2023

Annual Report & Accounts

marsden
BUILDING SOCIETY

Contents

Key Financial Highlights

Key Performance Highlights

- Share balances increased by £33.3m (5.64%) to £623.3m with 1,908 new members joining the Society.
- Loans to residential customers increased by £15.8m (2.52%) to £642.9m.
- Gross residential mortgage advances of £139.5m with 972 new members joining the Society.
- Total assets increased by £14.8m (2.01%) to £748.6m.
- Net Interest Margin increased by 0.06% to 1.86%.
- Admin expenses as a proportion of mean assets increased by 0.11% to 1.37%, 60% of the increase attributable to IT setup costs.
- Profit after tax decreased to £2.3m and profit to mean assets decreased by 0.44% to 0.31% as prior year fair value gains switched to a charge of £0.4m in 2023.
- Underlying profit after tax decreased to £2.7m and underlying profit to mean assets down 0.10% to 0.36%.
- Core Tier 1 Solvency Ratio of 21.12%, up 0.29%.
- Leverage Ratio of 8.17%, an increase of 0.20%.

5 Year Financial Highlights

Year ended 31 December	2023	2022	2021	2020	2019
Net Interest Income (£000)	**13,786**	12,904	11,864	9,660	9,004
Net Interest Margin (%)	**1.86%**	1.80%	1.78%	1.59%	1.65%
Administrative Expenses (£000)	**10,172**	8,983	8,354	7,583	7,375
Administrative Expenses to Mean Assets (%)	**1.37%**	1.26%	1.25%	1.35%	1.31%
Profit After Tax (£000)	**2,283**	5,395	3,081	1,883	1,843
Profit to Mean Assets	**0.31%**	0.75%	0.46%	0.31%	0.34%
Underlying Profit After Tax (£000) Excluding FVTPL	**2,664**	3,306	2,974	1,920	1,842
Underlying Profit to Mean Assets (%) Excluding FTVPL	**0.36%**	0.46%	0.45%	0.32%	0.34%
As at 31 December					
Share Balances (£m)	**623.3**	590.1	564.2	535.8	498.1
Share Balance Growth (%)	**5.64%**	4.59%	5.30%	7.57%	15.04%
Loans to Customers (£m)	**642.9**	627.1	607.8	545.7	471.8
Loan Book Growth (%)	**2.92%**	2.77%	11.21%	15.56%	12.84%
Total Assets (£m)	**748.6**	733.8	697.1	638.6	575.2
Total Asset Growth (%)	**2.01%**	5.27%	9.17%	11.01%	11.86%
Reserves (£m)	**53.1**	50.8	45.3	42.2	40.5
Reserves Growth (%)	**4.50%**	12.17%	7.29%	4.37%	4.67%
Liquidity (£m)	**100.8**	100.9	86.1	89.5	99.4
Wholesale Funding (£m)	**61.3**	78.9	79.4	54.0	24.5
Loan to Deposit Ratio (incl. Reserves) (%)	**106.10%**	103.48%	101.08%	106.51%	115.11%
Core Tier 1 Solvency (%)	**21.12%**	20.83%	19.19%	19.70%	21.66%
Leverage Ratio	**8.17[1]%**	7.97[1]%	6.57%	6.98%	7.46%

[1] After exclusion of qualifying Central Bank Exposures

Chairman's Statement

I am delighted to introduce the Annual Report & Accounts for the year ended 31 December 2023.

The Society made good progress during the year, increasing gross lending and retail inflows against a backdrop of financial and political uncertainty, high interest rates and inflationary pressures leading to cost-of-living challenges. More details of our financial performance are provided in the Directors' Report.

The Board and management team have maintained a focus on members and colleagues. In a year characterised by uncertainty; we have worked hard to support those who matter most.

Our lending performance during the year was set in the context of a housing market affected by higher borrowing costs, falling house prices and a slow-down in the number of housing transactions. Despite these challenges, we delivered an increase in gross lending of £139.5m resulting in growth of the Society's mortgage book.

Our existing borrowers faced many of the same challenges new borrowers faced, with higher mortgage refinancing costs alongside other pressures on household finances. Our success in retaining borrowers helped to support our mortgage growth. I can also report that we continued to see a low level of borrowers experiencing repayment difficulties, the position broadly unchanged from last year.

We responded to market conditions, increasing our rates for savers whilst balancing the impact that rising rates meant for our borrowers. Whilst our branches continued to generate most of the required funding, we did see a return to the online savings market. This was part of our strategy to commence the repayment of borrowings drawn under the Bank of England's Term Funding Scheme (TFSME), which in year supported the early prepayment of £9.5m, with the balance to be repaid in full by October 2025.

2023 was a significant year for changes made to our Board.

We said goodbye to Michele Ibbs and Carol Ritchie. Both served the Society well in their nine years, helping to shape the strategy that has proven to be so successful. They leave for new challenges with our thanks for a job well done.

We welcomed two new Non-Executive Directors, Georgina Smith and Nicola Webber. As members, you will have an opportunity to read their biographies in the Annual Report and to meet them at this year's AGM. I know they will both make important contributions to the future success of the Society.

I would also like to congratulate Heather Crinion, who was appointed as Operations Director. Heather has worked for the Society for over two decades. It is particularly pleasing that we have the talent in the Society to support such an appointment.

I want to close with my endorsement of the plans outlined by our Chief Executive, Rob Pheasey, below, for our future. My role as Chairman is to lead the Board and support Rob and the Society's colleagues in delivering plans we have set for the future. In looking forward, I am mindful of the challenges we have overcome and those still to be faced. We have assessed the opportunities, and indeed the uncertainties, we face in supporting you, our members, and in delivering our vision for a financially strong and growing Society, supporting communities and members.

I want to extend my thanks to colleagues across the Society for their hard work and dedication and to thank you, our members, for your support and loyalty.

J L Walker
Chairman
6 March 2024

Chief Executive's Review

Looking back, 2023 proved to be a year where we once again supported our members with the rising cost of living. In the wider economy, we saw interest rates continuing to rise, although with signs that following a period of stability, we may now see rates starting to fall. Similarly, whilst inflationary pressures have eased, household finances remain stretched, and we have seen a decline in house prices over the year. It proved to be a good year for our savers, rising interest rates meaning better returns on their hard-earned savings.

It is in this context that I detail the Society's performance. At times of uncertainty, our members want value and support, but they also need to be confident that the Society's financial strength keeps their money safe.

A Strong and Balanced Performance

In 2023 we delivered a strong and balanced performance.

We once again increased our savings balances to £623.3m (2022: £590.1m), attracting 1,908 new savers to the Society. Our ability to compete, attract and retain savings balances remains a hugely important part of our business model. Our product positioning and pricing required careful management as members looked for opportunities to make their savings work harder. This led to an increase in branch engagement, our members valuing the access we continue to provide and one which underlines our commitment to investing in these services. We also made changes to support increased activity through online savings, a key part of our strategy to reach more customers in the region as we grow our savings base in the North West and beyond. Managing the special relationship between our saving and borrowing members is fundamental to our purpose, one that will underpin the pricing decisions we will make in the year ahead.

The competition for funding is the key challenge in the coming year as we look to grow our mortgage lending and continue to repay drawings we made under the Bank of England's TFSME scheme.

Our purpose drives our mortgage lending too, in supporting home and property ownership. We have a responsibility to ensure our mortgage lending is profitable and supports the Society's future stability. Mortgage growth of 2.9% has seen our mortgage base increase to £642.9m (2022: £624.6m), and we welcomed over 972 new borrowers to the Society. At just 0.43% (2022: 0.20%), we continue to record very low levels of arrears, but do expect more borrowers will require our support in 2024 as the financial pressures on households continue into the year ahead.

We have set a cautious outlook for new mortgage lending in the coming year. In part, driven by the refinancing of TFSME, but also recognising that confidence in the housing market remains low with an affordability challenge brought on by the higher cost of living. We are also focused on existing borrowers reaching the end of their current mortgage arrangements and the likely payment shock in renewing their mortgage commitments. Our priority is to offer competitive mortgage products that provide value to our borrowers.

Our statutory profit after tax reduced in 2023 by £3.11m to £2.28m (2022: increased by £2.31m to £5.39m). This movement in statutory profit, across both current and prior year, highlights the volatility in fair value adjustments, which are a significant driver behind this movement, and which relate to derivatives designed to hedge financial risks associated with fixed rate lending and funding. Further information on these adjustments, and their impact on our statutory profit, is detailed in the Strategic Report.

Given this volatility, the Board regards the alternative performance measure of underlying profit from operating activities as a more meaningful measure of financial performance in the year when appraising the Society's profitability. Underlying profit after tax, excluding fair value adjustments in the Society's derivatives, was £2.66m in 2023, down £0.64m (2022: £3.30m, up £0.33m). Reserves increased to £53.1m (2022: £50.8m) and our Core Tier 1 Solvency ratio increased to 21.12% (2022: 20.83%).

The impact of our continued investment in the Society is also reflected in our operating profit, with significant investments in our people and technology, and our continued support for the Marsden Building Society Charitable Foundation. All of which are covered in more detail later in my review.

We expect to see profits in the coming years settle at a level commensurate with a Society of our size and scale. As a mutual organisation, we do not seek to maximise profits, however we do need to achieve a level of profitability that balances the return of value to members; supports continued investment in the Society and maintains our strong capital position that shows we provide a safe home for savers and borrowers alike.

Regulatory Focus

We have responded to the initiatives promoted by our regulators. The Financial Conduct Authority delivered a focus on Consumer Duty, Mortgage Charter and the Cash Savings Review; initiatives intended to deliver the right customer outcomes, reinforcing the high standards already delivered by the Society.

On the horizon, we await the changes to be implemented by the Prudential Regulation Authority in easing the regulatory burden placed on firms, whilst maintaining the highest standard of financial resilience and governance. We also welcome the private members' bill seeking changes to the Building Societies Act, which if implemented will support our ability to compete fairly with plc competitors.

Technology and Digital Transformation

The Society's strategic plans are underpinned by the investment in technology and digitalisation.

In 2023, the Board approved a significant investment to move to a 'one-house' solution with Sopra Banking Software. The project, which moves into implementation phase in Q1 2024, will upgrade our core banking platform and transition to a new managed hosting arrangement, to be followed by the deployment of new digital platforms from early 2025.

In the current year, we began the optimisation work with colleagues to review existing working practices and customer journeys, seeking to adopt more of what is standard in the new environment ahead of the transition.

Digitalisation will replace our current online capability, with a new suite of integrated components delivering consumer mortgage and savings self-service, the launch of our first mobile app and enhanced functionality and user experience for mortgage intermediaries placing business with the Society.

The investment supports the changing needs and requirements of our members, as well as driving the operational efficiencies that will support our teams in managing higher volumes of mortgage and savings business, which are so important for our future growth plans.

We are excited by the opportunities for improved member engagement, supporting the objective of increasing our membership throughout Lancashire and the North West region. Digital services will support those requiring convenience and ease of use, running alongside the personal service we will continue to deliver in branch and through our customer service teams.

Strong Engagement

I'd like to thank every member of the Marsden team for the way they have responded to the challenges in the year. They continue to show a high level of care and commitment, in looking after our members and in delivering a high standard of service. This is appreciated by members, reflected in the latest Net Promoter Score of 92.8 (Smart Money People) up from 89.7 in 2022.

We also achieved our highest level of colleague engagement yet, with 96% of our people completing the latest Best Companies survey, where we once again received a one-star accreditation for "very good" engagement levels.

We continue to ask a lot from our people, in supporting members managing the business and in supporting transformation. The outlook signposts more of the same, but I am confident that together we will continue to grow and as we do, develop new ways of working and broaden our skills and capabilities for the future. To do this well, our People Strategy seeks to attract and retain talent, balance the need for change alongside colleague support and wellbeing and ensure our reward frameworks are competitive and fair.

Supporting Our Communities

We will continue to maintain our commitment to retail branches on the high street for many years to come. We completed the refurbishment of the branch within the Society's Principal Office in Nelson, with further changes to be made at our offices in Colne and Lytham during 2024.

During 2023 we concluded on the retail franchise review which highlighted the opportunities to extend our reach to new customers within our existing branch catchments. This has resulted in the widening of distribution, now supporting online and postal accounts - improving access to the Society for those who want the convenience of dealing remotely, safe in the knowledge that the branch is there should they need it.

Alongside value in our products and excellent customer service, our members want their Society to support the communities in which they live and to set a clear direction on the path to sustainability.

We have once again increased the financial resources within the Marsden Building Society Charitable Foundation, with a further £160,000 profit contribution in year, taking the overall endowment fund, which includes our participation in the Alternative Reclaim Fund, to £900,000. The outlook for profitability in 2024 suggests that further pre-funding of the endowment fund will not be a high priority for the Board.

Our Charitable Foundation launched its first round of funding in 2023, marking the start of ongoing financial support for grassroots organisations in Lancashire. We were delighted with the response we received, selecting 11 organisations to benefit from the 2023 funding allocation of just over £30,000.

In the coming year, we will relaunch our Affinity Accounts for new savers, supporting existing partners the North West Air Ambulance and Pendleside Hospice, together with new partners Trinity Hospice and the Marsden Building Society Charitable Foundation. Members can select their preferred partner and each year, the Society will make a donation equivalent to 0.5% of the total average balances in the accounts.

Our Commitment to the Environment

We have worked hard over the last two years to understand the impact we have on the environment.

In 2022, we had a carbon footprint calculation performed by Chamber Low Carbon, a £6m EU-funded programme aimed to assist Lancashire businesses with improving energy and environmental efficiencies. Total CO_2 emissions were 155.36 tonnes; colleague commute accounting for 31.92%, electricity 30.68% and space heating 30.01%.

In setting our plans for net zero we have:

- Introduced an EV Salary Sacrifice Scheme to support colleagues wanting to lease electric vehicles.
- Ensured all company vehicles are entirely EV or Hybrid.
- Upgraded the windows at our Principal Office and improved the building's heating system efficiency.

In 2024 we plan to:

- Install Solar Panels to generate up to 50% of our current electricity.
- Implement 'Voltage Optimisation' to reduce electricity demand by a forecasted 6%.

These initiatives should make significant impacts on our emissions, with the full impact of these being seen in our 2024 report. Working with our partner, Sustainable X, in delivering our 'Plan to Net Zero', we aim to remove as much of our CO_2 emissions as we can, whilst ensuring no detriment to our service or our operations.

This is an investment, not only in the technology itself, but in our communities and our environment; operating more sustainably should be more efficient and, in the long run, more cost-effective. Further information is contained in our Annual Sustainability Report which provides more detail on our Environmental, Social and Governance progress and plans.

Looking to the Future

As a Board, we have set our ambition to grow the Society to a balance sheet of £1bn and to reach more members, within more households, from across the regions that we serve.

We will deliver on our plans to provide digital solutions to support our members, partners and colleagues. This will require continued investment in our people and technology and a change in mindset that encourages us to embrace change and to do things differently.

As members, you will see new ways of working, new products and services.

We know that uncertainties remain and that our members will favour an outlook where falling inflation continues to ease the cost-of-living pressures, and where interest rates are stable and provide a balance of cost for borrowers and reward for savers.

At home, we will likely see a General Election this year, and with it, the risk of disruption. Away from home, geopolitical tensions continue to drive humanitarian crises, resulting in wider risks to the global and UK economies.

We are aware of the high standards expected of us and will continue as a responsible, sustainable, and future-focused mutual building society in the delivery of our plans.

I would also like to reiterate John's comments on the recent Board changes, extending my thanks to Michele and Carol on their retirements and welcoming George, Nicki and Heather to the Board.

