

Members' Review



marsden
BUILDING SOCIETY

TRUSTED BY YOU **SINCE 1860**

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Chairman's Welcome

A warm welcome to your Members' Review - your guide to the Society's performance in 2022 and our plans for the year to come.

I'm very proud to be part of the Marsden team who have worked so hard, with enthusiasm and dedication, to deliver another year of strong performance.

The Society has seen continued growth in its mortgage and savings business, an increase in trading profitability and a further strengthening of its capital resources.

Proud of our mutual heritage and the simplicity of our business model, our strategy continues to ensure the needs of members are aligned to our plans for product, services and distribution.

Whilst the Society's performance was strong, we recognise that 2022 was a challenging year for many due to the increased cost of living and rapid rise in interest rates.

Our purpose is to provide a trusted home for our members' money, supporting their financial well-being and helping them reach their financial goals - a purpose with increased importance in economically challenging times.

We care about our members, and this is reflected in the service we provide and the investment decisions we make. Remaining a successful mutual building society is our goal, to ensure we're here to support members now, and in the future.

John Walker

Rob Pheasey
Chief Executive

2022
A YEAR IN VIEW



Total Assets
£733.8m
up 5.27% (2021: £697.1m)



Share Balances
£590.1m
up 4.59% (2021: £564.2m)



New Members
+2,475
(2021: 2,062)



Loans to Customers
£624.6m
up 2.77% (2021: £607.8m)



Underlying Profit After Tax
£3.3m
(2021: £3.0m)

Your Chief Executive's Review

2022 was another challenging year but I'm pleased to say your Society has strengthened its financial performance, delivering strong results once again.

Before I share an overview of our business performance, I want to thank my colleagues, without whom, the success we have seen would not have been possible. I'd also like to thank you, our members, for your ongoing support.

Business performance

Lending responsibly is central to our purpose, and in 2022, we increased our mortgage base to £624.6m (2021: £607.8m). Despite a modest reduction in total gross lending, we welcomed 1,043 new borrowers to the Society.

The level of growth in mortgages was supported by growth in our savings balances, which increased to £590.1m (2021: £564.2m), attracting 1,432 new savers to the Society. The rise in interest rates was welcomed by savers and we saw increased demand across our entire savings range.

Our statutory profit after tax increased to £5.4m (2021: £3.1m), reserves increased by 12.17% to £50.8m and our Core Tier 1 Solvency Ratio increased by 1.64% to 20.83% (2021: decrease of 0.51% to 19.19%). This highlights the strength and stability of the Society, demonstrating that we remain a safe and secure home for our members' money.

Included in statutory profit after tax were the gains we saw through derivative financial instruments, which we use to manage interest rate risk arising in mortgages. Due to the considerable market volatility which increased swap valuations, we saw gains of £2.6m (2021: £0.1m). The Board is focused on underlying profitability, excluding the impact of fair value gains and losses. As a result of our performance in core markets which increased revenues, we delivered an increase in underlying profitability for the fifth consecutive year, rising to £3.3m (2021: £3.0m).

Supporting our members

2022 proved to be another challenging year for many households, brought on by the rising cost of living and increased borrowing costs. We see no easing of these pressures in the short term and these challenges will remain a key focus for the Society as we implement our plans for the year ahead.

In our lending business, we'll align our resources to support borrowers reaching the end of their initial product period facing an increase in their mortgage financing, and will remain mindful, when welcoming new borrowers, of additional affordability pressures.

"We increased our underlying profitability for the fifth consecutive year"



We're committed to having branches on the high-street, evaluating the potential of new locations and looking at how we can support communities with our products and services using different retail models. We completed the refurbishment of our Burnley branch in 2022 and will be sharing a new look for our Nelson branch in the spring.

Supporting our people

We maintained our high levels of engagement, with 95% of colleagues completing the Best Companies survey. As a result, we retained our 1-star rating which means we have 'very good' levels of engagement. We made changes to our Senior Leadership Team, progressing colleagues internally as well as welcoming new colleagues to the Society, and approved a new pay framework to move all roles to newly benchmarked salaries.

Supporting our communities

As a purpose-led business, we increased the funding available to the Marsden Building Society Charitable Foundation, contributing a further £250,000 to the fund. We also spent time understanding our environmental impact, setting out a phased approach to help us become more sustainable.

The outlook for 2023

We've adjusted our business origination volumes to reflect the changes in customer sentiment, which means we should see a period of slower growth for the Society. Our underlying profitability will reduce in the coming years as we enhance our digital services, strengthen our operational resilience and build our future skills base.

