residential property | | Loans fully secured on land | |
| | £000 | No | £000 | No | £000 | No | £000 | No |
| **Forbearance type** | | | | | | | | |
| Reduced monthly payment | - | - | - | - | 182 | 1 | - | - |
| Arrangement to clear outstanding arrears | - | - | - | - | - | - | - | - |
| Extension of the mortgage term | 283 | 2 | - | - | - | - | - | - |
| Capitalisation of arrears | - | - | - | - | - | - | - | - |
| Of which: | - | - | - | - | - | - | - | - |
| Amount of individual impairment provisions | - | - | - | - | - | - | - | - |

## 27 Liquidity Risk

'Liquidity risk' is the risk that the Society, though solvent, either does not have sufficient financial resources available to enable it to meet its obligations when they fall due, or can secure them only at excessive cost.

This is an inherent risk of the Society business model of funding long term mortgages funded by short term retail savings balances. Mortgages are normally on a range of terms between 5 and 35 years but customer behaviour often results in mortgages being repaid in a much shorter period, either on product maturity or sale of the property. Retail savings are either on demand or not available on terms between 1 months and up to 5 years but in practice remain with the Society for periods well in excess of their contractual notice.

The Society manages this risk through continuous forecasting of cashflow requirements and assessment of funding risk. The required amount, quality and type of liquid assets required to ensure obligations can be met at all times is maintained in accordance with the Board Risk Appetite. Periodic stress testing is performed to ensure obligations can be met in both normal and stressed circumstances. Compliance with Risk Appetite is monitored by the Board Risk Committee.

*Maturity analysis for financial assets and liabilities*

The tables below set out the remaining contractual maturities of the Society's financial liabilities and financial assets. In practice as referred to above, contractual maturities are not always reflected in actual experience. Accordingly, the actual repayment profile is likely to be significantly different from that shown in the analysis:

| At 31 December 2022 | On demand | Not more than three months | More than three months but not more than one year | More than one year but not more than five years | More than five years | Total |
|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| **Financial assets** | | | | | | |
| Cash in hand | 386 | - | - | - | - | 386 |
| Loans and advances to credit institutions | 100,498 | - | - | - | - | 100,498 |
| Derivative financial instruments | - | 590 | 1,988 | 3,380 | - | 5,958 |
| Loans and advances to customers | 967 | 2,932 | 10,263 | 99,501 | 510,968 | 624,631 |
| Total financial assets | 101,851 | 3,522 | 12,251 | 102,881 | 510,968 | 731,473 |
| **Financial liabilities** | | | | | | |
| Shares | 238,384 | 200,873 | 96,328 | 54,508 | - | 590,093 |
| Amounts owed to credit institutions | - | 1,007 | 5,020 | 70,498 | - | 76,525 |
| Amounts owed to other customers | 1,701 | 2,729 | 3,412 | - | - | 7,842 |
| Derivative financial instruments | - | 82 | - | - | - | 82 |
| Total financial liabilities | 240,085 | 204,691 | 104,760 | 125,006 | - | 674,542 |
| Net liquidity gap | (138,234) | (201,169) | (92,509) | (22,125) | 510,968 | 56,931 |

| At 31 December 2021 | On demand | Not more than three months | More than three months but not more than one year | More than one year but not more than five years | More than five years | Total |
|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Financial assets | | | | | | |
| Cash in hand | 324 | - | - | - | - | 324 |
| Loans and advances to credit institutions | 85,810 | - | - | - | - | 85,810 |
| Derivative financial instruments | - | (3) | 279 | 549 | - | 825 |
| Loans and advances to customers | 828 | 3,756 | 10,943 | 95,149 | 497,140 | 607,816 |
| Total financial assets | 86,962 | 3,753 | 11,222 | 95,698 | 497,140 | 694,775 |
| Financial liabilities | | | | | | |
| Shares | 221,414 | 190,017 | 96,322 | 56,443 | - | 564,196 |
| Amounts owed to credit institutions | - | 2,005 | 1,000 | - | 70,022 | 73,027 |
| Amounts owed to other customers | 1,572 | 2,841 | 4,456 | 2,405 | - | 11,274 |
| Derivative financial instruments | - | 6 | 55 | 26 | - | 87 |
| Total financial liabilities | 222,986 | 194,869 | 101,833 | 58,874 | 70,022 | 648,584 |
| Net liquidity gap | (136,024) | (191,116) | (90,611) | 36,824 | 427,118 | 46,191 |

## 28 Market Risk

'Market risk' is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices.