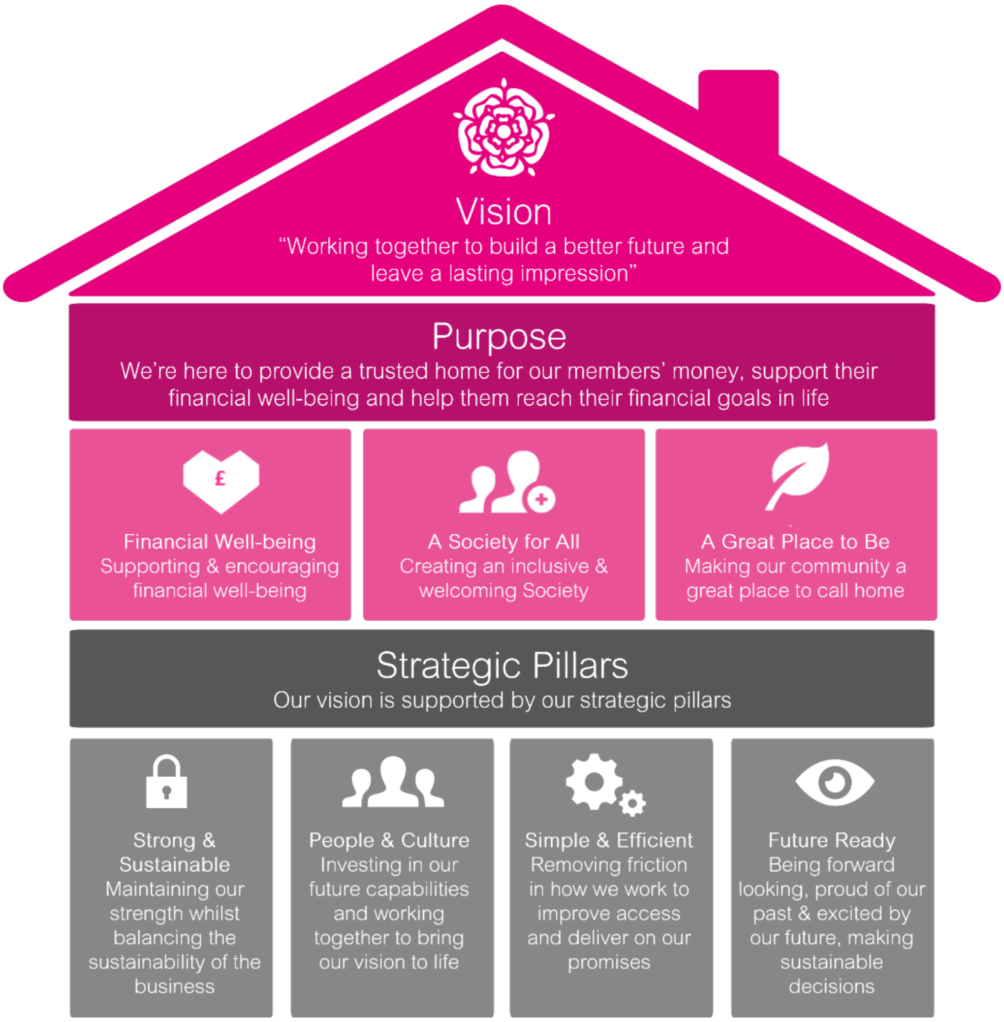
Finally, I would like to thank our members and partners for their support and my colleagues at the Marsden for their professionalism and commitment. I am confident that whatever 2024 brings, we will deliver for our members.

R M Pheasey
CEO
6 March 2024

Strategic Report

Marsden Building Society is Lancashire's largest building society with assets of £748.6m (2022: £733.8m). 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, mortgages, 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 8 provides an update on delivery of the strategy in terms of progress in year and plans for the future.

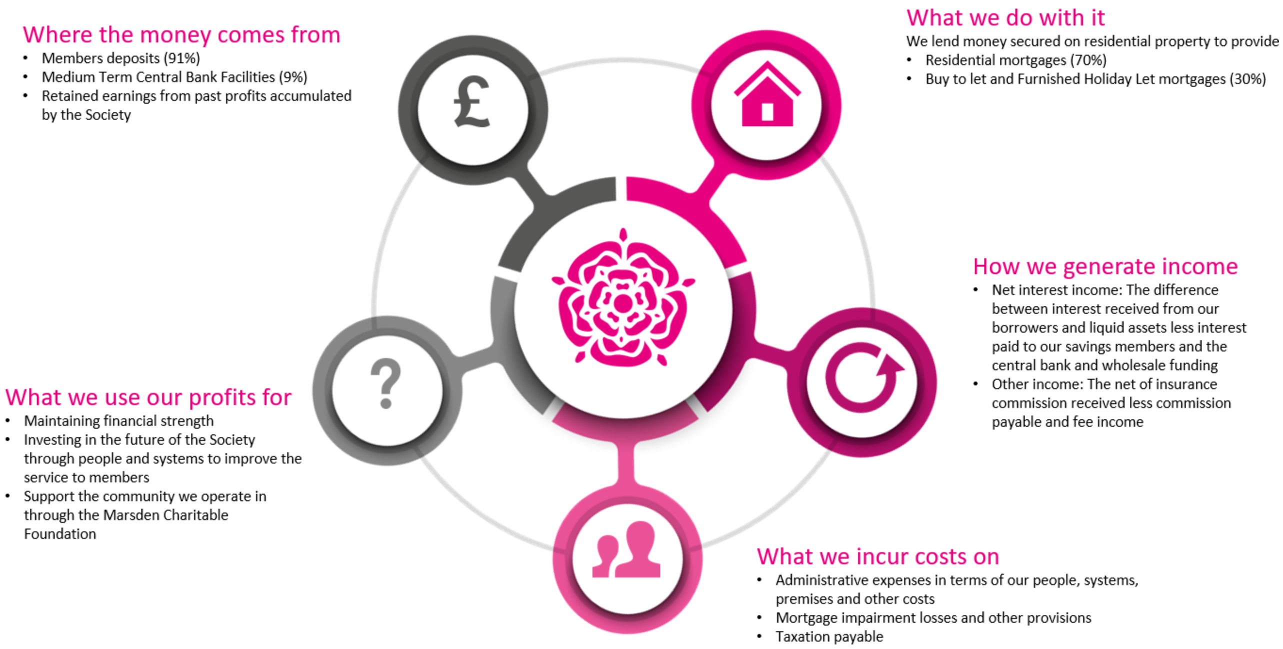
Business Model

As a mutual, we are 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:



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 2023, with comparison against 2022 results are reported below with explanatory comment.

Indicator	Description	2023	2022
Underlying Society Profit	Underlying profit after tax to mean assets ratio excluding fair value gains and losses, this being the primary profit KPI.	**0.36%**	0.46%
Statutory Society Profit	Statutory profit after tax to mean assets ratio, this being the secondary profit KPI.	**0.31%**	0.75%
Net Interest Margin	Net interest income to mean assets.	**1.86%**	1.80%
Management Expense Ratio	Administrative expenses and depreciation and amortisation to mean assets.	**1.37%**	1.26%
Mortgage Arrears	The proportion of residential mortgage assets which are past due by 3 months or more.	**0.43%**	0.20%
Total Assets	Movement in total assets.	**2.01%**	5.27%
Loan Book Growth	Movement in mortgage assets.	**2.92%**	2.77%
Retail Shares Balances	Movement in share balances from members.	**5.64%**	4.59%
Core Equity Tier 1 Solvency Ratio	Regulatory Capital expressed as a percentage of Risk Weighted Assets (RWAs).	**21.12%**	20.83%
Overall Liquidity Adequacy Ratio	Board defined Liquidity Resources to stressed 90 days' Liquidity Requirements.	**113%**	117%
Colleague Engagement	Best Companies measure of workplace engagement.	**Very Good**	Very Good

The Chief Executive's Review on pages 4 to 8 provides an overview of the Society's performance during 2023 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 steady trading year, comparable with the pre-Covid era, with statutory profit before tax down £3.741m (55.9%) to £2.948m.

Statutory Income Statement

Income Statement	**2023 £'000**	2022 £'000
Net Interest Receivable	**35,452**	20,804
Net Interest Payable	**(21,666)**	(7,900)
Net Interest Income	**13,786**	12,904
Other Income	**51**	230
Net (Losses) / Gains from Financial Instruments	**(498)**	2,579
Total Income	**13,339**	15,713
Management Expenses & Depreciation	**(10,172)**	(8,983)
Operating Profit	**3,167**	6,730
Impairment Losses	**(158)**	(90)
(Losses) / Gains on Disposal	**(61)**	49
Profit on Ordinary Activities	**2,948**	6,689
Tax	**(665)**	(1,294)
Profit After Tax	**2,283**	**5,395**

A significant driver of this reduction was the transition from a net gain (2022) to a net loss (2023) on financial instruments.

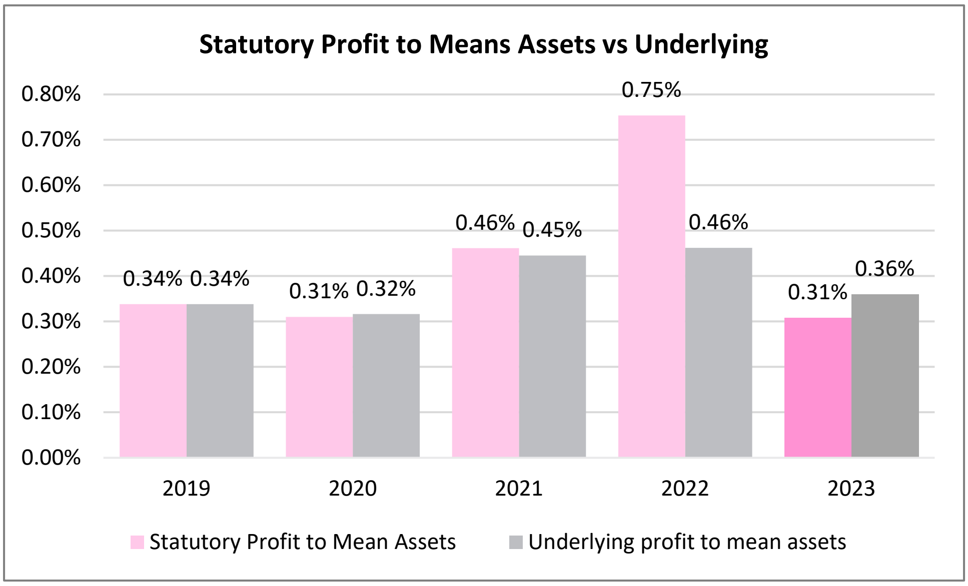
In terms of measuring financial performance, the Board takes the view that risk management considerations should drive management decisions in relation to use of derivatives to manage interest rate risk. Accordingly, the secondary risk of volatility in fair value of these instruments is less able to be managed therefore it should be isolated when considering trading performance. As a result, 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	2023 £'000	2022 £'000
Net Interest Receivable	**35,452**	20,804
Net Interest Payable	**(21,666)**	(7,900)
Net Interest Income	**13,786**	12,904
Other Income	**51**	230
Underlying Total Income	**13,837**	13,134
Management Expenses & Depreciation	**(10,172)**	(8,983)
Underlying Operating Profit	**3,665**	4,151
Impairment Losses	**(158)**	(90)
(Losses) / Gains on Disposal	**(61)**	49
Underlying Profit on Ordinary Activities	**3,446**	4,110
Tax	**(782)**	(804)
Underlying Profit After tax	**2,664**	**3,306**
Net (Losses) / Gains from Financial Instruments	**(498)**	2,579
Tax on Net Gains from Financial Instruments	**117**	(490)
Statutory Profit After Tax	**2,283**	5,395

Underlying performance reveals a decrease in underlying profit after tax of £0.642m (16.2%) to £2.664m.

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 reduced by 44bps to 0.31% (2022: +29bps to 0.75%). The underlying ratio decreased by 10bps to 0.36% (2022: +1bp to 0.46%).

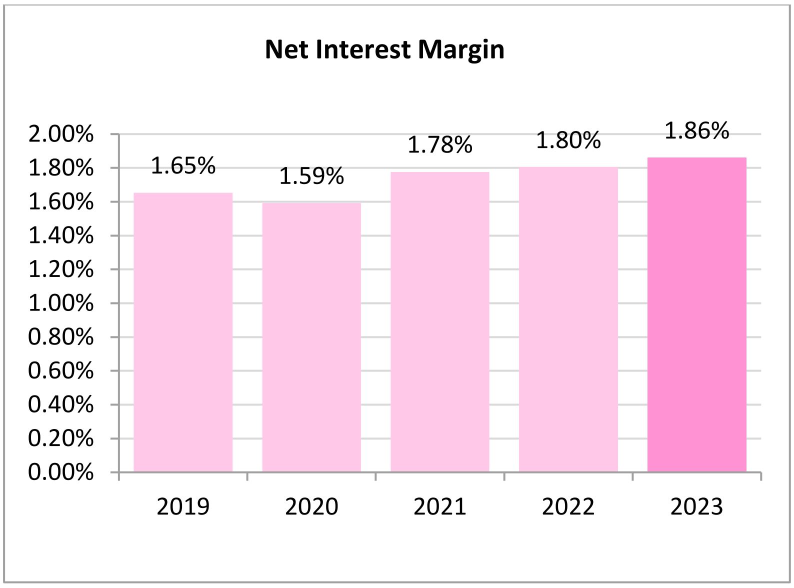


Looking forward, profitability is anticipated to moderate further as a result of a combination of increased operating costs, primarily as a result of transition to a new cloud-based IT platform during 2024 and 2025.

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 by 6bps to 1.86% (2022: +2bps to 1.80%). 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 2024, competition in the savings market is anticipated to increase as the Bank of England Term Funding Scheme with additional Incentives for SMEs (TFSME) comes to an end. Repayment is anticipated to place pressure on all funding channels including retail, corporate and secured funding markets. The outlook for interest rates also remains uncertain and the relationship of variable rate deposits to Bank Rate may change at the point Bank Rate begins to reduce.

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 2023 was £0.051m, down £0.179m (2022: £0.230m, down £0.037m) as a result of remaining income and costs in the form of booking and valuation fee income being brought into effective interest rate calculations as they were not fully offsetting.

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).

During the year there was a net loss of £0.498m (2022: gain of £2.579m) in the Income Statement from financial instruments at fair value through profit and loss. This value represents the net value of Gains on Derivatives not in/prior to hedge relationships and initial amortisation and ineffectiveness in designated hedge relationships.

In contrast to the significant market volatility in the autumn of 2022, interest expectations have been less volatile. As a result, the Society experienced a material decrease in net gains on financial instruments not in/prior to hedge relationships of £0.244m (2022: £2.598m).

	2023 **£m**	2022 £m
Designated hedge relationships: Initial amortisation and ineffectiveness	**(0.742)**	(0.019)
Gains on derivatives not in/prior to designated hedge relationships	**0.244**	2.598
	(0.498)	2.579

Despite the moderation in market volatility, the impact of the events of autumn 2022 continue to impact. 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. The charge to the Income Statement relating to designated hedge relationships included amortisation of previous hedged item offsets of £0.446m with the remaining £0.296m relating to ineffectiveness in the hedge portfolio.

In future years, there will continue to 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 as the hedge items, predominantly from activity in autumn 2022, continued to amortise. This will be in addition to pre-hedge relationship gains/losses and ineffectiveness in the hedge portfolio.