Although we're likely to see growth at a slower pace, we remain committed to our members, our people and our communities. I look forward to the year ahead and delivering on the plans we've set.

Rob Pheasey

Key Achievements

We take a look at some of the key achievements from the past year.

A new look for our Burnley branch

We refreshed our Burnley branch, giving it a brand new look. The changes have been well received with great feedback from members both old and new.

We refreshed our website

It wasn't just Burnley branch that got a new look last year, our website had a makeover too. Making it easier to navigate and giving it a fresher feel, if you haven't seen it already - take a look!

We relaunched our Regular Saver

Our Branch Regular Saver relaunched - a great way to build up your money or start a savings routine.

We expanded our mortgage range

We launched Furnished Holiday Let and First Homes mortgages via our intermediary channel.

We became stronger and more resilient

Our IT investment focused on architecture, cloud services and the strengthening of our operational and cyber resilience.

We launched our Charitable Foundation

We launched the Marsden Building Society Charitable Foundation, providing more financial support to our communities.

Sign up to our e-newsletter for the latest updates. Visit www.themarsden.co.uk to find out more.



A New Look for Nelson Branch

Following in Burnley's footsteps, our Nelson branch will see changes to the interior, making it feel welcoming and more modern.

Making changes for the better

"We'll be taking out the counter and replacing it with additional desks and seating so we can serve customers in a more comfortable environment" said Philippa Farebrother-Dunn, Head of Retail.

"We'll be introducing pendants and floor lamps to create a warmer feel, as we have done at our Burnley branch, and we'll be refreshing the offices at the back of the branch to improve privacy for customers carrying out more complex transactions."

Our Nelson branch will close at 1pm on Friday 31 March, reopening at 9am on Monday 24 April



Making Changes for Our People

Being a successful business relies on having great people to deliver our vision. That's why we've made several changes to further support our colleagues.

We redesigned our pay framework

Our new pay framework introduces a newly benchmarked salary for each role in the Society to make sure we're paying comparatively to our building society peers.

Cost of living support

We recognised the increased cost of living and the pressure this was creating on household finances, so we supported our colleagues with additional payments to help.

Hybrid working

We continued to offer hybrid working to our Principal Office colleagues, enabling them to split their time between the office and home.

Mentoring

We trained managers to be mentors, providing support to colleagues across the Society looking to develop their skills.

Best Companies

Our colleague survey showed 'very good' levels of engagement and we maintained our 1-star rating as a result, listening to feedback and putting plans in place to make the Marsden an even better place to work.

Our Charitable Foundation Has Launched

Last year we shared our plans to launch the Marsden Building Society Charitable Foundation, providing ongoing financial support to our communities.

Our goal has always been to build something better for the community and the launch of our Charitable Foundation will help us to do just that.

Building a legacy

We want to make sure funding is available for many years to come, so we've taken a strategic approach to building the Charitable Foundation. With our donation from 2021 profit, funds from dormant accounts donated via the Alternative Reclaim Fund and £250,000 from 2022 profit, we've created a 'pot' of over £500,000.

The majority of this money will be put into an endowment fund, which means it will be invested to generate a return. This return will help to grow the pot further, generating further returns which can be drawn down to use as grant funds (the money we'll be giving away on an annual basis).

Supporting our communities

Our aim is to have between £20,000 and £30,000 to give away each year to projects in Lancashire supporting our three key themes: financial well-being, social inclusion and the environment/regeneration.

We're delighted to announce that for 2023, we have £30,000 to donate and we'd love you to help spread the word!

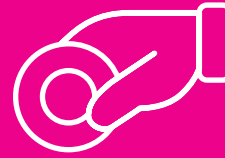
Our fund is open to applicants

Working in partnership with the Community Foundation for Lancashire, our 2023 fund is open to applicants. We'll be sharing the money between a minimum of 10 projects, receiving up to £3,000 each.

If you, or someone you know, is involved with a project that fits one of our key themes, we'd encourage you to apply. You can find detailed criteria about what we're looking for and the areas of focus within our themes on our website, as well as details on how to apply.

Please note, all applications must be sent through the Community Foundation for Lancashire's website and applications sent directly to the Society will not be considered.

Supporting three key themes...



Financial well-being



A society for all



A great place to be

How you can get involved

We want to keep adding to the pot we've created to make sure the fund continues to grow each year, so for each vote we receive in our AGM, we'll donate 50p to the Charitable Foundation. We want our members to see the results of our donations, so we'll be sharing updates through our branches, website and e-newsletter.



The Path to Sustainability

We know that many of our members and colleagues care about the impact they have on the environment, and we're committed to doing our part by making the Society's business practices more sustainable.