The principal element of Market risk to which the Society is exposed is Interest Rate Risk as a retailer of financial instruments, mainly in the form of mortgage and savings products and the investment of both liquid assets and wholesale borrowing. This risk can arise as a result of actual or market anticipation of changes in general interest rates, changes in the relationship between short and long term interest rates and divergence of rates on different bases across assets and liabilities (basis risk).

The Board has set agreed risk appetite for exposure to each element of Interest Rate Risk. The Society ensures compliance with risk appetite through monitoring interest rate risk exposure by the Management Assets and Liabilities Committee across Economic Value, Earnings and Basis Risk. In addition to this a range of variations in different interest rate bases outside the control of the Society are stressed, including SONIA and Bank Rate Exposures. Balance sheet composition is also monitored to determine the extent to which the Society maintains control over the level of interest rates across the balance sheet through administered rate mortgages and savings balances.

The following is an analysis of the Society's sensitivity to an increase or decrease in market rates assuming no non-parallel movement in yield curves, deviation from base behavioural prepayment assumptions and a constant financial position:

| | +200bps Parallel Increase | |
|---|---|---|
| | 2022 | 2021 |
| | £000 | £000 |
| Sensitivity of reported reserves to interest rate movement (economic value) | | |
| At 31 December | 1,073 | (488) |
| Average for the period | 509 | (329) |
| Maximum for the period | 1,394 | 135 |
| Minimum for the period | (827) | (636) |

| | +100bps Increase | |
|---|---|---|
| | 2022 | 2021 |
| | £000 | £000 |
| Sensitivity of projected net interest income to interest rate movement (earnings) | | |
| At 31 December | 573 | 256 |
| Average for the period | 472 | 364 |
| Maximum for the period | 667 | 627 |
| Minimum for the period | 188 | 206 |

The Society only deals with products denominated in sterling so is not directly affected by currency risk. Society products are also only interest orientated products so are not exposed to other pricing risks.

## Derivatives held for risk management

The Society uses derivatives to assist management of interest rate risk.

*Fair value hedges of interest rate risk*

The Society uses interest rate swaps to hedge its exposure to changes in fair values of its exposure to market interest rates on fixed rate funding and loans and advances, further detail being provided in Note 1.7.

The fair values of derivatives designated as fair value hedges are as follows:

| | 2022 | | 2021 | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| | £000 | £000 | £000 | £000 |
| **Instrument type** | | | | |
| Interest rate swap | 4,345 | - | 659 | 3 |
| | 4,345 | - | 659 | 3 |

The Society does not have any financial assets or liabilities that are offset, with the net amount presented in the Statement of Financial Position, as FRS 102.11.38A requires both an enforceable right to set off and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously. Neither of these conditions are met by the Society, therefore all financial assets and liabilities are presented on a gross basis in the Statement of Financial Position.

The Society has entered into Credit Support Annexes (CSAs) for its derivative instruments, which typically provide for the exchange of collateral to mitigate mark-to-market credit exposure. The CSAs are subject to a minimum transfer threshold. Collateral is only posted once the threshold is reached, at which point the whole amount is posted.

The fair value of derivatives designated as fair value hedges is set out in Note 12 above.