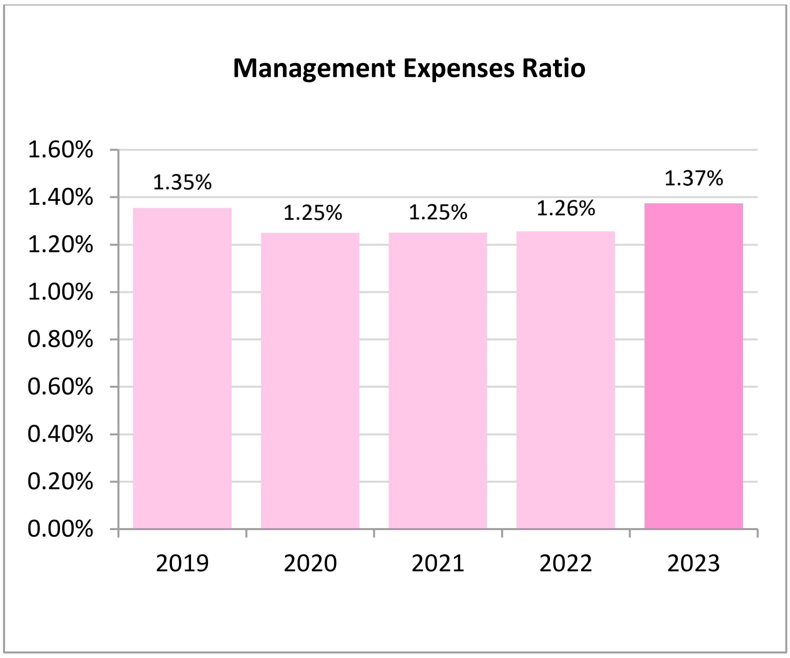
Management Expenses

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 2023, the absolute value of management expenses and depreciation increased by £1.189m to £10.172m (2022: +£0.629m to £8.983m). A significant driver of this increase, £0.648m or 60%, was the recognition of initial setup costs relating to the planned transition of the core IT platform to a cloud-based service, related legal advice on the contract and write down of the carrying value of intangible software assets where the licence was revoked on signature of the new contract. The majority of the remaining increase was attributable to staff costs, with the remainder attributable to other 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 reduced but above average profitability, the Board has again made a significant donation to the endowment of the Foundation of £160,000 (2022: £250,000) 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 11bps to 1.37% (2022: +1bp at 1.26%) indicating cost growth moving faster than asset growth.

Looking ahead, upward pressure on absolute cost continues as further IT setup costs will be incurred in 2024 and increased IT run costs phase in. Upward pressure remains on the broader cost base as inflation remains above the 2% target.

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 £0.044m to £0.611m (2022: £0.152m to £0.567m), driven primarily by forecast house price decline and the change in the mix of the loan book in year. Individual provisions have increased by £0.114m to £0.390m (2022: (£0.062m) to £0.276m).

Mortgage Arrears and Forbearance

At 31 December 2023, only 0.43% of the residential portfolio was three months or more in arrears or impaired (2022: 0.20%). Of these accounts, 0.19% (44%) relates to deceased customers, where obtaining probate and then achieving sale of the property is currently taking in excess of 12 months. In terms of forbearance, nine accounts (£1.458m) have benefited from forbearance, eight of which were mortgage charter equivalent six-month payment moratoriums (2022: one account of £0.117m).

In terms of the commercial portfolio, no loans were past due or impaired (2022: none).

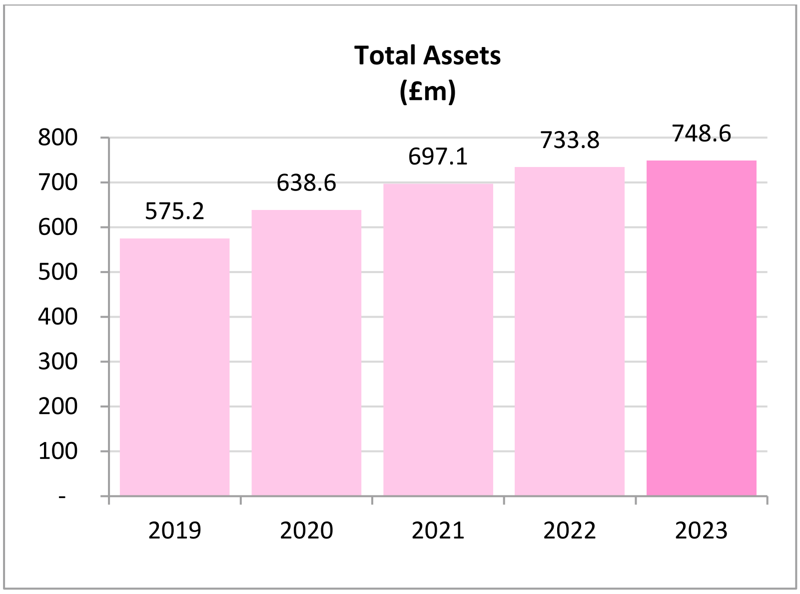
Looking forward, whilst the economic outlook is improved in comparison to prior year, the outlook for house prices remains uncertain, interest rates remain elevated, and cost of living pressures remain. Whilst the Society operates a prudent lending policy to ensure borrowers' affordability is stressed appropriately when loans are underwritten, the combined impact of elevated 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 2023 was £0.665m (2022: £1.294m), representing an effective rate of 23.5% (2022: 19.3%). Further detail is provided in Notes 9 and 22 of the accounts.

Statement of Financial Position

During the year, the Society continued to achieve asset growth with an increase of £14.8m to £748.6m, up 2.0% (2022: £36.7m to £733.8m, up 5.3%).



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 TFSME of £60.5m across 2024 and 2025, £9.5m having been pre-paid in December 2023. As we will have to generate additional funding to fund mortgages already on the balance sheet, the pace of growth will continue to be moderated in this period.

Liquid Assets

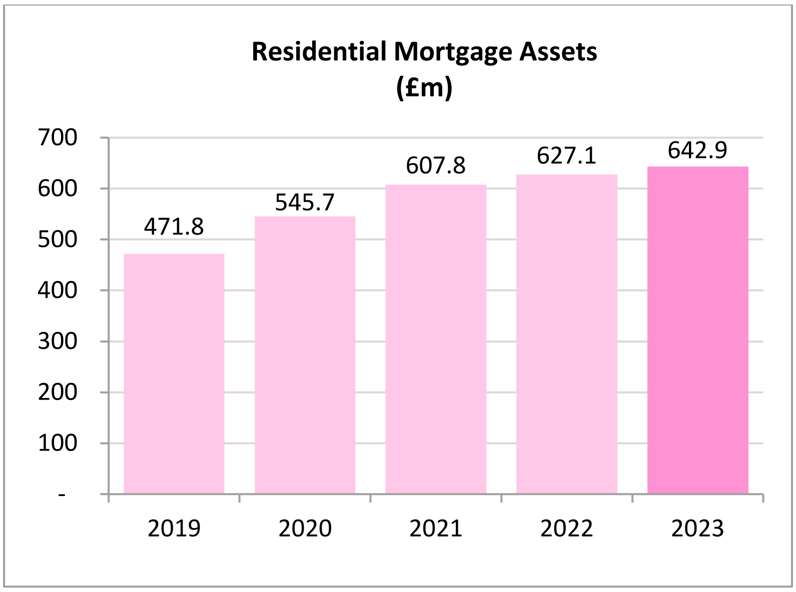
The Society maintains a portfolio of liquid assets to ensure it holds sufficient resources to meet its obligations as they become due in accordance with Board Risk Appetite. This involves maintaining cover to meet anticipated stressed withdrawals of retail and wholesale funding, net mortgage flows and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

At 31 December 2023, the Society maintained liquidity resources of 113% (2022: 117%) of its internally modelled stress requirement. The Society held High Quality Liquid Assets (HQLA) of £99.2m (2022: £97.4m), £98.9m of which represented balances in Central Bank Reserves and £0.3m in cash.

In terms of regulatory metrics, the Liquidity Coverage Ratio was 276% (2022: 316%), the Society holding HQLA of £99.2m (2022: £97.4m) vs. an outflow requirement of £36.0m (2022: £31.3m), a surplus of £63.2m (2022: £66.1m). Net Stable Funding Ratio was 153% (2022: 154%), the Society having available stable funding of £704m (2022: £683m) vs. required stable funding of £460m (2022: £442m), a surplus of £244m (2022: £228m).

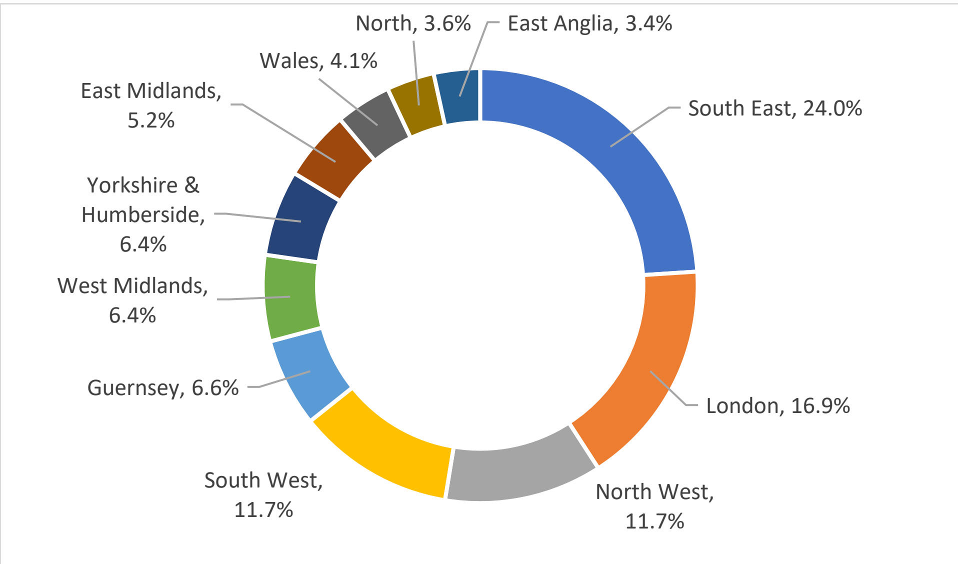
Mortgage Assets

Total residential lending, before effective interest rate, impairment and fair value adjustments was £642.9m, up £15.8m (2022: £627.1m, up £19.5m). Gross new lending in year was £139.5m (2022: £133.3m).



Society lending is focused primarily on loans to owner occupiers and both residential buy to let and furnished holiday let. Loans to owner occupiers represent 70.3% (2022: 75.3%) of mortgages secured on residential property with the remaining 29.7% (2022: 24.7%) being secured on residential buy to let and furnished holiday let property.

The Society has a nationally diversified portfolio of loans secured on residential property, with the largest concentrations of 24.0% in the South East (2022: 24.4%), 16.9% in London (2022: 17.8%) and 11.7% in the North West (2022: 12.5%).



The average indexed loan to value is 31.6% (2022: 30.4%).

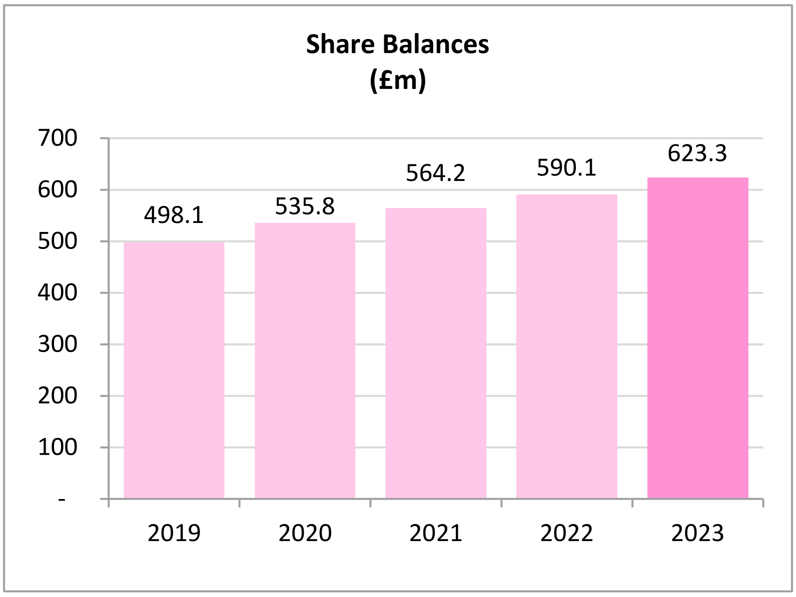
The Society retains a modest exposure to commercial lending, this aspect of the loan book being managed down. At 31 December 2023, these loans net of impairment provisions amounted to £0.126m (2022: £0.451m). These exposures are predominantly on commercial premises occupied by the business owning the property. In terms of geographical location, these exposures are located in North West England.

Further analysis on Credit Risk is contained within Note 25 of 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 and planned prepayment of TFSME with net growth in share balances of £33.3m to £623.3m, up 5.6% (2022: £25.9m to £590.1m, up 4.6%).



Looking forward, the Society continues to focus primarily on generation of growth in retail funding through the branch network across Lancashire. This will be supplemented by secondary funding lines including online funding as judged appropriate. 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 increased growth in retail funding in the coming year will be targeted to meet plans for net mortgage lending growth and plans for phased prepayment of TFSME funding from the Bank of England due in late 2024 and 2025.

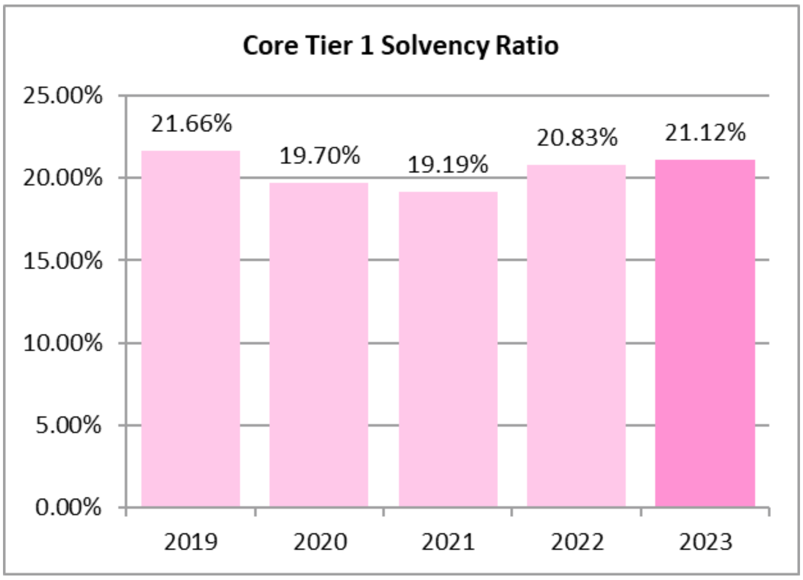
The Society also maintains other deposit funding, predominantly from small and medium sized companies of £5.6m (2022: £5.4m). The Society maintains a degree of funding from central bank funding schemes and where judged appropriate term deposits from local authorities and other building societies of £61.3m (2022: £78.9m). The proportion of funding not in the form of individual shares is 9.7% of total shares and borrowings (2022: 12.5%), the reduction being attributable to a combination of prepayment of TFSME borrowing and a reduction in borrowing from local authorities and other building societies.

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 163-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 £52.7m or 7.63% of total share and deposit liabilities (2022: £50.2m or 7.45%). Gross capital comprises reserves, as shown in the balance sheet. Gross capital is £53.1m or 7.70% of share and deposit liabilities (2022: £50.8m or 7.54%).

