Summary Financial Statement 2022

Including Notice of Annual General Meeting and Changes to the Memorandum & Rules

Always with your interest at heart

Furness BUILDING SOCIETY

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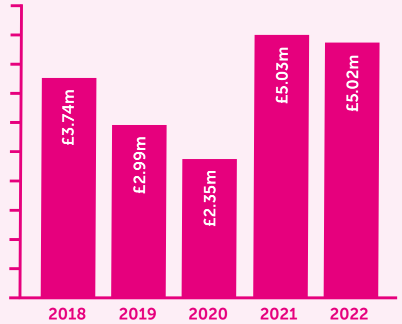
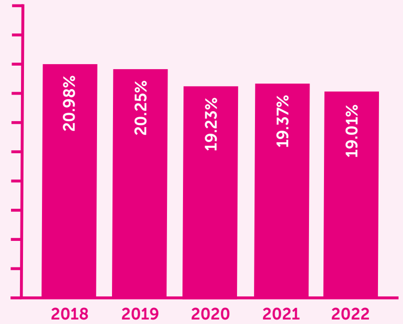
Performance Summary

Financial Strength

Profit before tax

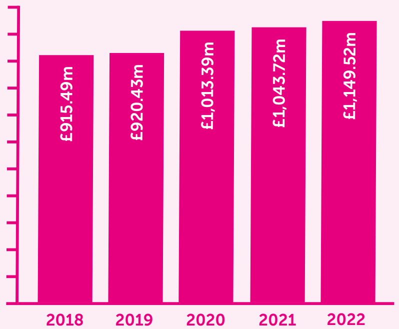


Total Capital Ratio

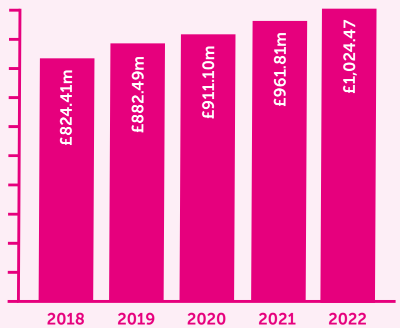


Business Summary

Retail Share and Deposit Balances



Mortgage Balances



Notice of Annual General Meeting 2023

Notice is given that the 156th Annual General Meeting (AGM) of the members of the Furness Building Society will be held on **Tuesday, 25 April 2023 at 4.00pm** at Furness Building Society, Emlyn Hughes House, Abbey Road, Barrow in Furness LA14 5PQ for the following purposes:

1. To receive Chairman's opening remarks.
2. To receive the Auditor's Report for the year ended 31 December 2022.
3. To receive the Directors' Report, Annual Accounts and Annual Business Statement for the year ended 31 December 2022.
4. To consider, and if thought fit, pass an Ordinary Resolution to approve the Directors' Remuneration Report for the year ended 31 December 2022.
5. To consider, and if thought fit, pass an Ordinary Resolution to re-appoint Mazars LLP as Auditor.
6. To consider, and if thought fit, to re-elect/elect the following as a Director:
   (a) To re-elect G M Berville as a Director
   (b) To re-elect C M Harrison as a Director
   (c) To re-elect K L Rebecchi as a Director
   (d) To re-elect N J Gower as a Director
   (e) To re-elect P A McLelland as a Director
   (f) To re-elect A P Haywood as a Director
   (g) To re-elect P D Rogerson as a Director
   (h) To elect Laura Hamp as a Director

Voting Conditions

1. These Notes form part of the Notice of Meeting.

2. You may either vote in person at the Meeting, if attendance is permitted, or you may use the voting form to appoint a representative to attend and vote for you as you direct. You may appoint the Chairman of the Meeting or anyone else as your representative, they do not have to be a member of the Society. Your representative may vote for you at the Meeting on a written poll but not on a show of hands.

3. The final voting date is:

a) 3.00pm on Thursday, 20 April 2023 if you are posting your voting form at a branch

b) Saturday, 22 April 2023 if you are posting the voting form using the prepaid envelope or voting online, or

c)Tuesday, 25 April 2023 if you vote in person at the Meeting.

4. You are entitled to vote if you are at least 18 years old on 25 April 2023 and you are the first named account holder in our records. You must also either:

a) have had at least £100 in your share account on 31 December 2022, and continue to have a share account with the Society at all times between 31 December 2022 and the voting date.

b) have owed the Society not less than £100 on your mortgage loan(s) on 31 December 2022 and on the voting date.

5. No matter how many share or mortgage accounts you have, in any capacity, you are only entitled to vote once on each resolution. If you vote online and subsequently change your mind you are able to vote again using the same proxy number and your last vote will be counted.

If you submit a postal vote and submit an online vote then the last vote received by the scrutineer will be counted.

6. Members attending the Meeting will be requested to produce their passbooks or other evidence of membership in order to obtain admission. If you have appointed a representative, please ensure that they bring an appropriate form of identification to the Meeting.

7. If you appoint a representative to vote on your behalf and your representative does not attend the Meeting, your vote will not be counted.

8. Please remember to sign the declaration on the voting form as only signed forms will be valid.

9. A vote withheld is not a vote in law which means that the vote will not be counted in the calculation of votes for and against the resolution.

Team Biographies

Board of Directors and other officers

Graham Berville

Responsible for leading the Board of directors, Graham has over 30 years' experience in the financial sector, including work with six mutual financial services companies. His sound understanding of governance, risk and conduct requirements has been instrumental in steering us through another highly unusual and challenging year.

Key roles:
Chairman
Chairman of Nomination Committee

Wider commitments:
Chairman of Keycare Limited
Chairman of Keycare Assistance Limited (EIRE)
Chairman of Yorkshire Cancer Research

Chris Harrison

Chris joined us in 2017 and his strong vision and determination to instill a high performance culture have had a hugely positive impact on our transformation into a modern and competitive building society. Chris is committed to maintaining our strong community values and social responsibility and shaping a sustainable future for our members. Previous roles include President and CEO of Assurant Solutions Europe.