## Capital

The objective of the Board is to maintain a strong capital base to provide protection for members and depositors. The Society 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 capital requirements of the Society are planned as part of the Internal Capital Adequacy Assessment Process (ICAAP). As part of the ICAAP process the Board establishes an internal minimum threshold for capital sufficient to support present and future capital requirements, withstand a severe but plausible stress and ensure the minimum regulatory requirement (Individual Capital Guidance) is always met. Compliance with capital requirements is monitored quarterly. The Society complied with and maintained surplus capital requirements above the regulatory minimums during the reporting period.

## 29 Commitments

### Capital commitments

Contractual commitments to purchase tangible fixed assets at the year-end were £nil (2021: £nil).

The contractual commitments for the acquisition of intangible assets at the year-end were £nil (2021: £nil).

## 30 Country by country reporting

Article 89 of the Capital Requirements Directive IV requires credit institutions and investments firms in the EU to disclose annually, specifying by Member State and third country in which it has an establishment, the following information on a consolidated basis for the year: name, nature of activities, geographical location, turnover, number of employees, profit before tax, corporation tax paid and public subsidies received.

The annual reporting requirements as at 31 December 2022 are as detailed below:

| | |
|---|---|
| Name | Marsden Building Society |
| Nature of activities | Member owned deposit taker, mortgage lender and provider of related products and services |
| Geographical location | The Society is incorporated, registered and operates mainly in the United Kingdom. During 2018 the Society commenced lending to borrowers in Guernsey via a Branch Operating Structure, but this business is not yet material. |
| Turnover | £15.713m |
| Number of employees | 107 of which 70 full time and 37 part time per Note 6 |
| Profit before tax | £6.689m |
| Tax on profit | £1.189m per Cash flow Statement |
| Public subsidies received | None |

## 31 Related Parties

### Identity of related parties

The Society considers its key management personnel to be its Directors.

Key management personnel compensation is as detailed within the Directors Remuneration Report.

At 31 December 2022 the Society had mortgage loans to Directors and close family members of £286,531 across 2 accounts (2021: 346,408 across 2 accounts) on terms on offer to members.

At 31 December 2022 the Society had savings balances from Directors and close family members of £65,224 (2021: £57,716) on terms on offer to members.

At 31 December 2022 the Society had paid £25,910 in relation to motor vehicle lease contracts with Global Autocare Holding Limited of which J L Walker is a Director. The lease contracts are on a daily rental and can be cancelled without notice.

## 32 Leases

The future minimum leases under non-cancellable operating leases for land and buildings for each of the following periods are:

| | 2022 | 2021 |
|---|---|---|
| | £000 | £000 |
| Less than 1 year | 86 | 83 |
| 1 to 5 years | 132 | 210 |
| After 5 years | - | - |
| Total | 218 | 293 |

# Annual Business Statement

for the year ended 31 December 2022

## 1. Statutory percentages

| | 2022 % | Statutory limit % |
|---|---|---|
| **Lending Limit** | | |
| Proportion of business assets not in the form of loans secured on residential property | 1.20 | 25 |
| **Funding Limit** | | |
| Proportion of shares and borrowings not in the form of shares held by individuals | 12.54 | 50 |

The percentages are calculated in accordance with, and the statutory limits are those prescribed by, Section 6 and 7 of the Building Societies Act 1986 and are based on the Society's statement of financial position.

Business assets are the total assets of the Society as shown in the statement of financial position plus provisions for impairment losses on loans and receivables, less liquid assets, tangible assets and intangible assets as shown in the statement of financial position.

Loans fully secured on residential property are the principal amount owing by borrowers and interest accrued not yet payable.

Total shares and borrowings are the aggregate of shares, amounts owed to credit institutions and amounts owed to other customers in the statement of financial position.

## 2. Other percentages

| | 2022 % | 2021 % |
|---|---|---|
| **As a percentage of shares and borrowings** | | |
| Gross capital | 7.54 | 6.98 |
| Free capital | 7.45 | 6.86 |
| Liquid assets | 14.96 | 13.27 |
| **As a percentage of mean total assets** | | |
| Profit after taxation | 0.75 | 0.46 |
| Management expenses | 1.26 | 1.25 |

The above figures have been calculated from the Society Income Statement and Statement of Financial Position.