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 0.29% to 21.12% (2022: increase of 1.64% to 20.83%).

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 £20.279m, with total requirements constituted of £20.110m relating to Pillar 1 and £0.169m relating to Pillar 2A (2022: £19.668m, of which £19.499m Pillar 1 and £0.169m 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 £11.407m in Core Equity Tier 1 Capital (2022: £11.063m), a minimum of £15.209m in Tier 1 Capital (including the minimum CET1 plus £3.802m Tier 1) and a maximum of £5.070m in Tier 2 Capital (2022: £14.751m Tier 1 and £4.754m Tier 2).

Regulatory Capital held by the Society at the balance sheet date was £53.689m, of which £53.078m was CET1 and £0.611m Tier 2, well in excess of Individual Capital Guidance (2022: £51.280m of which £50.713m CET1 and £0.567m 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, excluding central bank exposures increased by 0.20% to 8.17% (2022: increased by 0.67% to 7.97%).

The Pillar 3 Disclosure as at 31 December 2023, 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.

Risk Management Report

Risk Management Framework

The Society utilises a Risk Management Framework (RMF) to manage the financial and non-financial risks in our operating environment. It is aligned to our Strategic Plan and utilises metrics to help Board and management understand risks and effectively manage them in everyday decision making and behaviours. The RMF is designed to:

- Set out a clear vision of how we manage risk at the Society;
- Promote good risk management culture and practice whilst meeting the expectations of the Regulators;
- Facilitate identification, assessment, monitoring and reporting of material risks; and
- Help colleagues to understand their role, embedding in day-to-day operations, the importance of following procedures, operating controls and escalating risk events.

Risk Governance Arrangements

The Board delegates oversight of the RMF and the suite of risk policies to the Board Risk Committee (BRC), which reviews and recommends approval by the Board on at least an annual basis. The Risk Director oversees the effective implementation of the RMF, including the review of risks and uncertainties in the business. The Society adopts a three lines of defence model which ensures a clear separation between the ownership and management of risk and controls (first line), oversight, support, and challenge (second line) and internal audit assurance (third line).

Principal Risks and Uncertainties

The principal risks to which the Society is exposed are detailed below, along with how they are controlled and progress from last year. The Society has a balanced risk appetite across the principal risks. The BRC reviews the key risk indicators and commentary for each principal risk to ensure that risk levels remain within the Society's agreed risk appetite. The Society maintains strong levels of capital and liquidity to provide financial resilience.

Principal Risk	Society Risk Overview	Progress in 2023
Business Risk: The risk of insufficient long-term profitability to maintain capital adequacy and balance sheet growth to maintain investment. This risk relates to the sustainability of the Society. The external environment e.g., macroeconomic, regulatory, and political context impacts the Society's business model and ability to achieve strategic objectives.	The Strategic Plan is the key document, owned and approved by the Board. The Board will not seek out strategic options which have a potential to create losses to capital, although will consider options that could result in reduced profit in the short to medium term provided that the capital ratio remains within appetite.	The risk profile increased during the year because of the challenging macroeconomic environment, with high inflation and increasing interest rates creating a cost-of-living crisis and intense market competition. During the year the Society: • Improved the suite of metrics to monitor changes in risk profile; • Reviewed, enhanced and approved a revised ICAAP; • Managed arrears and forbearance in a proactive and sympathetic manner; • Managed product range with agility to balance profitability and value to members; and

		• Reviewed the Society's strategy, confirming it remains appropriate.
Mortgage Credit Risk: The risk of loss if a borrower fails to make timely repayment of a loan, credit commitment or other contractual obligation as it falls due. **Concentration Risk**: The risk of loss due to large exposure to an individual or group of connected individuals that are affected by a common issue (e.g., property price falls or large employer closes in a specific area). **Climate Change Risk**: The most significant element of this risk to the Society is considered to be credit risk relating to the value and saleability of properties taken as security for mortgages from physical risks (e.g., flood, subsidence and coastal erosion) or transitional risks (e.g., changes in behaviour and demands of members, regulators and Government relating to energy efficiency). Climate change risk also relates to our reputation, people and properties. **Treasury Credit Risk:** The risk of loss if a treasury counterparty fails to make timely repayment of a loan or other credit commitment.	Mortgage credit risk is controlled in accordance with the Board-approved Lending Policy. Lending is maintained within carefully controlled limits to manage concentration risk and is subject to Credit Risk Committee and Board reviews. Detailed management information is prepared for Credit Risk Committee and summarised for BRC oversight. Lending is focused in niches where we have underwriting expertise and each mortgage application is manually underwritten. We mitigate climate change risk through our underwriting processes and utilising guidance from third party experts such as valuers. Treasury credit risk is controlled through adherence to the Board-approved Financial Risk Management Policy. The Policy defines prudent limits, relating to quality and quantity of credit exposures to single counterparties and groups of counterparties. The counterparty limits are developed predominantly by reference to credit ratings and other market and financial data.	The Society has continued to apply a prudent underwriting approach. Despite the challenging environment, the Society's credit risk profile has remained stable through proactive forbearance and arrears management. During the year the Society: • Enhanced the value of the management committee in monitoring changes in risk profile; • Reviewed and updated the Lending Policy to ensure the risk profile of new lending remains within appetite; • Reviewed and approved changes to the affordability criteria to reflect increases in the cost of living; • Engaged with third party experts to support the Society's Environmental, Social and Governance strategies and initiatives; and • Improved the suite of metrics to monitor changes in concentration and credit risk.
Liquidity Risk: The risk that the Society does not have sufficient financial resources available in terms of quality or quantity to meet its liabilities as they fall due or can only secure them at an excessive cost. **Funding Risk:** The risk that the Society cannot secure sufficient long term, stable funding for	Liquidity & funding risk is controlled through adherence to the Board-approved Financial Risk Management Policy. Liquidity is maintained within risk appetite limits. Regular stress tests are conducted which help to determine the overall level of liquidity required to withstand all reasonably foreseeable	The liquidity and funding risk profile has increased because of intense competition and market dynamics. During the year the Society: • Reviewed and approved the ILAAP and Recovery Plan, taking account of external risk environment; • Developed the Crisis Management Playbook;

lending needs, at a rate that is affordable.	liquidity stresses. The Society also has contingency plans in place to manage sudden or extreme outflows. The results of stress testing and the liquidity position are reported to the BRC.	• Reviewed options to diversify funding streams; and • Reviewed and approved the Financial Risk Management Policy.
Interest Rate Risk Arising from Non-Trading Book Activities: The current and prospective risk of a negative impact to the Society's economic value of equity, or to the Society's net interest income, taking market value changes into account as appropriate, which arise from adverse movements in interest rates affecting interest rate sensitive instruments, including gap risk, basis risk and option risk. **Gap Risk:** Risk resulting from the term structure of interest rate sensitive instruments that arises from differences in the timing of their rate changes, covering changes to the term structure of interest rates occurring consistently across the yield curve (parallel risk) or differentially by period (non-parallel risk). **Basis Risk:** Risk arising from the impact of relative changes in interest rates on interest rate sensitive instruments that have similar tenors but are priced using different interest rate indices. Basis risk arises from the imperfect correlation in the adjustment of the rates earned and paid on different interest rate sensitive instruments with otherwise similar rate change characteristics. **Option Risk:** Risk arising from options (embedded and explicit), where the Society or its customer can alter the level and timing of their cash flows, namely the risk arising from interest rate sensitive instruments where the holder will almost certainly exercise the option if it is in their	Interest rate risk is controlled through adherence with the Board-approved Financial Risk Management Policy. The Society seeks to use natural hedging where possible supported by swaps where necessary to manage the risk. Board-approved limits are applied to each element of interest rate risk BRC review interest rate risk position against these limits.	The risk profile has remained stable through proactive monitoring and taking appropriate actions. During the year, the Society continued to monitor exposure to interest rate risk to ensure it remained within risk appetite even through a period of significant change in demand for fixed rate savings and fixed rate mortgages.

financial interest to do so (embedded or explicit automatic options) and the risk arising from flexibility embedded implicitly or within the terms of interest rate sensitive instruments, such that changes in interest rates may affect a change in the behaviour of the client (embedded behavioural option risk).		
Operational People Risk: The risk of loss arising from failed or inadequate processes, systems and controls or from external events including legal risk. It includes adequate resourcing for change management, business as usual and strategic ambitions. **Operational IT Risk:** The risk of loss arising from failed or inadequate IT processes, systems and controls relating to information and cyber security, physical assets, third party management or from external events including legal risk. **Operational Financial Crime Risk:** The risk of loss arising from failed or inadequate financial crime prevention systems and controls or external events including legal risk.	Operational risk is controlled through adherence with robust Board-approved policies and a framework of processes and controls, which are designed to minimise operational risk. There is a suite of contingency plans and the Operational Resilience Self-Assessment designed to protect members from disruption, respond to, recover from and learn from incidents. We utilise third party expertise where appropriate to reduce operational risks and protect our members. A range of metrics are reported to the Board Risk Committee to monitor exposures. The Society carries out regulatory horizon scanning and implements required changes in a timely manner.	The risk profile has increased because the macroeconomic environment has increased external cyber and financial crime risks, whilst driving up cost of resources, turnover of staff and cost of external expertise. During the year the Society: • Agreed significant investment in human and technological resources to deliver a sustainable, forward-looking Society for our members; • Carried out a range of business continuity and phishing tests, applying the learning to strengthen controls; • Introduced a new Board Technology Committee and enhanced the contribution of the management committee in monitoring and managing operational risks; • Fully documented our Operational Resilience Self-Assessment; • Enhanced transaction monitoring systems to protect the Society and members from financial crime; and • Engaged in the Best Companies Survey to understand and respond to our colleagues' needs.
Conduct Risk: The risk of delivering detrimental outcomes to customers. However, it is increasingly synonymous with Consumer Duty, which is focused on evidencing good outcomes. Outcomes are usually derived from colleague interaction	Conduct risk is controlled through adherence with the Board-approved Conduct Risk Policy. The Society is committed to treating customers fairly and this is underpinned by the Society's processes and control	The risk profile has remained stable. During the year, the Board has: • Supported borrowers affected by the cost of living with suitable forbearance options; and

throughout the product lifecycle. The risk to the Society is that we suffer reputational damage, a loss or do not benefit from an opportunity because of consumer detriment.	framework, which are regularly reviewed. The Executive Committee monitors conduct risk at an operational level, with oversight provided by the BRC. The implementation of the Consumer Duty, has been overseen by the Board.	• Implemented the Consumer Duty project to support delivery of good customer outcomes for our members.

Risk Outlook

Board and management constantly scan the horizon for emerging risks and seek to respond in a timely manner to mitigate them. Looking forward, we expect a little more stability in the macroeconomic environment although there is potential for increasing unemployment and falling house prices to drive an increase in arrears. We still expect increases in a range of risks:

- Market competition – we will seek to be increasingly agile in our product offering and diversify wherever possible to deliver what our members need at a cost that is sustainable to the Society.
- Change management – we will seek to invest in IT infrastructure, expertise and resources and apply our rigorous project management disciplines to achieve objectives and deliver the expected benefits to our members.
- Key person – we will continue to engage with colleagues to support open communication, development, cross training, wellbeing and sustainable work practices.
- Third party management and business continuity – we will engage with our partners to improve information flow, contingency plans and resilient solutions for our members.

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

6 March 2024

Climate Report

The Society is committed to having a positive impact on members, colleagues and our local communities. A key part of this commitment relates to how we can improve our impact on climate.

The purpose of this disclosure is to report to members on the approach of the Society mitigation of climate risk. The Society is not within scope to provide a mandatory Task Force on Climate Related Financial Disclosures (TCFD) report but has chosen to make a voluntary disclosure with content judged most relevant to members. The content of the report will evolve to members' needs, taking into account feedback received.

Governance

Sustainability considerations, and in particular social impacts, have always been embedded in the Society's governance processes.

The Board has overall responsibility for management of climate risks. The Board delegates this responsibility to the Board Risk Committee as part of its focus on Environmental, Social and Governance (ESG) issues and mortgage credit and concentration risk.

Responsibility for management of climate risks has been assigned to the Chief Executive, as the Senior Management Function under the PRA Senior Managers Regime. The Society's Executive Committee is the management committee responsible for ESG and Climate Change.

During the year, the Board has further increased its focus on climate risks as part of a wider sustainability strategy. This involved engagement of an external sustainability consultancy to support the Society in developing a framework to capture its existing work in this area and provide a structure within which to further develop its focus on ESG.

2024 will see the Society further refine its governance processes for management of climate change at Board, Board Committee and Management level.

Strategy

The Society vision of 'Working together to build a better future and leave a lasting impression' extends beyond supporting members through savings, mortgages and other financial products to a heightened sense of broader corporate responsibility.

Our purpose extends to having a positive impact on members, colleagues and the communities and region in which we operate. Our vision and purpose is supported by our strategic pillars:

- Strong and Sustainable
- People and Culture
- Simple and Efficient
- Future Ready

Moving forward, we plan to adapt our strategy to meet our members' sustainability expectations. This will include strategy in relation to climate change. With the benefit of the ESG framework established in 2023, this will both recognise the good progress already made within the business and provide a clear focus on initiatives we can implement to deliver on our stated purpose moving forward.

Progress Made

The summary below illustrates progress made by the Society on initiatives to date in relation to climate risk:

To 2022	2023
• Developed our base case carbon footprint. • Engaged the initial external assessment of the Society's mortgage portfolio. • Started the replacement of Society vehicles with fully electric or hybrid vehicles. • Installed EV charging points at Principal Office. • Moved to a renewable energy contract for electricity consumption. • Implemented LED lighting at Principal Office. • Implemented Physical Risk Perimeter Controls into mortgage underwriting processes.	• Refreshed our carbon footprint with the latest data and expanded to include additional Scope 3 emissions. • Refreshed our external assessment of the Society's mortgage portfolio to update against our metrics. • Progressed the transition of Society vehicles to fully electric or hybrid with the exception of the Society van. • Implemented an employee salary sacrifice scheme for electric vehicles to reduce emissions from commuting to work. • Moved to a 'green gas' contract for gas consumption.

Planned Improvements

Our plans for 2024 currently include:

- Embedding the ESG framework developed in conjunction with external consultants to review strategy, governance, risk assessment and key metrics and focus on implementation of initiatives which have the most significant impact or represent opportunities to implement easily alongside wider change management.
- Focus on initiatives which reduce the Society carbon footprint further, the most significant of which is installation of solar panels at Principal Office.
- Undertake enhanced Climate Risk Stress Testing with the benefit of data on costs to improve energy efficiency to EPC C.
- Investigate retrofit partners as an option to support borrowers seeking to improve the energy efficiency of their homes.

Risk Management

Climate Risk Drivers

<u>Physical Risk</u>

Both acute and chronic physical risks such as storms, droughts, floods and sea level rises are material to the Society, predominantly in relation to the marketability and insurance of properties suffering damage at increasing frequencies. The Society's own property footprint is relatively small and low risk.

At 31 December 2023 the Society commissioned an updated external assessment of these risks in the mortgage portfolio.

In relation to the percentage of the book by number of accounts in combination exposed to flood, subsidence, and coastal erosion out to 2080, this was no greater than 1.3% in 'Early and Late Action Scenarios' and no greater than 1.6% in the 'No Action Scenario'.

Transition Risk

These are the risks and opportunities which could result from the process of adjustment towards a more sustainable economy. They will be generated through developments in policy and regulation, emergence of disruptive technology or business models, shifting societal preferences, or evolving legal interpretations.