Key roles:
Chief Executive
Chairman of the Executive Committee
Chairman of the Assets & Liabilities Committee
Member of the Nomination Committee

Kim Rebecchi

Kim brings over 30 years' experience in the mutual sector to our Board and is committed to instilling the benefits of mutuality to our members and local communities. Kim held a position at Leeds Building Society for 28 years, most recently as an executive member of the Board. Her in-depth knowledge of the sector and marketplace plays a critical role in supporting and guiding the Chairman and is valued greatly by the management team.

Key roles:
Vice Chairman
Chairman of the Remuneration Committee
Member of the Nomination Committee
Member of the Audit Committee

Wider commitments:
Director of Redmayne Bentley Stockbrokers LLP
Director of Cynergy Bank Ltd

Nic Gower

Nic has enjoyed a long and successful career, with the majority spent as a partner at PriceWaterhouseCoopers LLP specialising in audit and risk management. As our longest-serving Board member, his experience and insight continues to be highly valued by all directors.

Key roles:
Senior Independent Director
Chairman of the Audit Committee
Whistleblowing Champion
Member of the Board Risk Committee
Member of the Nomination Committee

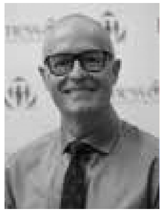
Wider commitments:
Director of Manchester University NHS Foundation Trust

Phillip McLelland

Phillip brings to the table experience from a number of directorship and executive finance and risk roles including that of Finance Director at UK Asset Resolution, Provident Financial and the British Business Bank. He firmly supports our 'member first' model and his proven commercial, finance and treasury expertise is helping guide us towards a successful future.

Key roles:
Chairman of the Board Risk Committee
Member of the Audit Committee
Member of the Remuneration Committee

Wider commitments:
Chief Risk Officer for the Calisen Group



Andy Haywood

Andy has held numerous executive positions in the retail and commercial banking sectors throughout his career including as Chief Operating Officer at N Brown PLC and roles at The Cooperative Group and Boots. His skills and experience in complex areas of technology and change management play a vital role in protecting members and safeguarding our future.

Key roles:
Member of the Board Risk Committee
Member of the Remuneration Committee
Climate Change Champion

Wider commitments:
Chief Information Officer for Yorkshire Water

Peter Rogerson

Peter has worked in the financial industry for more than 30 years, including holding senior roles at Virgin Money and Alliance & Leicester. His extensive strategic, commercial and management experience is an asset to the Board, along with his passionate belief that everyone has the right to own their own home.

Key roles:
Member of the Board Risk Committee
Member of the Remuneration Committee
Consumer Duty Champion

Wider commitments:
Director of Redcar and Cleveland Voluntary Development Agency Housing Community Interest
Director of Whitworth West Management Company Limited

Laura Hamp

Laura joined the Society in 2019 as Head of Financial Change and took on the role of Interim Finance Director in September 2022. She is a qualified Chartered Accountant with over 15 years' experience in audit, insurance and financial services, including 7 years of senior leadership in the Building Society sector. She has extensive experience of prudential risk management and statutory accounting. Laura's financial management skills and championing of the mutual sector support our continued and long-term sustainability.

Key roles:
Interim Finance Director
Member of the Executive Committee
Member of the Assets & Liabilities Committee
Member of the Board Risk Committee

Elaine O'Dwyer

Elaine joined us in January 2021 as Chief Risk Officer following an extensive career in the financial services industry including Tesco Bank, HBOS, MBNA and Santander. Elaine's experience spans across products, both secured/unsecured, customer lifecycle and has significant knowledge in Credit Risk. She is committed to reducing the carbon footprint of the Society. Elaine recently took over responsibility for Compliance when the second line Risk and Compliance functions were combined.

Key roles:
Chief Risk Officer
Member of the Executive Committee
Member of the Assets and Liability Committee

Pam Mawson

Pam joined Furness in 1988 and holds extensive knowledge of our business, having held several managerial positions prior to her appointment to the Executive team in 2015. During 2022 Pam accepted a new role as Director of Operational Resilience and Strategic Change, and looks forward to contributing to the programme of investment which will improve our customer experience.
Pam is passionate about working for a regionally-based building society whose customer interests are central to the culture of our organisation.

Key roles:
Group Secretary
Director of Operational Resilience & Strategic Change
Member of the Executive Committee
Member of the Assets and Liabilities Committee

Summary Financial Statement

Independent Auditor's Statement

Independent Auditor's statement to the Members and Depositors of Furness Building Society

We have examined the Summary Financial Statement of Furness Building Society (the "Society") set out on pages 29 to 30.

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 summary financial statement with the full annual accounts], the Annual Business Statement and the Directors' Report and its conformity with the relevant requirements of Section 76 of the Building Societies Act 1986 and regulations made under it.

Basis of opinion

Our examination of the Summary Financial Statement consisted primarily of:

- Agreeing the amounts included in the Summary Financial Statement to the corresponding items within the full annual accounts, the Annual Business Statement and the Directors' Report of the Society for the year ended 31 December 2022 including consideration of whether, in our opinion, the information in the Summary Financial Statement has been summarised in a manner which is not consistent with the full annual accounts, the Annual Business Statement and Directors' Report of the Society for the year;
- Checking that the format and content of the Summary Financial Statement is consistent with the requirements of section 76 of the Building Societies Act 1986 and regulations made under it; and
- Considering whether information has been omitted which although not specifically prescribed by section 76 of the Building Societies Act 1986 and regulations made under it, in our opinion, is necessary to ensure consistency with the full annual accounts, the Annual Business Statement and the Directors' Report of the Society for the year ended 31 December 2022.