We want to understand the environmental impact we have as an organisation, so we've been considering strategies that focus on the sustainability of our business.

A phased approach

We've already completed the first phase of our sustainability assessment, looking at the risks arising from climate change and the impact this will have on our lending business. Phase two includes working closely with external consultants to determine our carbon footprint and develop strategies that support our ambition to be carbon net zero.

Being mindful of our impact

Our colleagues are already playing an active part in helping us become more sustainable, with a working group in place to look at how we can minimise our impact on a day-to-day basis. The launch of our Charitable Foundation also has a role to play. One of the key areas we're looking to support is environmental and regeneration projects in our local communities.

There's more to come...

We all have a role to play in becoming more sustainable, and as a Society, we look forward to sharing our plans and progress with you.



Our Plans for 2023 and Beyond...

2022 was a great year for the Society but we wanted to share more about what's in store for 2023 and beyond.

Digital

We know we have work to do to improve the digital capabilities of the Society by enhancing our eSavings platform and core systems whilst also evaluating mobile technologies. These areas sit on our strategic roadmap which will see us evaluating platforms in 2023 and rolling out changes in 2024-2025.

People

We'll continue to focus on diversity and inclusion, ensuring we have a work environment where everyone feels able to participate and achieve their potential.

Products

We're always looking to develop our product range and in the coming year we'll be looking at the role we play in supporting the transition to a low-carbon economy, whether through mortgage products that support the retrofit of existing properties, or lending criteria that keeps pace with new, greener house-building technologies.

Customer experience

We want to make every experience with the Marsden the best it can be, so we'll be continuing to use Smart Money People to collect reviews and gather insights, alongside mystery shopping, to make improvements throughout the year.

Have your say! We've included a Smart Money People survey in your AGM voting pack.



Summary Financial Statement

for the year ended 31 December 2022

This financial statement is a summary of information in the audited Annual Report and Accounts, the Directors' Report and the Annual Business Statement, all of which will be available to members and depositors free of charge, online or by contacting your local branch from 22 March 2023.

Summary Directors' Report

The information contained in the Chairman's Welcome and Your Chief Executive's Review on pages 3-6 and the Financial Performance Review detailed below address the requirements of the Summary Directors' Report.

Financial Performance Review

Overview of Income Statement

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 had a strong trading year with statutory profit before tax up £2.940m (78.4%) to £6.689m. A significant driver of this improvement was net gains on financial instruments.

Statutory Income Statement

	2022	2021
	£m	£m
Net interest receivable	20.804	16.126
Net interest payable	(7.900)	(4.262)
Net interest income	12.904	11.864
Other income	0.230	0.267
Net gains from financial instruments	2.579	0.132
Total income	15.713	12.263
Management expenses & depreciation	(8.983)	(8.354)
Operating profit	6.730	3.909
Impairment losses	(0.090)	(0.274)
Provisions for liabilities	0.000	0.112
Gains on disposal	0.049	0.002
Profit on ordinary activities	6.689	3.749
Tax	(1.294)	(0.668)
Profit after tax	5.395	3.081

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. The secondary risk of volatility in fair value of these instruments is less able to be managed, therefore it should be isolated when considering trading performance. Accordingly the Board tracks underlying performance, excluding fair value gains and losses as set out in the Underlying Income Statement on the next page.

Underlying Income Statement	2022	2021
	£m	£m
Net interest receivable	20.804	16.126
Net interest payable	(7.900)	(4.262)
Net interest income	12.904	11.864
Other income	0.230	0.267
Underlying total income	13.134	12.131
Management expenses & depreciation	(8.983)	(8.354)
Underlying operating profit	4.151	3.777
Impairment losses	(0.090)	(0.274)
Provisions for liabilities	0.000	0.112
Gains on disposal	0.049	0.002
Underlying profit on ordinary activities	4.110	3.617
Tax	(0.804)	(0.643)
Underlying profit after tax	3.306	2.974
Net gains from financial instruments	2.579	0.132
Tax on net gains from financial instruments	(0.490)	(0.025)
Statutory profit after tax	5.395	3.081

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

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

Looking forward, profitability is anticipated to reduce as a result of a combination of increased operating costs and re-pricing of mortgages hedged with derivatives at very low cost in 2020 and 2021. 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 peer group averages for the sector and be sufficient to maintain appropriate capital resources to sustain the Society and protect members' interests.