For the Society the most likely policy impacts will be potential changes to Energy Performance Certificate (EPC) legislation. With legislation already in place for commercial and buy to let properties, it is foreseeable this could be expanded to all domestic properties upon sale or remortgage.

At 31 December 2023 the Society commissioned an updated external assessment of these risks in the mortgage portfolio with the following relative exposure measures to the UK average (100% is the UK average):

Risk	Lender exposure relative to UK
EPC F or G rated properties	133%

Whilst this is a metric we will continue to track over time, our exposure to lower EPC rated properties is not an area we are actively managing, as we recognise that many households are limited in their ability to improve the EPC rating of the property.

Scenarios

An important tool for our strategic planning and risk management is scenario analysis. This helps us anticipate potential risks and opportunities from an uncertain future operating environment. Following standard practice in the sector we have used the Intergovernmental Panel on Climate Change (IPCC) scenario guidance. They derived Representative Concentration Pathways (RCPs) for organisations to adopt in their modelling. For the Society's impact assessment at 31 December 2023, we used the following scenarios:

RCP & Description	Description	Global mean temperature increase projections - 2100
4.5 Early Action – All companies Implement Paris Accord	Emissions will peak in the middle of the century and then rapidly decline over the next 30 years.	1.7 to 3.2 °C
6.0 Late Action – All signatories Implement Paris Accord	Emissions are expected to double by the year 2060 followed by a dramatic decrease.	2 to 3.7 °C
8.5 No Action – Business as Usual	The worst-case scenario where emissions continue to drastically increase throughout the century – predominantly during early and middle parts of the current century.	3.2 to 5.4 °C

At 31 December 2023, the Society commissioned an updated external assessment of these risks in the mortgage portfolio. The assessment concluded that the Society had a low realised loss by 2060 in a high emissions scenario for both physical and transition risks.

Modelling of climate risks is complex and subject to considerable uncertainty. The Society uses a third-party data provider for this purpose and intends to repeat the assessment no less than bi-annually. The data obtained from the latest exercise will be integrated with our internal management information in early 2024.

Risk Appetite

The Society's risk appetite is currently described as **balanced.** Designed to minimise losses by lending in a responsible and sustainable way, targeting a balanced portfolio of assets, predominantly lower LTV, appropriately diverse, matching expertise and experience of underwriters, generating sufficient reward for the risk taken. We carefully manage the impact of physical and transitional climate change risks by taking account of guidance from valuers, Environment Agency and EPC rating. We will manage flood, subsidence, and coastal erosion risks in our portfolio through scenario analysis across short, medium and long-term horizons, using data from third party experts such as Landmark.

This process will involve monitoring and benchmarking climate risk data and making changes to policy and practice as appropriate. The Society will also focus on reducing its own carbon footprint and supporting members in reducing theirs.

Risk Management Framework

The Society Risk Management Framework includes consideration of climate risk, and the impact of climate risk across all principal risk categories. The most significant element of this risk to the Society is considered to be credit risk relating to the value and saleability of properties taken as security for mortgages from physical risks (e.g., flood, subsidence and coastal erosion) or transitional risks (e.g., changes in behaviour and demands of members, Regulators and Government relating to energy efficiency). However, climate change risk also relates to our reputation, people and properties.

The table below summarises how climate change impacts each principal risk category.

ESG (incl. Climate Change Risks) Related to Principal Risk Categories

Risk	Type	Description
Business	Transition & Physical	• Reduction in capital from changes in property values. • Failure to meet member expectations of climate risk.
Credit	Transition	• Reduced member creditworthiness due to the transition to a greener economy (for example, due to loss of jobs or increased energy costs) leading to default). • Declining house values due to abrupt housing policy (for example, too rapidly introducing minimum EPC ratings). • Buy to let landlord challenges in meeting policy requirements.
	Physical	• Houses damaged by physical impacts, such as floods, causing a decline in property value. • Higher insurance prices leading to uninsured properties.
Operational	Transition	• Increased supply chain costs. • Reputational impact of carbon footprint of products and services leading to lower member and employee attraction and retention. • Reconsideration of third-party relationships due to their carbon footprint. • Potential liability and conduct risk from green propositions and assumed advice or greenwashing.
	Physical	• Branches or offices damaged, or loss of systems or key data due to physical impacts, such as floods, affecting key processes. • Internal capability affected by physical events preventing employees from accessing the office or working from home.
Liquidity & Funding	Transition	• Lower deposit balances due to members' loss of confidence in building society sector climate credentials.

		• Reduced central bank drawing collateral due to poor EPC profile of prepositioned mortgage collateral.
Conduct	Physical	• Members in fuel poor homes struggle to afford increasing energy bills, cannot afford retrofit costs, and become 'mortgage prisoners' as ineligible for new lending rules.

Metrics and Targets

Energy Performance Certificates (EPC's)

EPC data can be utilised as a means of assessing transition risk. The Society updates EPC data from the latest climate risk assessment by a third party which determines current EPC ratings for properties used as security for customers in the mortgage book. This data represents either actual EPC records from the EPC register or EPC data derived from comparison with properties in the immediate locality. The Society monitors and collects EPC data on new mortgages advanced in the period between each climate assessment and aims to provide trend data to the Board.

Data at 31 December 2023 is as follows:

- % exposures with an EPC: 72.3%
- % mortgage book secured on property with EPC A-C: 39.1%

Greenhouse Gas (GHG) Reporting

Methodology

The Society follows the principles of the Greenhouse Gas (GHG) Protocol Corporate Accounting and Reporting Standard to calculate Scope 1, 2 and 3 emissions. Data has been compiled with reference to and using data from the 2022 and 2023 data sets at www.gov.uk/government/collections/government-conversion-factors-for-company-reporting.

The reporting period for each year is 1 January to 31 December. Emissions are reported based on the operational control approach. Reported Scope 1 emissions are those generated from gas used in buildings, emissions from fuels used for business travel and fugitive emissions from the use of air conditioning refrigerant gases. Reported Scope 2 emissions are generated from the use of electricity and are calculated using the location-based methodology.

Scope 3 emissions measurement was completed for the first time in 2023. Reported Scope 3 emissions relate to business travel (category 6), employee commuting (category 7), emissions from employees working from home (category 7), operational waste (category 5) and the transmission and distribution of our electricity (category 3 - excluding well to tank emissions). Scope 3 emissions do not yet include purchased goods and services, capital goods, upstream or downstream transportation and distribution, and investments (category 1, 2, 4, 9 and 15). Given that we do not have comparable Scope 3 emissions data for 2022, no prior year comparator total figures or ratios have been included in the summary.

Emissions Summary

	2023	2022 where available
Total CO_2e (location-based tonnes CO_2e)	**169.6**	**n/a**
Scope 1 and 2	75.6	70.4
Scope 1	*36.8*	*38.4*
Scope 2 (location based)	*38.8*	*32.0*
Total Scope 3 (tonnes CO_2e)	94.0	n/a
Scope 3 - Category 3 Transmission and distribution	*3.35*	*n/a*
Scope 3 – Category 5 Waste generated in operations	*3.62*	*n/a*
Scope 3 – Category 6 Business travel	*6.2*	*n/a*
Scope 3 – Category 7 Employee commuting and teleworking	*80.9*	*n/a*
Intensity ratio per FTE	**1.78**	**n/a**
Building energy use (kwh)	**388,445**	**375,822**

Reduction Plan

The Board is focused on actions to reduce our Scope 1 and 2 emissions. During 2024, we plan to consider quantified targets for reductions in emissions and achievement of Net Zero emissions by 2050.

The Society has already begun to make progress on reducing carbon emissions.

- Since 2022, the Society has been using a 100% zero carbon energy tariff for all electricity supplies, though we have reported our location-based results, notwithstanding this tariff.
- A green gas supplier has been chosen to reduce the emissions associated with our gas use, though again, our reported emissions are based on gas network averages, disregarding the benefits in carbon reductions our particular tariff may bring.
- Window replacement works at our Principal Office were completed at the end of 2023, so we expect to see the benefit of this in our 2024 footprint. We anticipate circa 1.6 tCO2e per annum savings.
- To incentivise employees to switch to lower emission vehicles, 14 electric charging points have been installed at our premises and we have launched an employee salary sacrifice scheme to encourage a shift to lower emission vehicles. We expect to see a reduction in our employee commuting and business travel footprints, however this will be in the medium term.

Our longer-term plans include:

- In 2024, choosing and planning the solar electric strategy for the Marsden. Our scoping exercises suggest we have the potential to save 18.7 tCO2e by generating our own electricity through solar panels. This represents circa 50% of our total Scope 2 emissions and 12% of our overall footprint.
- At an appropriate stage, we have the opportunity to upgrade our electrical circuit performance using a voltage optimisation system. This would save circa 1.2 tCO2e per year. This would include circuit metering to help inform our Scope 2 reduction activities.
- Creating a long-term space heating strategy to enable achievement of future Net Zero targets. This will potentially include the electrification of heat on premises currently using gas, as well as building fabric improvements.

On behalf of the Board of Directors

J L Walker
Chairman

6 March 2024

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.

John Walker ACIB

Chairman

Joined the Board in 2018

A qualified banker, John spent time with Barclays gaining both corporate and business experience before moving to Barclays Private Equity, latterly Equistone, where he remained for some 21 years. John brings diverse experience as a Non-Executive Director, having sat on numerous boards across a range of sectors, including insurance broking, online retailing and recruitment.

John chairs the Nominations Committee and is a member of the People, Remuneration & Culture Committee.

Outside of the Society, John is a Non-Executive Director at WRS (Worldwide Recruitment Solutions) and River Capital.

Rob Pheasey BSc (Hons)

Chief Executive

Joined the Board in 2008

Rob joined the Society in 1989 and was appointed to the Board in 2008, becoming Chief Executive in 2011. He has a strong customer focus, in-depth knowledge of the business and is responsible for managing the Society and implementing strategies agreed by the Board.

Outside of his role at the Society, Rob acts as Chairman of Pendle Education Trust and is Chairman of the Building Societies Association.

Neal Walker BA (Hons) ACIB

Finance Director

Joined the Board in 2008

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.

Heather Crinion

Operations Director

Joined the Board in May 2023

Heather joined the Society in June 2001 and has extensive knowledge of operations, rising to General Manager before being appointed to the Board in 2023 as Operations Director. She has a background in mortgages and savings, having spent a total of 37 years within the financial services sector.

As Operations Director, Heather also has oversight of all customer-facing teams together with change management projects to improve customer experience.

Chris McDonald BSc (Hons)

Non-Executive Director

Joined the Board in 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 the Board People, Remuneration & Culture Committee. He is also a member of the Board Risk and Board Nominations Committees.

Mark Gray BA (Hons)

Non-Executive Director

Joined the Board in 2018

Mark has extensive risk and governance experience and is currently Chief Risk Officer for the Money and Pensions Service (MaPS), a Government agency providing guidance on pensions, debt and money advice as well as helping to improve the nation's overall financial understanding and capability. Mark is Chair of the Society's Board Risk Committee, is the Senior Independent Director and sits on the Board Audit & Compliance, Technology and Nominations Committees.

Outside the Society, Mark is a Non-Executive Director of Sopra Steria Financial Services Limited.

Maura Sullivan FCA

Non-Executive Director

Joined the Board in 2021

Maura is a finance leader with 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 Chair of the Board Audit and Compliance Committee and is a member of the Board Risk, Board Nominations and Board People, Remuneration & Culture Committees.

Outside the Society, Maura is Chair of the Audit & Risk Assurance Committee of Gov Facility Services Ltd.

Georgina Smith

Non-Executive Director

Joined the Board in 2023

Joining the Society in June 2023, Georgina, known as George, is a people-orientated business leader with extensive cross-sector marketing experience in large corporates, and more recently co-founding and leading three different mortgage lenders specialising in later life lending.

George is Chair of the Board Technology Committee and is a member of the Society's Board Risk, Board Audit & Compliance and Board Customer & Distribution Committees.

Outside the Society, George is a Non-Executive Credit Committee member at Innovate UK, a Board member of Street UK and a Board advisor to Be the Business.

Nicola Webber

Non-Executive Director

Joined the Board in 2023

Nicola is a chartered accountant and has a breadth of cross-sector experience gained at values-led organisations. Having chaired audit and finance committees, she is an experienced Non-Executive Director and currently sits on the Board at Westfield Contributory Health Scheme, East Sussex Healthcare NHS Trust and 2gether Support Solutions.

For the Society, Nicola is a member of the Board Technology, Board Audit & Compliance, the Board People, Remuneration & Culture and the Board Customer & Distribution Committees.

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 2023.

Business Objectives

Information on the business objectives of the Society is detailed within the Strategic Report on pages 9 to 27.

Business Review

The Chair's Statement on page 3, the Chief Executive's Review on pages 4 to 8 and the Strategic Report on pages 9 to 27 report on the performance of the Society, referring to key performance indicators, and its future objectives.

Principal Risks and Uncertainties

The Risk Management Report section of the Strategic Report on pages 9 to 27 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 9 to 27 and Notes 24 Financial Instruments on pages 95 to 97, 25 Credit Risk on pages 98 to 103, 26 Liquidity Risk on pages 104 to 105 and 27 Market Risk on pages 106 to 107.

Profits and Capital

In 2023, the Society profit before tax was £2.948m (2022: £6.689m). Underlying performance profit before tax was £3.446m (2022: £4.110m). Total comprehensive income after tax transferred to general reserves was £2.288m (2022: £5.517m).

Total Society reserves at 31 December 2023 were £53.127m (2022: £50.839m).

Free capital represents gross capital and collective mortgage loss provisions less fixed assets as shown in the balance sheet. Society free capital is £52.7m or 7.63% of total share and deposit liabilities (2022: £50.2m or 7.45%). Gross capital comprises reserves, as shown in the balance sheet. Gross capital is £53.1m or 7.70% of share and deposit liabilities (2022: £50.8m or 7.54%).

Mortgage Arrears

At 31 December 2023, there were six (2022: two) mortgage accounts, including those in possession, which were twelve or more months in arrears. Of these accounts, four relate to deceased customers where obtaining probate and then achieving sale of the property is currently taking in excess of twelve months.

Charitable Donations

During the year, the Society made provision for a further donation of £160,000 (2022: £250,000) to the endowment fund of the Marsden Building Society Charitable Foundation, administered by the Community Foundation for Lancashire and Merseyside.

The Society also donated a further £1,000 to the Community Foundation for Lancashire and Merseyside, who administer the Society's Charitable Foundation, and £140 was donated to Inbetweenears, a brain tumour awareness charity.

In addition, the Society pledged a donation of £1,419 (2022: £1,265) in respect of votes received at the AGM, also to the Marsden Building Society Charitable Foundation (2022: to the Community Foundation for Lancashire's Red Rose Responding Fund).

In connection with Affinity Account relationships, the Society made donations of £26,302 (2022: £27,483) 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 £24,339 (2022: 26,302) which will be paid over during 2024 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 2023 were 9 days (2022: 11 days).

Stakeholder Engagement

The Chief Executive's Review on pages 4 to 8 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 (PRA) 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 Society 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 Society can deal with any erosion in its capital and meet its capital requirements at all times. The ILAAP test ensures that the Society 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 7).

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	to 30 June 2023
C McDonald	
R M Pheasey	
C A Ritchie	to 30 November 2023
M Sullivan	
N Walker	
H J Crinion	from 5 May 2023
N J Webber	from 1 June 2023
G L Smith	from 1 June 2023

Biographies of the Directors appear on pages 35 and 36.