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

Our report on the Group's and Society's full annual accounts describes the basis of our opinion on those annual accounts, the Annual Business Statement and the Directors' Report.

Opinion

In our opinion the Summary Financial Statement is consistent with the full annual accounts, the Annual Business Statement and the Directors' Report of Furness 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 under it.

Use of the statement

This statement is made solely to the Society's members as a body and the Society's depositors as a body in accordance with section 76(5) of the Building Societies Act 1986. Our audit work has been undertaken so that we might state to the Society's members and depositors those matters we are required to state to them in such a statement 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 and the Society's depositors as a body for our audit work, for this statement, or for the opinions we have formed.

Mazars LLP
Statutory Auditor

Mazars LLP
One St Peter's Square
Manchester
M2 3DE

14 March 2023

Directors' Report

Our annual report and accounts are prepared under Financial Reporting Standards (FRS) 102 and applies the measurement and recognition provisions of IAS39.

Business Review
Remaining Financially Robust

Remaining financially robust ensures the Society can continue to invest in the future, whilst tackling the issues of today. As we've steered our business through the challenging circumstances of another turbulent year, our financial focus has been to prioritise long-term prosperity over short-term costs or benefits to provide security for our members.

Overview on income statement	**Group 2022 £000**	**Group 2021 £000**
Net interest income	**20,866**	17,390
Other income and charges	**(1)**	690
Administrative expenses	**(15,050)**	(12,689)
Depreciation and amortisation	**(670)**	(657)
Impairment (charge)/credit	**(122)**	294
Profit before tax	**5,023**	5,028
Taxation	**(1,050)**	(1,045)
Profit after tax	**3,973**	3,983

Net Interest Margin

The Society's interest margin increased during the year from 1.56% to 1.76%. In a rate rising environment the Society has benefitted from higher returns on liquid assets, predominantly Gilts and cash held with the Bank of England. During the year the Society has also paid back expensive subordinated debt which has further contributed to increased margin. The Society has further managed margin through mortgage and savings re-pricing in response to the Bank of England's rate increases.

Other income and charges

This comprises fees and charges not accounted for within net interest margin such as payments to Community Accounts and fair value losses or gains on swaps and hedged items. We use swaps solely for risk management purposes to hedge exposure to interest rate changes on our portfolio of fixed rate mortgage and savings products.

Management expenses

The Society's management expenses include staff costs and all other operating costs necessary for the business to function including any overheads, depreciation and amortisation.

Our Board and Executive recognise the need to balance cost control with investment in the business and the high calibre people required to run the business effectively for its members in order to continue providing excellent products and services.

Management expenses were 1.33% of mean assets in 2022 (1.20%:2021). The increase in management expenses has been driven by further investment in our people as well as inflationary pressures in the UK economy.

In response to the Cost of Living crisis, the Board decided it would be appropriate to provide some financial assistance to our colleagues during a difficult period. An additional increase of 5% to salaries was therefore awarded to colleagues in June 2022, and a cost of living payment made in December 2022. The Society has also increased its headcount in areas including risk & compliance to ensure the Society has sufficient resource to effectively manage emerging risks.

Impairment charges

Loan loss provisions have increased in the year. This has been despite increases in house prices, which have had an offsetting reduction in provisions. This has been due to modelling assumptions having been updated to ensure provisions held are sufficient to cover losses in 2023. Arrears remain low however the Society must not be complacent given the tough challenges facing our customers in the months ahead.

Profit

The Society's profit after tax remained in line with previous year at £4.0m (£4.0m: 2021). Profit in the year was supported by timing differences related to base rate increases.

Looking ahead, we expect pressure on our profits in 2023 as we invest in the future but also, as we navigate uncertainty in the economy and potential reductions in house prices and mortgage activity.

Capital

The preservation of capital will enable us to protect our members and sustain the future of the business. Our core equity tier (CET1) ratio remains strong at 18.9% and substantially higher than the minimum required by our Regulator. We repaid our subordinated debt, which was Tier 2 capital, during 2022 at its contractual maturity date.

Our capital strength continues to support the demands associated with the development and investment in the business which will support our future success. This financial strength also protects the Society against its principal risks and safeguards members' funds.

The minimum level of capital required to be held is set by the Prudential Regulatory Authority (PRA) and we ensure capital is maintained at the appropriate level for the normal business needs as well as significant stresses in the market.

At 31 December 2022, our gross capital (as a % of Shares and borrowings) was 7.2% (8.0%:2021). This is due to an increase in retail share balances during the year.

Liquidity

The Society's liquid assets comprise cash and other assets that are easily converted to cash, which are shown in the Statement of Financial Position. We ensure liquidity is optimised and of appropriate quality to meet our financial obligations as they fall due, under both normal and stressed scenarios.

During 2022 the Society's cash and cash equivalents decreased in the year. However, liquid assets increased overall as the Society invested more of its liquidity into interest earning Treasury assets. The overall increase reflects the Society's preparation for contractual repayment of the Bank of England's Term Funding Scheme with additional incentives for SMEs (TFSME). This has resulted in our liquid asset ratio increasing from 15.5% of Share & Deposit Liabilities (SDL) to 16.5% in 2022. Looking ahead, the Society is required to pay back its first tranche of TFSME by the end of 2024.

A key regulatory measure of liquidity is the Liquidity Coverage Ratio (LCR) which was 208% as at 31 December 2022, considerably above the regulatory requirement.

Going concern and long-term viability

We've considered the potential economic ramifications of the market and geopolitical uncertainty on our current and future obligations and the Society's prospects over the Corporate Plan period.