Total shares and borrowings are the aggregate of shares, amounts owed to credit institutions and amounts owed to other customers in the statement of financial position.

Gross Capital is the aggregate of General Reserves and Available for Sale Reserves in the statement of financial position.

Free Capital is gross capital plus collective impairment for losses on loans and advances less tangible and intangible assets in the statement of financial position

Mean total assets are calculated by halving the aggregate of total assets at the beginning and the end of the financial year.

Liquid assets are the aggregate of Cash in Hand, Loans and Advances to Credit Institutions and Debt Securities in the statement of financial position.

Management expenses are the aggregate of administrative expenses and depreciation taken from the Income Statement.

Management expenses net of other income are management expenses less fees and commissions receivable, fees and commissions payable and other income in the Income Statement.

## 3. Information relating to the Directors as at 31 December 2022

| Name and Occupation | Date of Birth | Date of Appointment | Other Directorships |
|---|---|---|---|
| J L Walker ACIB<br>Director & Chairman | 26 April 1958 | 1 March 2018 | River Capital Management Limited (Formerly Alliance Fund Managers Limited)<br>Alliance Fund Managers Nominees Limited<br>AFM Business Growth Limited<br>AFM R101 Ventures Limited<br>AFM Small Firms Fund Limited<br>AFM Merseyside Ventures (Limited)<br>AFM Seed Fund Limited<br>BCE Fund Managers (Merseyside) Limited<br>Spark TMT (Carried Interest) LLP<br>AFM Merseyside Mezzanine Limited<br>Global Autocare Holding Limited<br>Worldwide Recruitment Solutions<br>River Capital NWEF GP Limited |
| M R Gray BA (Hons)<br>Director | 31 July 1962 | 1 June 2018 | Sopra Steria Financial Services Limited |
| M L Ibbs BA (Hons)<br>Director | 12 July 1963 | 1 April 2014 | Connexus Housing Ltd<br>Connexus Enterprise Ltd<br>Rise Partnership Developments Ltd<br>Floreat Living Ltd<br>Herefordshire Capital PLC |
| C McDonald BSc (Hons)<br>Director | 6 November 1962 | 1 June 2018 | - |
| R M Pheasey BSc (Hons)<br>Building Society Chief Executive and Director | 12 June 1967 | 22 December 2008 | Pendle Education Trust<br>Building Societies Association |
| C A Ritchie BA (Hons) ACA CTA<br>Director | 11 January 1959 | 1 April 2014 | Ritchie Consulting (UK) Limited |
| M Sullivan<br>Director | 5 June 1966 | 11 October 2021 | Quilter Holdings Limited<br>Quilter UK Holding Limited<br>Quilter Business Services Limited<br>Gov Facility Services Limited<br>Railpen Limited<br>Railway Pension Investments Limited |
| N Walker BA (Hons) ACIB<br>Building Society Finance Director | 29 November 1970 | 22 December 2008 | Northern Star Academies Trust |

Documents may be served on the above-named Directors, either individually or collectively, marked 'Private and Confidential' c/o Deloitte LLP, Saltire Court, 20 Castle Terrace, Edinburgh EH1 2DB.

There are currently no formal service contracts in existence for Executive Directors at the Society. The employment of Executive Directors can be terminated by either party giving one year's notice with compensation for loss of office being twelve months remuneration. At the balance sheet date, no formal service contracts existed for Non-Executive Directors. Each of the Non-Executive Directors were appointed under the Rules for a three-year term commencing from the Annual General Meeting at which they were first elected or re-elected unless terminated earlier at the request of the Board, in accordance with the Rules or at the request of the individual concerned.

## Get in touch

**In branch**

For details of our branch locations and opening hours, visit our website

**Online**

Visit us at www.themarsden.co.uk

**By phone**

Call us on 01282 440500*

**By post**

Write to us at Principal Office, 6-20 Russell Street, Nelson, Lancashire BB9 7NJ



*Calls will be recorded and may be monitored. FP194208