Net Interest Income

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

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

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

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

Other Income

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

Net Gains from Financial Instruments

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

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

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

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

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

Management Expenses

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

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

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

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

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

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

Loan Impairment

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

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

Mortgage Arrears and Forbearance

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

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

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

Taxation

The Corporation Tax charge in the year to 31 December 2022 was £1.294m (2021: £0.668m), representing an effective rate of 19.3% (2021: 17.8%). Further detail is provided in the full Annual Report and Accounts.

Statement of Financial Position

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

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

Liquid Assets

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

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

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

Mortgage Assets

Total residential lending, before effective interest rate, impairment and fair value adjustments was £627.1m, up £19.5m (2021: £607.6m, up £61.9m). Gross new lending was £133.3m (2021: £159.1m).

Whilst the Society performed strongly during the year in relation to mortgage retention on product maturity, in the final quarter of the year, a spike in non-contractual overpayments and redemptions was experienced, which is attributed to borrowers re-mortgaging within product periods or reducing debt in response to the spike in mortgage rates following the market turmoil in the autumn.

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

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

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

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

Further analysis on Credit Risk can be found in the full Annual Report and Accounts.

Funding

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

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

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

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

Capital

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

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

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

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

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

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

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

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

The Pillar 3 Disclosure as at 31 December 2022, which contains key pieces of information on the Society's capital, risk exposures, risk assessment process and Individual Capital Guidance, is available on our website - www.themarsden.co.uk.

Principal Risks and Uncertainties

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

Details of these risks can be found in the full Annual Report and Accounts.

Results for the Year	2022	2021
	£000	£000
Net interest receivable	12,904	11,864
Other income and charges	230	267
Fair value gains on financial instruments	2,579	132
Administrative expenses	(8,983)	(8,354)
Provisions for bad and doubtful debts	(90)	(274)
Provisions	0	112
Operating profit	6,640	3,747
Profit on sale of tangible and intangible assets	49	2
Profit on the year before taxation	6,689	3,749
Taxation	(1,294)	(668)
Profit for the year	5,395	3,081

Financial Position at the End of the Year	2022	2021
Assets	£000	£000
Liquid assets	100,884	86,134
Derivative financial instruments	5,958	825
Mortgages	624,631	607,816
Fixed and other assets	2,344	2,335
Total assets	733,817	697,110
Liabilities		
Shares	590,093	564,196
Borrowings	84,367	84,301
Derivative financial instruments	82	87
Other liabilities	8,436	3,204
Reserves	50,839	45,322
Total liabilities	733,817	697,110

Summary of Key Financial Ratios	2022	2021
	%	%
Gross capital as a percentage of shares and borrowings	7.54	6.98
Liquid assets as a percentage of shares and borrowings	14.96	13.27
Profit for the year as a percentage of mean total assets	0.75	0.46
Management expenses as a percentage of mean total assets	1.26	1.25

Definitions

The gross capital ratio gives an indication of the extent to which the Society is funded by retained earnings and other reserves compared with shares and borrowings. Gross capital provides a financial cushion against any losses which might arise from the Society's activities to safeguard the interests of investors.

The liquid assets ratio is a measure of the proportion of the Society's funding covered by cash assets or those readily convertible into cash. Liquid assets are, by their nature, realisable to allow the Society to meet withdrawals by investors, make new mortgage loans and fund its business activities.

Profit for the year as a percentage of mean total assets measures the profit after taxation for the year as a proportion of the Society's total average assets during the year. The Society maintains a reasonable level of profit each year in order to keep its capital ratio at a suitable level to protect investors.

Management expenses represent the total cost of administrative expenses and depreciation. They constitute the cost of employing staff, complying with legislation, advertising and maintaining the branch network and Principal Office. The management expenses ratio measures the proportion that these expenses bear to the simple average of total assets at the beginning and end of the financial year.

Approved by the Board of Directors on 2 March 2023 and signed on its behalf by

J L Walker
Chairman

R M Pheasey
Chief Executive

N Walker
Finance Director

Independent Auditor's Statement to the Members and Depositors of Marsden Building Society

We have examined the Summary Financial Statement of Marsden Building Society for the year ended 31 December 2022 which comprises the Summary Income Statement and Statement of Financial Position together with the Summary Directors' Report.

Respective responsibilities of Directors and auditor

The Directors are responsible for preparing the Summary Financial Statement, in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the Summary Financial Statement within the Members' Review with the Annual Report and Accounts, Annual Business Statement and Directors' Report and its conformity with the relevant requirements of Section 76 of the Building Societies Act 1986 and regulations made under it.

We also read the other information contained in the Members' Review and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Summary Financial Statement.

Basis of opinion

Our examination involved agreeing the balances in the Summary Financial Statement to the Annual Report and Accounts, Annual Business Statement and Directors' Report. Our report on the Society's Annual Report and Accounts describes the basis of our audit opinion on those Annual Report and Accounts.