We expect uncertain conditions to continue and house price volatility. Affordability levels are almost certainly expected to face pressure which could impact the business both in terms of arrears and forbearance levels and the volume of new mortgage applications received.

The latest profitability, liquidity and capital forecasts in the Plan have been reviewed and we're satisfied that our severe stress scenarios are survivable. We continue to forecast long-term viability with moderate growth and continued capital surplus.

The capital adequacy position was considered in the the Internal Capital Adequacy Assessment Process (ICAAP) stress scenarios, and reverse stress testing scenarios.

The Board considers the Society to be well positioned for the future, with sufficient levels of capital and liquidity to withstand stress events.

We do therefore, continue to prepare our financial statements on a going concern basis.

Post year-end events

The outlook for the UK economy remains highly uncertain.

We've considered the impact of the rising inflation and higher interest rate environment and closely monitor macro-economic data relating to HPI, unemployment and geo-political events.

We've paid due regard to the events following our year end and don't consider that any have had a material effect on our current financial position.

Supplier payment policy

Our policy continues to be to discharge supplier invoices within the agreed payment terms. Average settlement time in 2022 was 30 days (30 days: 2021).

Donations

During the year, we made various donations to charity totaling £23k (£8k: 2021). This is in addition to Community Account payments of £122k (£120k: 2021). Our Community Accounts support clubs and charities, with an annual donation being made to each by the Society based on the balances of all the savings accounts related to the affinity group.

We also allow our people time to support charitable causes and a number of employees were assisted in this way in 2022.

No political gifts or donations were made during the year (NIL: 2021).

Directors

Our directors are responsible for the maintenance and integrity of the corporate and financial information. UK legislation governing the preparation and dissemination of the Annual Report & Accounts may differ from that in other jurisdictions.

We're required by the Building Societies Act 1986 to prepare annual accounts for each financial year that provide a true and fair view of the income and expenditure of the Society and provide details of the Directors' remuneration. The Directors' responsibilities in respect of the preparation of the Annual Report & Accounts and Annual Business statement include:

- Ensuring suitable accounting policies are used in a consistent manner
- Ensuring key accounting judgements are reasonable
- Ensuring compliance with UK GAAP
- Preparing the accounts on a going concern basis (unless it would be inappropriate to do so)

Directors who served during 2022 are listed on page 5 to 7. None of the directors had an interest in the shares or debentures of any associated body of the Society at any time during the financial year.

Section 172 of the Companies Act 2006 sets out the duties of any company director. This does not apply to our directors here at Furness as we are a building society. However, the UK Corporate Governance Code expects Board members to set out how Section 172 matters are considered in its decision making.

Our Board confirms it has acted in good faith and in a way that would be most likely to promote the success of the Society and the best interests of its members.

Disclosure of information to the auditor

At the date of approval of this report, each of our directors confirms that:

- So far as he or she is aware, there is no relevant audit information of which the Group's auditor is unaware.
- All steps necessary have been taken in order to be aware of any relevant audit information and establish that the Group's auditor is aware of that information.

Appointment of the auditor

Mazars LLP have been appointed as the Society's external auditors for the financial year 2022.

Pillar 3 disclosures

As required, we have set out further details of our risk management framework, including our risk exposures and assessment processes, in our Pillar 3 document which is available on our website.

Climate Change

The Society recognises the importance of reducing where possible the environmental impact of our business and the products and services that we offer to members. Our work in this area is being led by the Director of Operational Resilience and Strategic Change. We moved to our new Head Office (2019) and are starting our Branch refurbishment programme with careful consideration being given to the environmental aspects such as heating and cooling, energy efficient lighting and other energy efficiencies for the premises. Once this work is complete, we will commission a full carbon footprint assessment to benchmark our position and use this to determine what further steps can be taken to reduce and offset our emissions further as we work towards the UK's Net Zero pledge by 2050.

We have started some internal colleague forums to develop our practical and pragmatic response to the ever-increasing challenge we face as a Society to improve the impact we have on our environment and within our communities.

A team of colleagues took part in a beach clean in September 2022, and managed to collect over 40 bags of rubbish and debris. Despite being a very wet and windy day, the team thoroughly enjoyed the time and we will be planning other local events this year.

Risk Review
Managing & mitigating risk

The Society operates in a business environment that contains a broad range of financial and non-financial risks. We have a formal risk management framework, including a detailed Board Statement of Risk Appetite.

The Board is responsible for the effective management of risks within its appetite and it delegates oversight of the implementation of the risk management framework, including policies to the Board Risk Committee. Key risk and performance indicators are monitored by the Board on a regular basis.

Our three lines of defence model ensures clear separation between the ownership and management of risk and controls (first line), oversight, support and advice (second line) and internal audit assurance (third line).

The Society's risks cover a wide range of areas (e.g-Model Risk, Credit Risk, Prudential risks) and the information below highlights the key risks to the Society in 2022:

Strategic Risk

Strategic risk is the risk resulting from our strategic decisions which have the potential to impact our members, the Corporate Plan and our performance over the planning period. A crystallisation of strategic risk could affect the overall strength of the Society or impact the business model. The Board regularly discusses strategic issues and challenges the Corporate Plan proposed by Executives. It ensures strong levels of capital and liquidity are maintained to provide resilience against external factors which may cause stresses to the business.

The Society's strategy is reviewed at least annually by the Board and Management to ensure it remains appropriate, deliverable and sustainable with external assistance sought when required to validate conclusions. The on-going management of strategic risk is supported by the business performance and risk reporting data provided to the Board and Risk Committees.

Consideration has been given to the rising interest rate and inflationary environment as well as potential ramifications of geopolitical uncertainty on our current and future obligations and the Society's prospects over the five-year Corporate Plan period.

In 2023 the Society continues to invest in technology, capability and product propositions and distribution to ensure we are in the best position to meet customer expectations and secure a sustainable future for the Society.