H J Crinion, G L Smith and N J Webber, all being eligible, will seek election without nomination at the Annual General Meeting (AGM). All remaining Directors will retire and being eligible, will seek re-election at the AGM. At 31 December 2023, 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

6 March 2024

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.

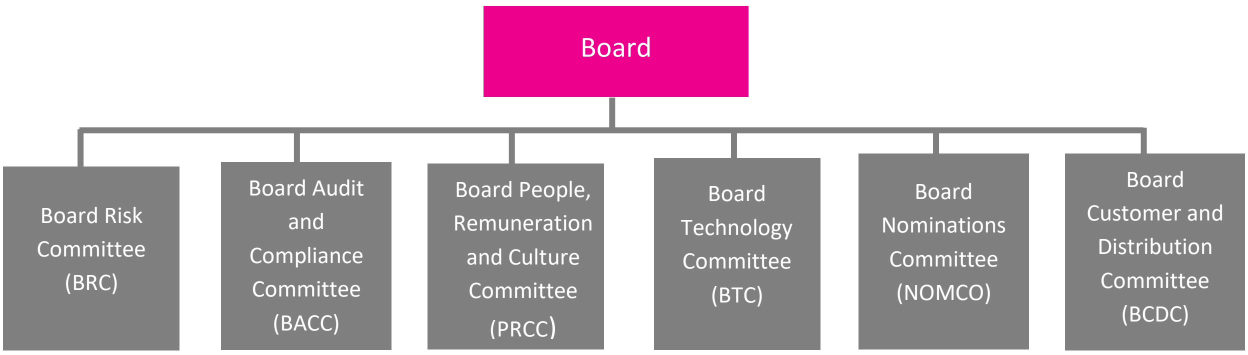
Board Leadership and Company Purpose

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 2023	M R Gray (Chair)
	C McDonald
	G L Smith
	M Sullivan
	By invitation (Directors): Chief Executive Finance Director

	Operations Director By invitation (Management): Risk Director General Manager Compliance & Secretary

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 2023	M Sullivan (Chair)
	M R Gray
	N J Webber
	G L Smith
	By invitation (Directors): Chief Executive Finance Director Operations Director By invitation (Management): Risk Director General Manager Compliance & Secretary

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 Chair. The Chair and Chief Executive take no part in the discussion concerning their individual remuneration.

PRCC Committee composition 31 December 2023	C McDonald (Chair)
	M Sullivan
	J L Walker
	N J Webber
	By invitation (Directors) Chief Executive

Board Technology Committee a newly formed Board Committee that will meet at least five times a year to provide Board oversight of the Society's IT Target Operating Model (TOM) Transformation Programme, and to make recommendations to the Board in relation to material changes to the Programme.

BTC Committee composition 31 December 2023	G L Smith (Chair)
	M R Gray
	N J Webber
	By invitation (Directors): Chief Executive Operations Director By invitation (Management): Risk Director

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 2023	J L Walker (Chair)
	M R Gray
	M Sullivan
	C McDonald
	By invitation (Directors)

	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.

BCDC Committee composition 31 December 2023	C McDonald (Chair)
	N J Webber
	G L Smith
	By invitation – Chief Executive By invitation – Operations Director

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 9. 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, Purpose, Third Party Relationships, Employee Engagement and our Retail Franchise.

M R Gray, 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 Head of People 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 once finalised rules are published.

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 is M Sullivan, the Chair of Board Audit and Compliance Committee.

Division of Responsibilities

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

The Chair sets the direction 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 Chair leads the annual board evaluation with support from the Senior Independent Director as appropriate and acts on the results. Appointed in March 2018, the Chair 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 2023, the Board comprised six Non-Executive and three 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 Chair. Under the Code, the Board considers all its Non-Executive Directors to be independent in character and judgement.

The roles of Chair and CEO are held by different individuals, with a clear division of responsibilities. The Chair, 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 R Gray is the Society's Senior Independent Director acting as a sounding board for the Chair and with other Non-Executive Directors, appraises the Chair'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 2023 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 and Compliance	People, Remuneration and Culture	Nominations	Customer and Distribution	Technology
J L Walker (Chair)	11 (11)			1(1)	2(2)		
H J Crinion (from 5 May 2023) (Operations Director)	6 (6)						
M R Gray (Senior Independent Director)	11 (11)	4 (4)	5 (5)		2(2)		1(1)
M L Ibbs (to 30 June 2023) (Senior Independent Director)	6 (6)		3 (3)		1(1)	2(2)	
C McDonald	11 (11)	4 (4)		1(1)	1(1)	4 (4)	
R M Pheasey (Chief Executive)	11 (11)						
C A Ritchie (to 30 November 2023)	11 (11)	4 (4)	5 (5)		2(2)		
G L Smith (from 1 June 2023)	6(6)					2(2)	1(1)
M Sullivan	11 (11)	4 (4)	5 (5)	1(1)			
N Walker (Finance Director)	11 (11)						
N J Webber (from 1 June 2023)	5(6)					2(2)	1(1)

() = 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 110 to 111 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 Chair, 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 35 to 36. 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 Chair 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 Chair 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 2024.

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 Chair of the Board is not a member of the Committee.

The Audit Committee Report on pages 51 to 54 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 39 to 40 in the Directors' Report. The Chief Executive's Review on pages 4 to 8 and the Strategic Report on pages 9 to 27 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 51 to 54 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. Having appointed a permanent Risk Director in June, oversight of the Risk Function transferred from the Interim Chief Risk Officer to the Risk Director for the remainder of the 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 & 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 57 to 60 details the Board's position on code principles related to remuneration.

On behalf of the Board of Directors

J L Walker
Chair

6 March 2024

Audit and Compliance Committee Report

An overview of the key 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.

A full copy of the terms of reference is available on the Society’s website.

Membership of the Committee is drawn from four independent Non-Executive Directors. The composition of the Committee as at 31 December 2023 was M Sullivan (Chair), M R Gray, G L Smith and N J Webber. At the invitation of the Chair of the Committee, the Chief Executive, Finance Director, Operations Director and both the Risk Director and General Manager (Compliance) and Secretary 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 and savings products and to manage interest rate risk these are either:

- Match funded by issue of fixed mortgages and fixed retail savings with similar end dates; or
- Fixed mortgages funded by variable rate savings with interest rate risk hedged with an interest rate swap.
- Variable rate mortgages funded by fixed rate savings with interest rate risk hedged with an interest rate swap.
- Fixed rate mortgages funding by fixed rate savings of a different duration with interest rate risk hedged with interest rate swaps.

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 or savings) 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. Depending on the rate environment the Society engages in hedging of mortgage commitments or fixed rate funding tranche capacity. Until mortgages complete and the swaps enter into a hedge relationship the fair value changes are recognised in full in the Income Statement. The offsetting hedged item at fair value when introduced is also 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.

Following the material impact of Fair Value Gains on the Income Statement in the prior year and introduction of a hedge portfolio for fixed rate funding in 2024, 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. During the year the Committee oversaw remaining income and costs in the form of booking and valuation fee income brought into effective interest rate calculations as they were not fully offsetting. 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.

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 available update on the ONS National Population Projections Lifetable (2020 based) Cohort Life Expectancy.

Recognition of Setup Costs on Cloud Computing Contracts

As part of the planned transition of the Society IT platform to a cloud-based solution in 2024 the Committee considered the impact of two final agenda decisions by the IFRS Interpretations Committee on cloud computing arrangements. The Committee reviewed an update on the contract provisions and concluded the Society could not demonstrate control over the software and the impact of this decision was that expenses cannot be capitalised and amortised over the contract life but taken as incurred. In addition, existing intangible assets terminated on signature of the contract were written off and legal costs in relation to the contract were taken as incurred.

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
- Arrears Management
- Balance Sheet Structural Risk
- Governance Practices/Board Effectiveness
- Third Party Management (incl. Outsourcing)
- Operational Resilience
- Business Continuity/Crisis Management
- Consumer Duty (Post Implementation)
- Project Management
- Risk Management Framework
- Compliance Framework

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 (2022: nil).

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.

M Sullivan

Chair of the Audit and Compliance Committee

6 March 2024

Risk Committee Report

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

- Advise the Board on the Society's performance against risk appetite, tolerance and strategy.
- Oversee and advise the Board on current risk exposures and future risk strategy.
- Annual review and challenge of Risk Management Framework and Appetite Statement.
- Monitoring trends in relation to risk metrics and using these to inform Board decisions.
- Annual review and challenge of Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Adequacy Assessment Process (ILAAP) and Recovery Plans.
- Review and challenge of the Operational Resilience Self-Assessment (ORSA).

A full copy of the terms of reference is available on the Society's Website.

Membership of the Committee is drawn from four independent Non-Executive Directors. The composition of the Committee as at 31 December 2023 was M R Gray (Chair), C McDonald, G L Smith and M Sullivan. At the invitation of the Chair of the Committee, the Chief Executive, Finance Director, Operations Director and both the Risk Director and General Manager (Compliance) & Secretary attend meetings.

Matters Considered by the Committee in 2023

During the year the Committee has supported the Board to oversee the risk profile of the Society including a focus on the following:

- A quarterly report from the Risk Director including supporting management information.
- Review of the Risk Management Framework and Appetite Statement.
- Review of the Society ICAAP, ILAAP and Recovery Plan including supporting stress and scenario testing.
- Review of the Society ORSA.
- Review of a range of policy statements including Lending, Financial Risk Management, Model & EUCA Governance, Regulatory Returns, Conduct, Material Outsource and Supplier Management, and Financial Crime Prevention.
- Ad hoc reviews of the IT Architecture, Mortgage Fraud Controls and Mortgage Decision processes.

Future Areas of Focus

In the coming year, the Committee will continue to focus on the potential impacts of the challenging macro-economic environment and key regulatory changes including the Strong and Simple Regime for Small Domestic Deposit Takers such as the Society and its interaction with the Basel 3.1 reforms. Key points of focus will include:

- Evolution and further embedding of the Risk Management Framework.
- Oversight of the impact of refinancing of TFSME on Liquidity, Funding and the Net Interest Margin.
- Oversight of Credit Risk in the evolving business and economic environment.
- Close liaison with the Board Audit and Compliance Committee to ensure comprehensive oversight over the effectiveness of the Control Environment.
- Close liaison with the Board Technology Committee on the risks associated with the implementation of the new Society IT Target Operating Model.
- Further development and evolution of climate change in the Risk Management Framework.

M R Gray
Chair of the Board Risk Committee

6 March 2024

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
- 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.

The Committee approved an 8% bonus, as a proportion of reference salary prior to any salary sacrifice, in respect of 2023 performance (2022: 15%). This represented 4% in respect of the Society Bonus Scheme and 4% in recognition of the scheme for Executive Directors (2022: 6% plus 9%). 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 Chair. The Chair 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 Chair.

The People, Remuneration and Culture Committee had one meeting during 2023. The composition of the Committee as at 31 December 2023 was C McDonald (Chair), M Sullivan and J L Walker. The Chief Executive attends each meeting by invitation. Neither the Chair 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 Chair, 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 2023 was J L Walker (Chair) 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)

2023

Non-executive		Fees/Salary £	Variable Remuneration £	Benefits £	Pensions and group life contributions £	Total £
J L Walker	**Chair**	**56,064**	**-**	**-**	**-**	**56,064**
M R Gray	**Senior Independent Director from 1 July 2023**	**33,072**	**-**	**-**	**-**	**33,072**
M L Ibbs	**Senior Independent Director To 30 June 2023**	**16,536**	**-**	**-**	**-**	**16,536**
C McDonald		**31,710**	**-**	**-**	**-**	**31,710**
C A Ritchie	**To 30 November 2023**	**30,316**	**-**	**-**	**-**	**30,316**
M Sullivan		**31,256**	**-**	**-**	**-**	**31,256**
N J Webber	**From 1 June 2023**	**17,703**	**-**	**-**	**-**	**17,703**
G L Smith	**From 1 June 2023**	**17,703**	**-**	**-**	**-**	**17,703**
		234,360	**-**	**-**	**-**	**234,360**
Executive						
R M Pheasey	**Chief Executive**	**209,475**	**17,640**	**34,999**	**16,427**	**278,541**
N Walker	**Finance Director**	**142,380**	**13,440**	**23,491**	**30,550**	**209,861**
H J Crinion	**Operations Director From 5 May 2023**	**61,336**	**6,134**	**6,052**	**25,856**	**99,378**
		413,191	**37,214**	**64,542**	**72,833**	**587,780**

2022

Non-executive		Fees/Salary £	Variable Remuneration £	Benefits £	Pensions and group life contributions £	Total £
J L Walker	Chair	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

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, where the Executive Director so elects. 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.

Included within Benefits is the taxable benefit in kind of company cars, provided to Executive Directors. Since 2022, the Society has a policy of offering to Directors only hybrid-electric or full battery-electric vehicles. As part of the UK Government's commitment to reduce UK carbon emissions and achieve its UK Net Zero goals, the switch to low-emission vehicles is incentivised by such vehicles attracting a lower tax charge. This is achieved by reducing the value of the Benefit in Kind for such vehicles, which in turn also has the result of the Benefits offered to Executive Directors at the Society appearing as a lower value since 2022 as we switch our vehicles to these lower-emission vehicles in support of the UK's, and also the Society's, net zero goals.

C McDonald
Chair of the People, Remuneration and Culture Committee

6 March 2024

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 2023 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; and
- the related notes 1 to 31.

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 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 matter that we identified in the current year was:** **Impairment of loans and advances to customers** **Within this report, key audit matters are identified as follows:**

	Similar level of risk
Materiality	The materiality that we used for the financial statements was £508,000 (2022: £507,000) which was determined on the basis of 1% of net assets (2022: 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 matter 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 of 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. Per note 13 in the financial statements, the Society currently holds total loans and advances to customers on its balance sheet in relation to residential mortgages of £643m (2022: £627m). As at the 31 December 2023, the Society held provisions against residential mortgages of £1,001k (2022: £839k), per note 14. This comprises of a collective provision for losses incurred but not reported of £611k (2022: £563k) and a specific provision for loans where there has been an observable impairment trigger of £390k (2022: £276k) 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. We have pinpointed our key audit matter in the current year audit to: • the valuation of collateral; and • the selection of the forward house price adjustment assumptions Both these areas require management judgement in selecting the most appropriate data sets from external sources to reflect the specific characteristics of the Society's portfolio and current economic uncertainty. 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 of misstatement, whether due to fraud or error, relating to this matter. The Society's associated accounting policies in relation to impairment provisions against loans and advances to customers are detailed on pages 51 to 54.
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. In conjunction with our internal IT specialists, we tested the general IT controls over the loan administration system. We challenged the value of the collateral, for a sample of loans, taking into consideration the indexed property valuations at the balance sheet date. Working with our internal macro-economic specialists, we challenged management on the appropriateness of the forward house price adjustment utilising data from peer entities and external economic forecasts.
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	£508,000 (2022: £507,000)
Basis for determining materiality	1% of net assets (2022: 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 2023 audit (2022: 70%). In determining performance materiality, we considered: our risk assessment, including assessment of the Society's overall control environment and the low number of uncorrected misstatements identified in prior periods.

6.3. Error Reporting Threshold

We agreed with the Board Audit and Compliance Committee that we would report to the Committee all audit differences in excess of £25,400 (2022: £23,350), 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. There have been no significant changed to our audit scope in the current period.

7.2. Our Consideration of the Control Environment

Consistent with prior periods, we adopted a controls reliance approach over the following business cycles for the Society:

- Loans and advances to customers
- Depository liabilities

Consistent with prior periods, we adopted a controls reliance approach over the following IT systems as being key to the financial reporting processes in the Society:

- Core mortgage and 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.