Opinion on Summary Financial Statement

In our opinion, the Summary Financial Statement is consistent with the Annual Report and Accounts, the Annual Business Statement and the Directors' Report of Marsden Building Society for the year ended 31 December 2022 and complies with the applicable requirements of Section 76 of the Building Societies Act 1986 and regulations made thereunder.

Use of our report

This report is made solely to the Society's members, as a body, in accordance with Section 76(5) of the Building Societies Act 1986. Our 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, for our audit report, or for the opinions we have formed.

Statutory Auditor

Deloitte LLP
Saltire Court, 20 Castle Terrace, Edinburgh EH1 2DB

2 March 2023

Summary Directors' Remuneration Report

Annual Statement from the Chair of the Board People, Remuneration & Culture Committee

I am pleased to share this summary of the Directors' Remuneration Report on behalf of the Board People, Remuneration & Culture Committee 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 it 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 Annual General Meeting.

The Society's remuneration policy supports our strategic objective of growing our savings and mortgage business to deliver long-term sustainable value to our members, avoiding a focus on short-term performance.

The Society's people live by our five core values, which underpin delivery of our strategy:

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

We believe that remuneration of Executive Directors and senior managers should be comparable with that of similar organisations in the financial sector to attract, retain and motivate individuals with the required skills and competence.

The remuneration of Executive Directors and senior management is basic salary, an annual bonus (when payable), pension, death in service benefits, company car and private medical insurance.

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

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

From 1 July 2011, the Society introduced a Salary Sacrifice Scheme for all colleagues including Executive Directors.

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

In recognition of the results achieved by the Society, the outturn being ahead of forecast despite the operating challenges experienced in 2022, the Committee approved a 15% bonus, as a proportion of reference salary prior to any salary sacrifice (2021: 15%).

This represented 6% in respect of the Society Bonus Scheme and 9% in recognition of the scheme for Executive Directors (2021: 9% plus 6%). Payments under the scheme are made during the first half of the year following that in question and are not currently subject to deferral.

Executive Directors also participated in a defined contribution Group Personal Pension Scheme which is available to all eligible colleagues 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 Board People, Remuneration & Culture Committee is responsible for determination of policy on the level of remuneration payable to the Executive Directors, the senior management team and the Chairman. The Chairman takes no part in the discussion in respect of his own remuneration. The Committee takes account of information on remuneration payable at comparable building societies and the time commitment and responsibility in respect of the Chairman.

The Board People, Remuneration & Culture Committee had seven meetings during 2022. The composition of the Committee as at 31 December 2022 was M L Ibbs (Chair), C McDonald, M Sullivan and J L Walker. The Chief Executive attends each meeting by invitation. Neither the Chairman or Chief Executive take part in the discussions on their individual remuneration.

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

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

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

From 1 July 2017, in response to implementation of changes to personal taxation in respect of pension contributions, the Board resolved to transition from a contribution of 10% of salary in respect of pension contributions to a cash allowance of 10% of salary paid in lieu of pension contributions.

Executive Directors' salaries are disclosed net of salary sacrificed under the scheme available to all colleagues, within which the Executive Directors' participate, with salary sacrificed disclosed within pensions and group life contributions.

Directors' Remuneration (Audited Information)

2022		Fees/ Salary	Variable Remuneration	Benefits	Pension & Group Life Contributions	Total
Non-Executive		£	£	£	£	£
J L Walker	Chairman	52,750	-	-	-	52,750
M R Gray		31,125	-	-	-	31,125
M L Ibbs	Senior Independent Director	31,125	-	-	-	31,125
C McDonald		28,550	-	-	-	28,550
C A Ritchie		31,125	-	-	-	31,125
M Sullivan		28,550				28,550
		203,225	-	-	-	203,225
Executive		£	£	£	£	£
R M Pheasey	Chief Executive	193,832	31,126	38,997	15,231	279,186
N Walker	Finance Director	144,291	23,438	25,690	12,379	205,798
		338,123	54,564	64,687	27,610	484,984

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

M L Ibbs

Chair of the Board People, Remuneration & Culture Committee

2 March 2023

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

If you'd like a copy of this document in large print, braille or audio, please send an email to info@themarsden.co.uk or call 01282 440500* and we'll be happy to assist.

Marsden Building Society is a member of the Building Societies Association. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority under registration number 206050. Principal Office, 6-20 Russell Street, Nelson, Lancashire BB9 7NJ. *Calls will be recorded and may be monitored. FP194207