Credit Risk

Credit risk is the risk that borrowers or counterparties to whom the Society has lent money may default on their obligation to repay the Society. The Society holds security on customer mortgages in the form of property and land. A reduction in the House Prices Index (HPI) impacts the value of these and may increase the loss in the event of default. During an economic downturn, property and land become harder to sell increasing the discount on the sale price of the property (forced sale discount), this combined with the likelihood of increased arrears rates as customers' ability to meet repayments is impacted, further increases the Society's credit risk.

The Society manages the risk associated with mortgage borrowers by means of a prudent Lending policy that includes both a thorough assessment of the creditworthiness of the borrower and the value of the proposed security. Mortgages are monitored closely and on an ongoing basis, with timely action being taken for those mortgages that fall into arrears.

The Society continues to monitor the credit risk inherent in the mortgage book via robust property valuations. Fluctuations in the House Price Index impact potential credit losses and despite an average indexed increase of 13.6% to August 2022 this has begun to slow as economic conditions worsen.

The Credit Risk Committee meets regularly to consider the risks associated with this lending, reviews large exposures, arrears rates and potential accounts in default. The Society has continued improving the analysis and management information to understand and manage its credit risk exposures effectively.

In the case of liquid asset investments, the credit risk associated with lending to financial institutions is addressed by the Society's Assets and Liabilities Committee (ALCO) which ensures that investments are restricted principally to cash held with the Bank of England, UK Government issued debt instruments, liquid regulatory compliant AAA rated debt securities and operational call accounts with large UK based clearing banks with investment-grade credit ratings.

The Society keeps abreast of developments affecting financial sector firms and takes appropriate action to safeguard the Society's investments.

The Society utilises manual underwriting procedures which enables individual risk assessment of complex cases.

Liquidity and Funding Risk

Liquidity risk is the risk of the Society failing to meet its financial obligations as they fall due, resulting in the inability to support normal business functions and activity. There is also a risk of breaching regulatory requirements.

The nature of the Society's business involves 'maturity transformation' whereby the Society borrows for relatively short terms and lends on mortgages for much longer periods. This mismatch creates liquidity risk whereby the Society could be unable to meet its financial obligations as they fall due.

Funding risk is the inability to access funding markets or to do so at excessive cost. In order to minimise funding risk the Society ensures there is no over reliance on a single source of funds.

The purpose of the Society's Internal Liquidity Adequacy Assessment Process (ILAAP) is to ensure that these commitments can be met in a timely manner under both normal and stressed conditions and that the Group maintains the confidence of its existing and potential investors and suppliers.

On a day-to-day basis the Group's liquidity position is managed by the Treasury function which is responsible for the liquid asset portfolio and contingency arrangements. Liquidity and funding risk is monitored by the ALCO which meets on a frequent basis and receives a variety of management information reports which enable it to monitor the amount and composition of the liquid asset portfolio and ensure Group compliance with the regulations covering liquidity as well as the Board Statement of Risk Appetite of the Group.

The Society's liquidity policy has been developed to ensure that the Group is able to meet known, and also a reasonable level of possible unforeseen, financial obligations as they fall due under both normal conditions and defined stress scenarios. This is achieved by a combination of:

- undertaking an annual review of Liquidity and Funding via the ILAAP
- maintaining an appropriate level of high quality liquid assets (Liquidity Buffer)
- having access to additional sources of funds through the wholesale market as well as from retail customers
- access to Bank of England liquidity insurance facilities
- regular stress testing to ensure the Society can meet its liquidity adequacy requirements under a number of defined stress scenarios
- maintaining and testing a Liquidity Contingency Plan.

Sufficient liquidity is maintained at a level aimed at ensuring management, regulatory and member confidence in the solvency of the Group. A significant proportion of the Society's liquid assets are held in a Bank of England reserve account, UK Bank call accounts and short term deposits, to provide instant access to funds if and when required. In addition the Society holds a portfolio of treasury investments where there is an active secondary market enabling liquidation if required under a stress scenario. These treasury investments are all eligible for use as collateral in the Discount Window Facility with the Bank of England and inclusion in the Society's Liquid Asset Buffer.

Basis Risk

The Society is exposed to interest rate and basis risk arising within the banking book, which results from different interest rate features, re-pricing dates and maturities of assets (mortgages and treasury investments) and liabilities (retail savings, wholesale funding and subordinated debt).

The Society's ALCO monitors and manages this exposure. The following activities are affected by interest rate risk:

- fixed rate mortgage lending and fixed rate treasury investments
- fixed rate savings products and fixed rate wholesale treasury funding
- management of the investment of reserves and other net non-interest bearing liabilities.

To manage fixed rate risk, the Society uses a combination of natural hedging, matching on balance sheet assets and liabilities with similar maturity dates, and interest rate swaps.

Basis risk is the risk of divergence between several bases, such as SONIA and the Bank of England Base Rate. The Society manages its basis rate risk exposure mainly by setting limits against the relative exposures and carefully monitoring the positions.

The Society's interest rate related risk appetite is measured against:

- The economic impact of a parallel shift in interest rates of 2% over the life of the balance sheet
- The impact on annualised Net Interest Income (NII) of a 100bps interest rate shock on a static balance sheet.

Margin Risk

Margin risk is the risk of erosion between the interest rates charged to our mortgage borrowers and the interest rates paid to our savings account holders. The volatile savings market has created some margin challenges which is a significant risk that requires robust management.

The Board sets margin objectives within the Corporate Plan, and the Executive, Pricing Committee and Assets & Liabilities Committee (ALCO) monitor the position closely.

Operational Risk

Operational risk is the risk of loss arising from inadequate or failed internal processes or systems, human error or external events, and can arise across the whole business, with higher likelihood in periods of transformational change or other large projects.