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 pages 28 to 34.

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 in the course of the audit, or otherwise appears to be materially misstated.

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

We have nothing to report in this regard.

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

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;
- Results of our enquiries of management, internal audit, the Directors 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 team and relevant internal specialists, including tax, financial instruments, pensions, IT, macroeconomic, and industry specialists 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 area: 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 and Financial Conduct Authority, including those 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 Matters Prescribed by the Capital Requirements (Country-by-Country Reporting) Regulations 2013

In our opinion the information given in Note 29 to the financial statements for the financial year ended 31 December 2023 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by Country Reporting) Regulations 2013.

14. Matters on Which We Are Required to Report by Exception

14.1. 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.

15. Other Matters Which We Are Required to Address

15.1. 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 4 years, covering the years ending 31 December 2020 to 31 December 2023.

15.2. 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).

16. 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

Kevin Johnson (Senior Statutory Auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Edinburgh, United Kingdom

6 March 2024

Income Statement

For the year ended 31 December 2023

	Note	2023	2022
		£000	£000
Interest receivable and similar income	2	**35,452**	20,804
Interest payable and similar charges	3	**(21,666)**	(7,900)
Net interest income		**13,786**	12,904
Fees and commissions receivable		**54**	49
Fees and commissions payable		**(108)**	(95)
Other income		**105**	276
Net income from financial instruments at fair value through profit and loss	4	**(498)**	2,579
Total Income		**13,339**	15,713
Administrative expenses	5	**(10,000)**	(8,780)
Depreciation and amortisation	15,16	**(172)**	(203)
Operating profit before impairment losses and provisions		**3,167**	6,730
Impairment losses on loans and advances	14	**(158)**	(90)
Operating Profit		**3,009**	6,640
(Loss) / Profit on disposal of tangible and intangible assets	15,16	**(61)**	49
Profit on ordinary activities before tax		**2,948**	6,689
Tax expense on ordinary activities	9	**(665)**	(1,294)
Profit for the financial year		**2,283**	5,395

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 74 to 109 form part of these accounts.

Statement of Comprehensive Income

For the year ended 31 December 2023

	Note	**2023**	2022
		£000	£000
Profit for the financial year		**2,283**	5,395
Other comprehensive income			
Items that will not be reclassified to the income statement			
Re-measurement of the net defined benefit liability	23	**6**	162
Tax on items that will not be re-classified to the income statement	9	**(1)**	(40)
Other comprehensive income for the period		**5**	122
Total comprehensive income for the period		**2,288**	5,517

Statement of Financial Position

As at 31 December 2023

	Note	2023 £000	2022 £000
Assets			
Liquid Assets			
Cash in hand	10	**347**	386
Loans and advances to credit institutions	11	**100,414**	100,498
Derivative financial instruments	12	**2,955**	5,958
Loans and advances to customers	13	**642,868**	624,631
Tangible fixed assets	15	**1,044**	1,062
Intangible assets	16	**40**	116
Deferred tax assets	22	**179**	188
Other debtors	17	**757**	978
Total Assets		**748,604**	733,817
Liabilities			
Shares	18	**623,348**	590,093
Amounts owed to credit institutions	19	**61,301**	76,525
Amounts owed to other customers	20	**5,597**	7,842
Derivative financial instruments	12	**242**	82
Other liabilities	21	**3,428**	6,826
Accruals and deferred income		**833**	858
Deferred tax liabilities	22	**115**	110
Retirement benefit obligations	23	**613**	642
Total Liabilities		**695,477**	682,978
Reserves			
General reserves		**53,127**	50,839
Total reserves attributable to members of the Society		**53,127**	50,839
Total reserves and liabilities		**748,604**	733,817

The notes on pages 74 to 109 form part of these accounts.

These accounts were approved by the Board of Directors on 6 March 2024 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 2023

	General Reserve	**Total**
	2023	**2023**
	£000	**£000**
Balance at 1 January 2023	**50,839**	**50,839**
Total comprehensive income for the period		
Profit for the year	**2,283**	**2,283**
Other comprehensive income	**5**	**5**
Total comprehensive income for the period	**2,288**	**2,288**
Balance at 31 December 2023	**53,127**	**53,127**

	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

Cash Flow Statement

For the year ended 31 December 2023

	2023	2022
	£000	£000
Cash flows from operating activities		
Profit before tax	**2,948**	6,689
Adjustments for		
Depreciation and amortisation	**172**	203
Profit on disposal of tangible fixed assets	**(6)**	(49)
Revaluation of tangible fixed assets	**-**	9
Write-down of intangible fixed assets	**67**	3
Net gain on re-measurement of the net defined benefit liability	**6**	162
Net gain on debt securities held	**133**	-
Charge on impairment on loans and advances to customers	**158**	90
Total	**3,478**	7,107
Changes in operating assets and liabilities		
Decrease / (Increase) in prepayments, accrued income and other assets	**221**	(86)
Increase in accruals, deferred income and other liabilities	**4,201**	8,263
(Increase) in loans and advances to customers	**(15,590)**	(19,322)
Decrease / (Increase) in fair values of derivatives and associated hedge items	**498**	(2,579)
Increase in shares	**26,170**	23,371
(Decrease) / Increase in amounts owed to credit institutions	**(15,500)**	3,000
(Decrease) in amounts owed to other customers	**(2,304)**	(3,452)
(Decrease) in retirement benefit obligation	**(29)**	(205)
Taxation paid	**(996)**	(1,189)
Net cash generated / (used in) by operating activities	**149**	14,908
Cash flows from investing activities		
Purchase of debt securities	**5,867**	-
Disposal of debt securities	**(6,000)**	-
Purchase of tangible fixed assets	**(120)**	(184)
Disposal of tangible fixed assets	**9**	83
Purchase of intangible assets	**(28)**	(57)
Net cash generated in investing activities	**(272)**	(158)
Net (decrease) / increase in cash and cash equivalents	**(123)**	14,750
Cash and cash equivalents at 1 January	**100,884**	86,134
Cash and cash equivalents at 31 December	**100,761**	100,884

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 1.13.

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) <u>Loans and receivables</u>
 ‘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) <u>Available-for-sale</u>
 ‘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%.

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 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 14.

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 2023, these options included the provision of support to borrowing members impacted by sharply rising interest rates through provision of mortgage charter equivalent concessions, principally in the form of six month payment moratoriums, the Society not being a signatory to the charter.

The Strategic Report and Credit Risk Section of Note 26 Credit Risk provides details of forbearance at the Balance Sheet date and information of mortgage charter equivalent 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 2023 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 £60,234 (2022: £54,837). 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 £229,323 (2022: £175,294).

2 Interest Receivable and Similar Income

	2023	2022
	£000	£000
On loans fully secured on residential property	**27,849**	18,940
On other loans	**20**	36
On liquid assets	**4,565**	1,222
On debt securities	**133**	-
Net interest (expense) on derivatives	**2,885**	606
	35,452	20,804

Interest on Debt Securities represented interest from UK Treasury Bills which were acquired and sold in the year.

3 Interest Payable and Similar Charges

	2023	2022
	£000	£000
On shares held by individuals	**17,870**	6,727
On deposits and other borrowings	**3,796**	1,173
	21,666	7,900

4 Net (Loss) / Gain on Derivative Financial Instruments

	2023	2022
	£000	£000
Net (loss) / gain on derivatives in designated fair value hedge relationships	**(3,484)**	2,398
Adjustments to hedged items in fair value hedge relationships	**2,742**	(2,417)
Net gain on derivatives not in designated fair value hedge relationships	**244**	2,598
	(498)	2,579

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

	2023	2022
	£000	£000
Wages and salaries	**3,818**	3,603
Social security costs	**370**	364
Contributions to defined contribution plans	**714**	567
Expenses relating to defined benefit plans	**29**	14
	4,931	4,548
Other administrative expenses	**5,069**	4,232
	10,000	8,780

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

	2023	2022
	£000	£000
Audit of these annual accounts	**265**	198
	265	198

6 Employee Numbers

	2023	2022
	No.	No.
Full Time	**71**	70
Part Time	**36**	37
	107	107
Principal Office	**66**	67
Branch Offices	**41**	40
	107	107

7 Directors' Remuneration

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

Total Directors' emoluments for the year amounted to £822,140 (2022: £688,209).

8 Directors' Loans and Transactions

As at 31 December 2023, there were outstanding mortgage loans granted in the ordinary course of business to two Directors (2022: two) and no connected persons (2022: none), amounting in aggregate to £251,334 (2022: £286,531).

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

	2023	2022
	£000	£000
Current tax		
Current tax on income for the period	**686**	1,271
Adjustments in respect of prior periods	**(34)**	(1)
Foreign tax relief/other relief	**(1)**	(59)
	651	1,211
Foreign tax suffered	**1**	59
Total current tax	**652**	1,270
Deferred tax (refer Note 22)		
Origination and reversal of timing differences	**12**	18
Adjustment in respect of previous periods	**-**	-
Change in tax rate	**1**	6
Total Deferred tax	**13**	24
Total tax	**665**	1,294

	Current tax	Deferred tax	Total
	2023	**2023**	**2023**
	£000	**£000**	**£000**
Recognised in the Income Statement	**652**	**13**	**665**
Recognised in Other Comprehensive Income	**-**	**1**	**1**
Total tax	**652**	**14**	**666**

	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

Analysis of current tax payable in the income statement	**2023**	2022
	£000	£000
Corporation tax	**652**	1,270
Total current tax	**652**	1,270

Reconciliation of effective tax rate	**2023**	2022
	£000	£000
Profit for the year	**2,948**	6,689
Total tax expense	**665**	1,294
Tax using the UK corporation tax rate of 23.52% (2022: 19.00%)	**693**	1,271
Expenses not deductible for corporation tax purposes	**5**	8
Income not taxable for corporation tax purposes	**-**	-
Effect of change in tax rate	**1**	6
Adjustment from previous periods	**(34)**	9
Other	-	-
Total tax charge in the income statement	**665**	1,294

Current tax has been provided at the rate of 23.52% (2022: 19%). The deferred tax asset and liability have been provided at the rate of 25% (2022: 25%) which is the rate applicable when the deferred tax asset and liability is expected to crystallise.

10 Cash and Cash Equivalents

	2023	2022
	£000	£000
Cash in hand	**347**	386
Loans and advances to credit institutions (refer Note 11)	**100,414**	100,498
Cash and cash equivalents per the cash flow statements	**100,761**	100,884

11 Loans and Advances to Credit Institutions

	2023	2022
	£000	£000
Repayable on demand		
Balances with the Bank of England	**99,106**	97,155
Loans and advances to credit institutions	**1,308**	3,343
	100,414	100,498
Total loans and advances to credit institutions	**100,414**	100,498
Total included within cash equivalents	**100,414**	100,498

12 Derivative Financial Instruments

	Notional Principal	Fair Values Assets	Fair Values Liabilities
	2023	**2023**	**2023**
	£000	**£000**	**£000**
Derivatives designated as fair value hedges			
Interest rate swaps	**100,000**	**2,955**	**239**
Total derivatives designated as fair value hedges	**100,000**	**2,955**	**239**
Derivatives not designated as fair value hedges			
Interest rate swaps	**10,000**	**-**	**3**
Total derivatives not designated as fair value hedges	**10,000**	**-**	**3**

	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 in hedge relationships			
Interest rate swaps	45,000	1,613	82
Total derivatives not designated as fair value hedges	45,000	1,613	82

13 Loans and Advances to Customers

	2023	2022
	£000	£000
Loans fully secured on residential property	**642,905**	627,121
Loans fully secured on land	**126**	455
Effective interest rate adjustment	**1,102**	967
Provisions for impairment losses	**(1,001)**	(843)
Loans and advances to customers per Note 25	**643,132**	627,700
Fair value adjustment for hedged risk	**(264)**	(3,069)
	642,868	624,631
The remaining maturity of loans and advances to customers from the reporting date is as follows:		
In not more than three months	**4,415**	3,899
In more than three months but not more than one year	**10,562**	10,539
In more than one year but not more than five years	**102,056**	100,068
In more than five years	**526,836**	510,968
	643,869	625,474
Less allowance for impairment (refer Note 14)	**(1,001)**	(843)
	642,868	624,631

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

At 31 December 2023 £252.2m (2022: £113.3m) 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**
	2023	**2023**	**2023**
	£000	**£000**	**£000**
At 1 January 2023			
Individual impairment	276	-	276
Collective impairment	563	4	567
	839	**4**	**843**
Income statement			
Impairment losses on loans and advances			
Individual impairment	**114**	**-**	**114**
Collective impairment	**48**	**(4)**	**44**
	162	**(4)**	**158**
At 31 December 2023			
Individual impairment	**390**	-	**390**
Collective impairment	**611**	**-**	**611**
	1,001	**-**	**1,001**

	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

15 Tangible Fixed Assets

	Land and buildings 2023 £000	Equipment fixtures fittings and vehicles 2023 £000	Total 2023 £000
Cost			
Balance at 1 January 2023	**1,107**	**1,730**	**2,837**
Acquisitions	**-**	**120**	**120**
Disposals	-	**(21)**	**(21)**
Balance at 31 December 2023	**1,107**	**1,829**	**2,936**
Depreciation and impairment			
Balance at 1 January 2023	**412**	**1,363**	**1,775**
Depreciation charge for the year	**17**	**118**	**135**
On disposals	-	**(18)**	**(18)**
Balance at 31 December 2023	**429**	**1,464**	**1,892**
Net book value			
Balance at 1 January 2023	**695**	**367**	**1,062**
Balance at 31 December 2023	**678**	**366**	**1,044**

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

	2023	2022
	£000	£000
The net book value of land and buildings comprises:		
Freehold	**678**	695
	678	695

16 Intangible Assets

	Purchased Software
	2023
	£000
Cost	
Balance at 1 January 2023	**636**
Acquisitions	**28**
Written off in the year	**(230)**
Balance at 31 December 2023	**434**
Amortisation	
Balance at 1 January 2023	**520**
Amortisation charge for the year	**37**
Written off in the year	**(163)**
Balance at 31 December 2023	**394**
Net book value	
Balance at 1 January 2023	**116**
Balance at 31 December 2023	**40**

Intangible assets are included at cost.

17 Other Debtors

	2023	2022
	£000	£000
Other debtors	**3**	-
Prepayments and accrued income	**754**	978
	757	978

18 Shares

	2023	2022
	£000	£000
Held by individuals	**623,153**	589,910
Other shares	**131**	183
Fair value adjustment for hedged risk	**64**	-
	623,348	590,093

Shares are repayable with remaining maturities from the date of the reporting as follows:

Accrued Interest	**11,566**	4,545
On demand	**246,848**	236,564
In not more than three months	**203,063**	199,386
In more than three months but not more than one year	**110,971**	95,530
In more than one year but not more than five years	**50,900**	54,068
In more than five years	**-**	-
	623,348	590,093

19 Amounts Owed to Credit Institutions

	2023	2022
	£000	£000

Amounts owed to credit institutions are repayable from the date of the statement of financial position as follows:

Accrued Interest	**801**	525
On demand	**-**	-
In not more than three months	**-**	1,000
In more than three months but not more than one year	**15,000**	5,000
In more than one year but not more than five years	**45,500**	70,000
	61,301	76,525

20 Amounts Owed to Other Customers

	2023	2022
	£000	£000

Amounts owed to other customers are repayable from the date of the statement of financial position as follows:

Accrued Interest	**97**	38
On demand	**1,794**	1,699
In not more than three months	**779**	833
In more than three months but not more than one year	**2,927**	5,272
In more than one year but not more than five years	**-**	-
	5,597	7,842

21 Other Liabilities

	2023	2022
	£000	£000
Corporation tax	**127**	471
Social Security	**108**	111
Cash Collateral received against hedging contracts	**2,942**	5,714
Other creditors	**251**	530
	3,428	6,826

22 Deferred Tax Assets and Liabilities

	Assets		Liabilities		Net	
	2023	2022	**2023**	2022	**2023**	2022
	£000	£000	**£000**	£000	**£000**	£000
Accelerated capital allowances	**-**	-	**108**	110	**(108)**	(110)
FRS 102 transitional adjustment	**11**	-	-	-	**11**	-
Employee benefits	**168**	173	**-**	-	**168**	173
Other short term timing differences	**-**	15	**7**	-	**(7)**	15
	179	188	**115**	110	**64**	78

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

23 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.