The Society has a robust risk management framework with policies and committees providing appropriate review and challenge. There are systems and controls in place to mitigate operational risks, the impact on operational resilience and the potential loss from incidents including data, fraud and cyber events.

The Society has a Management Risk Committee which is chaired by the Chief Risk Officer and comprises of representatives of the Society's Leadership Team and the Operational Risk Manager. This Committee provides oversight to all the Society's operational risks. Ultimately, the Board is responsible for deciding on whether it accepts the residual risk that exists after the application of these controls.

The Society continues to focus on improvements in 3rd party and outsourcing management to assess and understand the impact on its' operational resilience.

Process Risk

Process Risk is the risk of loss as a result of staff not adhering to procedures/processes due to error/mistake, lack of training or unclear documents.

The Society has set up a number of systems, controls and processes to ensure that any mistakes are identified and corrected to prevent a significant loss to the Society.

Throughout 2022 awareness of Process Risk continued to increase as external concerns were highlighted in specific areas like Self build customers. As a result of the challenging economic environment, ongoing contact is being made with customers, to remind them of their obligations should they change the build and if any additional support is needed.

Legal and Regulatory Risk

This is the risk of fines, public censure limitations on business or restitution costs arising from failure to understand or correctly interpret regulatory change. Adherence to Regulation is continually monitored by the Compliance team and reported monthly to the Executive and Risk Committees.

Conduct Risk

Conduct risk is the risk of developing systems, behaviours and attitudes within the business which may cause customer detriment and do not deliver fair customer outcomes. A poor culture could also cause a risk of creating an environment in which staff behaviour is not open and honest which can result in reputational loss.

The challenging economic environment has heightened conduct risks through challenging trading and operating conditions and increased customer vulnerability. We have addressed these risks by focusing on treating our customers fairly (including those in financial difficulty), increasing governance with more regular management meetings and Management Information, improving our operational resilience and increasing our fraud prevention monitoring.

Our commitment to treating our customers fairly is demonstrated through our Conduct Risk Policy and monitored through our Conduct Risk management information which is regularly reviewed by the Executive and Management Risk Committees.

Although the Society seeks to control its own conduct risk, it also carries a potential liability to the Financial Services Compensation Scheme (FSCS). The size of the liability depends upon the failure of other members of the FSCS.

Cyber Security Risk

Cyber risk is the risk of damage or loss to the Society, its customers or employees, arising from cyber based attacks, including phishing, malware, ransomware and web based attacks.

The Society has numerous software and other infrastructure protection in place to mitigate against these types of attack, including continuous monitoring.

Post COVID the Society has significantly increased the number of colleagues working from home under a hybrid model. The underlying infrastructure and security measures are successfully supporting this, however in an ever changing IT environment, investment will continue in cyber toolsets to ensure our customers have confidence in the security of their data.

Pensions

The Group operates a Defined Benefit (DB) Pension Scheme which uses assumptions, based on current economic environments, for the valuation of the Scheme's assets and liabilities. There is a risk the Group may see a deterioration to capital or funds if actual experience differs from assumptions employed as a result of changes to market and economic conditions. A deterioration in the Scheme's liabilities would require an increase to cash contributions which could erode CET1 resources.

This Scheme provides pension benefits for a small number of pensioners and staff. It was closed to new entrants in 2000 and closed to future accrual in January 2017 - in common with many other schemes of this nature.

Market Environment Risk

We expect that 2023 could be a challenging marketplace for both mortgage and savings and may put additional pressure on our ability to manage our net interest margin. We're also ensuring we're prepared for the prospect of further changes to the Bank of England base rate.

At present the Geopolitical environment has had a limited direct impact on our business, however it has added to the macro-economic difficulties which may result in more members having financial hardship in future years.

Climate Change Risk

In line with much of the financial services industry we are aware of the potential long-term and structural risks that accompany the risks of climate change. The Society introduced the Climate Risk Framework in 2021 which is used to govern the Society's exposures to climate risk and establishes the process for understanding, managing and disclosing climate induced risks. In 2022 we improved the data relating to flooding through assessing Representative Concentration Pathway (RCP) scenarios. This data is useful to analyse properties, which the Society has accepted that have some flood risk, but may increase in severity in future and put these outside of risk appetite. The Society will continue to review and develop the Framework throughout 2023 to identify further risks and mitigating strategies.

As part of the Society's standard underwriting process, we carefully consider the information we receive regarding the flood risk of properties. We also closely monitor any minimum standards for properties that are let (e.g. minimum Energy Performance Certificates) as part of our reviews for Buy-To-Let and Holiday Let properties. We'll continue to closely monitor any emerging trends in information as well as the regulatory requirements relating to property.

The Society also undertakes climate related stress testing as part of the ICAAP to assess the impact from selected transitional and physical risks to the Society's lending portfolio. The 2022 analysis highlighted that there were no significant material capital add-ons required from the scenarios in question.

Our People and Members

We continue to live in times of economic pressure and we offer members our full and unwavering support. We've endured and overcome numerous national challenges in our 157-year history so we're well versed to help when and how our members need it most.

We enter 2023 in a strong position and it is this strength that has enabled us to avoid passing on all of the Bank of England's base rate increase, so we could cushion the blow for our mortgage members.

At the same time, we worked hard to protect the interests of our savings members, raising rates across our savings accounts in a conscientious manner. We're proud to have boasted a number of best-buy products that have offered fair returns on investment.

Keeping focused on the future is critical during times of uncertainty. That's why this year we've invested in our Society with a reinvigorated look and feel. Our new brand will ensure we remain relevant and reinforces our position as a modern-day building society for members throughout all of life's journeys.