	2023	2022
	£000	£000
Defined benefit obligation	**613**	642
Net pension liability	**613**	642

Movement in present value of defined benefit obligation

	2023	2022
	£000	£000
At 1 January	**642**	847
Interest expense	**29**	14
Re-measurement: actuarial gains	**(6)**	(162)
Benefits paid	**(52)**	(57)
A 31 December	**613**	642

Principal actuarial assumptions

	2023	2022
	%	%
Discount rate	**4.33**	4.63
Future pension increases	**2.57**	2.87

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 (2022: iBoxx AA Sterling Corporate Non-financial Bond Index)
- ONS National Population Projections (Lifetable) (2020 Based) Cohort Life Expectancy (2022: 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 £714,000 (2022: £567,000). At the beginning of the financial year there was an outstanding contribution brought forward of £49,143 that was settled during 2023, and there were outstanding contributions as at the end of 2023 financial year of £61,233, which were duly settled in January 2024.

24 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 2023	**Loans and Receivables**	**Financial assets and liabilities at amortised cost**	**Derivatives designated as fair value hedges**	**Unmatched Derivatives**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**
Assets					
Cash in hand	-	347	-	-	**347**
Loans and advances to credit institutions	100,414	-	-	-	**100,414**
Derivative financial instruments	-	-	2,955	-	**2,955**
Loans and advances to customers	642,868	-	-	-	**642,868**
Other assets	-	2,020	-	-	**2,020**
Total assets	**743,282**	**2,367**	**2,955**	**-**	**748,604**
Liabilities					
Shares	-	623,348	-	-	**623,348**
Amounts owed to credit institutions	-	61,301	-	-	**61,301**
Amounts owed to other customers	-	5,597	-	-	**5,597**
Derivative financial instruments	-	-	239	3	**242**
Other liabilities	-	58,116	-	-	**58,116**
Total liabilities	**-**	**748,362**	**239**	**3**	**748,604**

Carrying values by category at 31 December 2022	Measured at amortised cost		Measured at fair value		
	Loans and Receivables	Financial assets and liabilities at amortised cost	Derivatives designated as fair value hedges	Unmatched Derivatives	Total
	£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

At the year end, the Society had loan commitments of £30.5m (2022: £24.1m) 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 2023					
Financial assets					
Derivative financial instruments					
Interest Rate SWAPs	12	**-**	**2,955**	**-**	**2,955**
		-	**2,955**	**-**	**2,955**
Financial liabilities					
Derivative financial instruments					
Interest Rate SWAPs	12	**-**	**242**	**-**	**242**
		-	**242**	**-**	**242**
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

25 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:

	2023	2022
	£000	£000
Cash in hand	**347**	386
Loans and advances to credit institutions	**100,414**	100,498
Derivative Financial Instruments	**2,955**	5,958
Loans and advances to customers	**643,132**	627,700
Total statement of financial position exposure	**746,848**	734,542
Off balance sheet exposure: Mortgage Commitments	**30,464**	24,142
	777,312	758,684

Details on collateral held as security that mitigate the Society's exposure to credit risk are provided on page 102. 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	**2023**		2022	
	£000	**%**	£000	%
Residential				
Owner Occupied	**452,061**	**70.32**	471,978	75.26
Buy to Let	**190,844**	**29.68**	155,143	24.74
	642,905	**100.00**	627,121	100.00
Effective interest rate adjustment	**1,102**		967	
Provisions for impairment losses	**(1,001)**		(839)	
Fair value adjustment for hedged risk	**(264)**		(3,069)	
Total net exposure	**642,742**		624,180	

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	**2023**		2022	
	£000	**%**	£000	%
North	**22,843**	**3.55**	20,139	3.21
Yorkshire & Humberside	**41,041**	**6.39**	41,438	6.61
North West	**75,411**	**11.73**	78,385	12.50
East Midlands	**33,421**	**5.20**	35,225	5.62
West Midlands	**41,207**	**6.41**	43,636	6.96
East Anglia	**22,127**	**3.44**	19,180	3.06
South West	**75,162**	**11.69**	67,703	10.80
South East	**154,116**	**23.97**	153,125	24.42
Greater London	**108,578**	**16.89**	111,324	17.75
Wales	**26,674**	**4.15**	27,264	4.35
Guernsey	**42,325**	**6.58**	29,702	4.74
	642,905	**100.00**	627,121	100.00

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

Indexed Loan to Value Analysis	**2023**		2022	
	£000	**%**	£000	%
<=50%	**406,812**	**63.28**	429,458	68.48
>50% <=70%	**178,984**	**27.84**	166,673	26.58
>70% <=80%	**49,768**	**7.74**	29,038	4.63
>80% <=90%	**6,919**	**1.08**	1,566	0.25
>90% <=100%	**-**	**-**	-	-
>100%	**422**	**0.06**	386	0.06
	642,905	**100.00**	627,121	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 31.6% (2022: 30.4%).

The table below provides by payment due status:

Indexed Loan to Value Analysis by Past Due/Impairment Status	**2023**		2022	
	£000	**%**	£000	%
Neither past due nor individually impaired	**637,480**	**99.16**	623,441	99.41
Past due but not impaired	**3,851**	**0.60**	2,829	0.45
<=70%	***3,610***	***0.56***	*2,829*	*0.45*
>70%	***241***	***0.04***	-	-
In possession	-	-	-	-
Impaired	**1,574**	**0.24**	851	0.14
<=70%	***860***	***0.13***	*465*	*0.08*
>70%	***714***	***0.11***	*386*	*0.06*
In possession	-	-	-	-
	642,905	**100.00**	627,121	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	**2023**		2022	
	£000	**%**	£000	%
Commercial				
Owner Occupied	**126**	**100.00**	135	29.67
Investment	-	-	320	70.33
	126	**100.00**	455	100.00
Impairment adjustment	-		(4)	
Total net exposure	**126**		451	

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

Geographical Analysis	**2023**		2022	
	£000	**%**	£000	%
Yorkshire & Humberside	-	-	320	70.33
North West	**126**	**100.00**	135	29.67
	126	**100.00**	455	100.00

The table below outlines the loan to value of exposures.

Loan to Value Analysis	**2023**		2022	
	£000	**%**	£000	%
<=50%	**126**	**100.00**	135	29.67
>50% <=70%	-	-	-	-
>70% <=80%	-	-	-	-
>80% <=90%	-	-	320	70.33
>90% <=100%	-	-	-	-
>100%	-	-	-	-
	126	**100.00**	455	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	**2023**		2022	
	£000	**%**	£000	%
Neither past due nor individually impaired	**126**	**100.00**	455	100.00
Past due but not impaired	**-**	**-**	-	-
<=70%	**-**	**-**	-	-
>70%	**-**	**-**	-	-
In possession	**-**	**-**	-	-
Impaired	**-**	**-**	-	-
<=70%	**-**	**-**	-	-
>70%	**-**	**-**	-	-
In possession	**-**	**-**	-	-
	126	**100.00**	455	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:

	2023				2022			
	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	**637,480**	**99.16**	**126**	**100.00**	623,441	99.41	454	100.00
Past due but not impaired	**3,851**	**0.60**	-	-	2,828	0.45	-	-
Past due less than 2 months but not impaired	**1,662**	**0.26**	-	-	1,675	0.27	-	-
Past due =>2 but <3 months	**1,026**	**0.16**	-	-	782	0.12	-	-
Past due =>3 but <6 months	**332**	**0.05**	-	-	190	0.03	-	-
Past due =>6 but <12 months	**453**	**0.07**	-	-	181	0.03	-	-
Past due over 12 months	**378**	**0.06**	-	-	-	-	-	-
Possessions	-	-	-	-	-	-	-	-
Impaired	**1,574**	**0.24**	-	-	852	0.14	-	-
Not past due	-	-	-	-	-	-	-	-
Past due less than 2 months	-	-	-	-	-	-	-	-
Past due =>2 but <3 months	**557**	**0.08**	-	-	-	-	-	-
Past due =>3 but <6 months	-	-	-	-	261	0.05	-	-
Past due =>6 but <12 months	-	-	-	-	-	-	-	-
Past due over 12 months	**1,017**	**0.16**	-	-	591	0.09	-	-
Possessions	-	-	-	-	-	-	-	-
	642,905	**100.00**	**126**	**100.00**	627,121	100.00	454	100.00
Allowance for impairment								
Individual	**390**		-		276		-	
Collective	**611**		-		563		4	
Total allowance for impairment	**1,001**		-		839		4	

	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	**2,024,011**	**1,773,434**	**550**	2,054,323	1,674,735	945
Past due but not impaired	**11,313**	**8,199**	**-**	10,664	6,983	**-**
Impaired	**1,718**	**1,495**	**-**	**926**	**670**	**-**
	2,037,042	**1,783,128**	**550**	2,065,913	1,682,388	945

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 £3.851m (2022: £2.829m) and £1.153m (2022: £0.465). 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 (2022: £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.

	2023				2022			
	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	**55**	**1**	**-**	**-**	-	-	-	-
Mortgage Charter equivalent payment moratoriums	**1,403**	**8**	**-**	**-**	-	-	-	-
Extension of the mortgage term	**-**	**-**	**-**	**-**	117	1	-	-
Capitalisation of arrears	**-**	**-**	**-**	**-**	-	-	-	-
Of which:	**-**	**-**	**-**	**-**	-	-	-	-
Amount of individual impairment provisions	**-**	**-**	**-**	**-**	-	-	-	-

26 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 2023	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	347	-	-	-	-	347
Loans and advances to credit institutions	100,414	-	-	-	-	100,414
Derivative financial instruments	-	623	1,476	856	-	2,955
Loans and advances to customers	1,102	3,313	9,951	101,666	526,836	642,868
Total financial assets	101,863	3,936	11,427	102,522	526,836	746,584
Financial liabilities						
Shares	252,230	206,351	113,084	51,683	-	623,348
Amounts owed to credit institutions	-	-	15,199	46,102	-	61,301
Amounts owed to other customers	1,800	795	3,002	-	-	5,597
Derivative financial instruments	-	28	16	286	-	242
Total financial liabilities	254,030	207,118	131,269	98,071	-	690,488
Net liquidity gap	(152,167)	(203,182)	(119,842)	4,451	526,836	56,096

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

27 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 is 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	
	2023	2022
	£000	£000
Sensitivity of reported reserves to interest rate movement (economic value)		
At 31 December 2023	**382**	1076
Average for the period	**250**	509
Maximum for the period	**1,030**	1,394
Minimum for the period	**(473)**	(827)

	+100bps Increase	
	2023	2022
	£000	£000
Sensitivity of projected net interest income to interest rate movement (earnings)		
At 31 December 2023	**591**	573
Average for the period	**490**	472
Maximum for the period	**650**	667
Minimum for the period	**294**	188

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:

	2023		2022	
	Assets	**Liabilities**	Assets	Liabilities
	£000	**£000**	£000	£000
Instrument type				
Interest rate swap	**2,955**	**242**	4,345	-
	2,955	**242**	4,345	-

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.

28 Commitments

Capital Commitments

Contractual commitments to purchase tangible fixed assets at the year-end were £nil (2022: £nil).

The contractual commitments for the acquisition of intangible assets at the year-end were £nil (2022: £nil).

29 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 2023 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	£13.339m
Number of employees	107 of which 71 full time and 36 part time per Note 6
Profit before tax	£2.948m
Tax on profit	£0.996m per Cash flow Statement
Public subsidies received	None

30 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 2023 the Society had mortgage loans to Directors and close family members of £251,334 across two accounts (2022: £286,531 across two accounts) on terms on offer to members.

At 31 December 2023 the Society had savings balances from Directors and close family members of £79,124 (2022: £65,224) on terms on offer to members.

During 2023 the Society was charged £5,473, recognised as expenses in the year, in relation to motor vehicle lease contracts with Global Autocare Holding Limited for a time during which J L Walker was a Director. The lease contracts are on a daily rental and can be cancelled without notice. J L Walker ceased to be a Director of Global Autocare Holding Limited on 20 January 2023.

31 Leases

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

	2023	2022
	£000	£000
Less than 1 year	**86**	86
1 to 5 years	**55**	132
After 5 years	**-**	-
Total	**141**	218

Annual Business Statement

for the year ended 31 December 2023

1. Statutory Percentages

	2023 %	Statutory limit %
Lending Limit		
Proportion of business assets not in the form of loans secured on residential property	**0.62**	25
Funding Limit		
Proportion of shares and borrowings not in the form of shares held by individuals	**9.71**	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

	2023 %	2022 %
As a percentage of shares and borrowings		
Gross capital	**7.70**	7.54
Free capital	**7.63**	7.45
Liquid assets	**14.60**	14.96
As a percentage of mean total assets		
Profit after taxation	**0.31**	0.75
Management expenses	**1.37**	1.26

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.

3. Information Relating to the Directors as at 31 December 2023

Name and Occupation	Date of Birth	Date of Appointment	Other Directorships
J L Walker ACIB Director & Chairman	26 April 1958	1 March 2018	River Capital Management Limited Alliance Fund Managers Nominees Limited AFM Business Growth Limited AFM R101 Ventures Limited AFM Small Firms Fund Limited AFM Merseyside Ventures (Limited) AFM Seed Fund Limited BCE Fund Managers (Merseyside) Limited Spark TMT (Carried Interest) LLP AFM Merseyside Mezzanine Limited Worldwide Recruitment Solutions River Capital NWEF GP Limited
H J Crinion Building Society Operations Director	24 January 1969	5 May 2023	-
M R Gray BA (Hons) Director	31 July 1962	1 June 2018	Sopra Steria Financial Services Limited
C McDonald BSc (Hons) Director	6 November 1962	1 June 2018	-
R M Pheasey BSc (Hons) Building Society Chief Executive and Director	12 June 1967	22 December 2008	Pendle Education Trust Building Societies Association
G L Smith Bsc (Hons) Director	21 January 1968	1 June 2023	Street (UK) Services Limited Street (UK) C.I.C Street UK Homes Limited
M Sullivan Director	5 June 1966	11 October 2021	Gov Facility Services Limited
N Walker BA (Hons) ACIB Building Society Finance Director	29 November 1970	22 December 2008	Northern Star Academies Trust
N J Webber BA FCA Director	26 April 1981	1 June 2023	Westfield Contributory Health Scheme 2gether Support Solutions East Sussex Healthcare NHS Trust Pevensey Bay Sailing Club Limited

Documents may be served on the above-named Directors, either individually or collectively, marked ‘Private and Confidential’ c/o Deloitte LLP, 9 Haymarket Square, Edinburgh, EH3 8RY.

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. FP194892