We also continue to protect our people and have put measures in place to support our workforce during the downturn. We continue to operate a hybrid working model and following a recent review of our people strategy we will focus on improving our employee proposition, including staff benefits; embedding our new values in line with our Brand refurbishment; enhancing staff learning and development; and providing an environment where the welfare and health of our People remains a high priority.

Recruiting and retaining high calibre people to help drive our business forward is also critical to our long-term success. It's equally important we continue to foster a nurturing and motivational environment that allows our people to succeed in their roles. We're continuing to invest in our cultural transformation which in turn is supporting our transition into a high performing financial institution and we've felt the benefits of this throughout the year in the commitment of our staff to our performance and our members' needs.

Community groups and charities that have been adversely affected by the cost of living crisis have been identified and in 2022, we awarded £23k in charitable donations supporting Barrow Foodbank and running our Furness Community Awards Scheme. Our staff are allowed two days each year in addition to their holiday entitlements to spend with local good causes and charities. We have been involved in a beach clean and various other community projects during the year.

The Year Ahead

Since 1865, we've remained an independent and mutual building society, committed to our vision of meeting the needs of our members. We are proud of our heritage and our purpose, and remain committed to our heartland and local communities.

The past few years have presented challenges of a type and scale we haven't witnessed before. We've had to adapt quickly and adjust frequently but we've demonstrated a solid performance for our members.

Thanks to the direction and support from our Board, the strength of our leadership team and the resilience of our entire workforce, we are focused on ensuring a firm future for our people and members with significant investment in our digitisation, distribution network and member proposition planned for 2023 and beyond.

- We'll continue to help members own their own homes through quality mortgage products and our bespoke approach to lending through intermediary channels
- We'll develop and deliver quality savings solutions and seek to provide a fair return on savings deposits, developing our savings proposition so that it remains relevant for current and future members
- We'll invest in continued improvements to our IT infrastructure, digitisation and through the development of new channels of communication, internal and external
- We'll strive to achieve sustainable and profitable growth as part of our Corporate Plan
- We'll invest in our distribution network for the benefit of our people and members
- We'll ensure our brand values and membership benefits are modernised and fit for our bright future.

We are pleased to confirm that we are safe, secure and well positioned to support our members, as well as future generations of savers and homebuyers, just as we always have.

Approved by the Board of Directors on 14 March 2023.

Directors' Remuneration Report

Our Remuneration Policy

Attracting, retaining and remunerating talent

Attracting, retaining and motivating talented individuals whose performance contributes to the success and stability of our business is critical.

We also recognise our responsibility to protect members' interests by spending money wisely and not paying more than necessary to attract candidates with the appropriate level of skills and experience.

The aim of our remuneration policy is to ensure our approach is suitably balanced. Its key principles are to:

- Align to our corporate plan objectives for our overall growth and security.
- Provide a clear link to effective risk management consistent with risk appetite.
- Set total remuneration at a competitive level which rewards strong performance.
- Meet regulatory standards and good corporate governance.

Executive and Non-Executive remuneration

Executive remuneration consists of basic salary, variable bonus, pension contributions and other benefits. The Remuneration Committee reviews this annually on recommendation of the Chief Executive - and in the case of the Chief Executive, on recommendation of the Chairman.

Summaries of the 2022 remuneration elements and packages are shown on pages 26 to 28.

Non-Executive Directors are paid a fixed fee and there is an additional payment for the Chairman, Vice Chairman and Committee Chairs. The level of the fee is benchmarked against those paid by building societies of a similar size and complexity and external market data. The time commitment required in order to deliver their responsibilities within a regulated business environment is also considered. No bonus or variable pay is paid to the Non-Executive Directors.

Executive and senior leadership bonus scheme for 2022

Serving as an incentive to the achievement of corporate goals, our senior managers' bonus scheme is aligned to the business strategy. There are 9 key components including 'financial measures', 'risk and control environment', 'member and people measures' and 'delivery of key strategic projects'

The specific measures contained in the bonus structure are:

- Mortgage Asset Growth
- Profit
- Margin (NII)
- Risk & Control
- Culture, Customer and People
- Shared Strategic Objectives

Consulting our members

We consider it best practice to hold an advisory vote on the recommendations contained within the Directors' Remuneration Report, although we are not required to do so. An appropriate resolution of this year's report will therefore be put to members at our Annual General Meeting.

In 2022, 9% of members voted and 90% did so in favour of the Directors' Remuneration Report.

Summary of Executive Remuneration 2022

Element	Link to Strategy	Operation	Performance Measures	Minimum and Maximum Payable
Basic Salary	Reflects level of accountability. Provides ability to attract and retain individuals through competitive but affordable rates of pay.	Once set, future increases are linked to personal performance and peer group benchmarking.	Personal performance against the requirements of the role and the delivery of business and personal objectives.	Individuals developing in a role may be paid below market rate until they are fully performing. Adjustments may be made if a role changes significantly or moves out of line with the market.
Bonus	Linked to the delivery of annual business plan targets including shared strategic objectives.	Challenging, but achievable objectives are aligned with the Corporate Plan. The Chief Risk Officer provides assurance that the scheme design does not incentivise inappropriate behaviours.	Corporate measures for 2022 are: • Profit • Mortgage Asset Growth • Margin • Risk & Control • Culture, Customer and People • Shared Strategic Objectives. Personal objectives are set by the Chief Executive and reviewed by the Remuneration Committee.	The bonus amount varies between 0% and 40% depending on performance against a number of specific measures, agreed by the Remuneration Committee. Payment of 50% of the award is deferred for three years. Deferred bonus payments may be withdrawn or adjusted where the employee has: a) Tendered their resignation/or given notice and/or has taken a long term career break. b) Participated in or was responsible for conduct which resulted in significant losses or regulatory consequences for the Society or relevant business unit or there is reasonable evidence of fraud, serious dishonesty or other wrongdoing on the part of the Bonus Recipient which would have resulted in the bonus not being paid had the Society known about it at the time the relevant award was declared; or c) Failed to meet appropriate standards of fitness and propriety; Or where the Society has: d) Suffered a material failure of risk management; or been required to restate its accounts to a material extent.
Pension	Provides market competitive remuneration.	Pension contributions are on membership of the Society's Defined Benefit Contribution Scheme. Cash equivalent may be offered if requested.	Not applicable.	Matched contributions up to 10% of basic salary.
Benefits	To align Executive total remuneration broadly with the market.	The principle benefits are: • Life assurance • Private medical insurance • Company car allowance • 6 months' notice period • Other benefits e.g. relocation assistance may be provided based on individual circumstances.	Not applicable.	Not applicable.

Executive Directors Fees

2022	Salary	Discretionary Staff Award / Bonus	Taxable Benefits	Sub Total	Defined Contribution Scheme	Total
	£	£	£	£	£	£
C M Harrison	232,141	81,249	29,000	342,390	-	**342,390**
C O'Donnell [1]	111,271	155,715	15,368	282,354	11,127	**293,481**
Total	**343,412**	**236,964**	**44,368**	**624,744**	**11,127**	**635,871**

2021	Salary	Discretionary Staff Award / Bonus	Taxable Benefits	Sub Total	Defined Contribution Scheme	Total
	£	£	£	£	£	£
C M Harrison	223,212	80,357	17,646	321,215	-	**321,215**
C O'Donnell	162,045	58,336	9,804	230,185	16,204	**246,389**
S J Heron [2]	108,362	134,446	9,877	252,685	30,836	**283,521**
Total	**493,619**	**273,139**	**37,327**	**804,085**	**47,040**	**851,125**

[1] Conrad O'Donnell left the Society on 31 August 2022. Included within Discretionary Staff Award/Bonus/Ex Gratia is £97,298 payment lieu of notice.

[2] Sue Heron retired from the Society on 31 December 2021 and in relation to this received compensation of £115,000.

Non-Executive Directors Fees

Name	2022	2021
	£	£
G M Berville	**51,452**	48,575
N J Gower	**34,452**	32,267
K L Rebecchi	**36,655**	34,082
P A McLelland	**34,451**	32,086
A P Haywood	**28,846**	26,942
P D Rogerson	**29,515**	26,627
Total	**215,371**	**200,579**

Non-Executive Directors' fees include taxable travel expenses paid.

K L Rebecchi
Chairman of the Remuneration Committee
14 March 2023

Summary Financial Statements

Summary Statements

Group Results for year	2022 £000	2021 £000
Net interest receivable	**20,866**	17,390
Other income and charges	**(17)**	19
Fair value gain	**16**	662
Administrative expenses	**(15,720)**	(13,346)
Operating profit before provisions and taxation	**5,145**	4,725
Impairment (charge)/credit	**(122)**	294
Operating profit before FSCS levy	**5,023**	5,019
Provisions for liabilities	**-**	9
Profit on ordinary activities before tax	**5,023**	5,028
Taxation	**(1,050)**	(1,045)
Profit for the financial year (PAT)	**3,973**	3,983

Group Financial Position at the Year-End 2022	2022 £000	2021 £000
Assets		
Liquid assets	**189,547**	161,747
Derivative financial instruments	**18,173**	2,437
Mortgages	**1,024,474**	961,814
Fixed and other assets	**2,686**	4,770
Retirement benefit asset	**1,212**	-
Total assets	**1,236,092**	1,130,768
Liabilities		
Shares	**955,876**	886,918
Borrowings	**193,639**	156,802
Derivative financial instruments	**668**	186
Other liabilities	**3,492**	2,941
Net pension liabilities	**-**	876
Subordinated liabilities	**-**	4,998
Reserves	**82,417**	78,047
Total liabilities	**1,236,092**	1,130,768

Approved by the Board of Directors on 14 March 2023 and signed on its behalf by:
G M Berville, Chairman | K L Rebecchi, Vice-Chairman | C M Harrison, Chief Executive

Summary of Key Financial Ratios

Summary of Key Financial Ratios 2022	2022 %	2021 %
Gross capital as a percentage of shares and borrowings[1]	7.17	7.96
Liquid assets as a percentage of shares and borrowings[2]	16.49	15.50
Profit for the year as a percentage of mean total assets[3]	0.34	0.36
Management expenses as a percentage of mean total assets[4]	1.33	1.20

Profit after tax (£m)	3.97	3.98
Retail share and deposit balances (£m)	1,149.52	1,043.72
Mortgage balances (£m)	1,024.47	961.81

Notes

1. The gross capital ratio measures the proportion that capital bears to shares and borrowings. Gross capital constitutes the reserves and subordinated liabilities shown in the Statement of Financial Position and includes the profits accumulated since the Society's formation in 1865. Capital reserves are financial resources owned by members and are liabilities which are not repayable. Capital provides a financial cushion against possible adverse market conditions in the future and therefore protects members and investors.

2. The liquid assets ratio measures the proportion of the Group's shares and borrowings which are held in the form of cash, short term deposits and securities which can be readily converted into cash. Liquid assets are maintained at a level which enables the Group to meet requests from investors for withdrawals from their accounts, to make new mortgage loans to borrowers and to fund its general business.

3. This ratio measures the proportion which profit after taxation for the year bears to the average balance of total assets during the year. The ratio is similar to a company's return on assets. The Group needs to make a reasonable profit each year in order to maintain its capital ratios at a suitable level to protect investors.

4. The ratio of management expenses as a percentage of mean total assets measures the proportion which administrative expenses (which include depreciation and amortisation) bear to the average balance of total assets during the year.

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