Annual Report & Accounts 2023

Furness Building Society

Annual Report & Accounts 2023

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Annual Report & Accounts 2023

Strategic Report

Strategic Report: From our Chief Executive, Chris Harrison

We continue to be stronger together and thank all our Members for your continued loyalty and commitment through another testing year.

We recognise the events of the past twelve months have had a real impact on every household. This is why we will continue to support the needs of you, our Members, however you may need it. We have reviewed the operational measures we have in place and have an experienced and empathetic team of people on hand who we encourage you to contact should you need some additional support. Despite the likelihood that economic conditions will remain difficult and uncertain for us all, we remain cautiously optimistic for the future.

Continued Financial Strength

As you read this year's Annual Report and Accounts, you will see we have achieved good results and our financial performance reflects the pragmatism we have adopted over the past few difficult years. We enter 2024 in a very strong and solid position with a balance sheet that will enable us to continue supporting our Members when and how they need it most. We have a strong capital position and sufficient liquidity reserves to ensure we are resilient and ready for many years to come.

Members Matter

As in previous years, we remain committed to contributing to our Members' personal prosperity by facilitating property ownership and offering a competitive savings return. Our purpose remains unchanged. We're here to help people get on or move along the property ladder or even build their dream home as well as help them with their savings aspirations, providing long term value and security. The strong outlook for our region will only help us further our commitment to supporting our local Members and people by protecting local housing stock, providing affordable mortgage products and supporting commercial lending to build a prosperous and thriving local economy.

Investing in our future

You will have seen our new branding revealed across your communications with us and our major branch refurbishment programme is underway to ensure our local high street branches continue to meet your needs, now and in the future. We are also reinvigorating how we do business and we will soon unveil our new, self-service savings experience as part of our ongoing strategic digitisation project. This will allow you to unlock new ways of transacting with us online and also via a mobile application. We are determined to ensure your needs are met in an efficient, enjoyable and eco-conscious way – however you choose to engage with us.

We are lucky to be located in one of the most beautiful and unique regions of the country and these investments will ensure we will continue to be here to support you, our Members, and our people to work, live and play in this picturesque place we get to call home.

Community First

We honour our purpose as a regional building society by giving back to those in need across the communities in which we operate. This year, we have spent time volunteering, attended local climate day events, made cash donations to invaluable causes and contributed to charities and organisations close to our homes and our hearts via our community savings accounts.

A Final Thank you

We exist because of the commitment and dedication of our people, who we will continue to invest in, and I would like to thank you all for your continued support and resilience through these difficult times.

During the year, Anthony Wedlake retired from his role as Director of Operations. Anthony joined the Society in 2018 and was a highly respected member of our Executive team and Society.

Nic Gower and Kim Rebecchi will retire at this year's AGM event and we wish to extend a very special thank you to them both. Nic joined the Society in 2014 and has served as Chair of the Audit Committee since March 2016. Kim joined the Society in 2016 and has served as Chair of the Remuneration Committee and as our Diversity Board Champion.

Their collective knowledge, experience and expertise will be sorely missed and everyone at the Society wishes them all the best for the future.

Looking Forward

We are well prepared for the challenges ahead and we will continue to focus on delivering benefits to you, our Members and to our local community through our strategic developments as we move forward into 2024.

Chris Harrison
Chief Executive
13 March 2024

We recognise the events of the past twelve months have had a real impact on every household. This is why we will continue to support the needs of you, our Members, however you may need it.

Annual Report & Accounts 2023

Directors' Report

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 of income statement	Group 2023 £000	Group 2022 £000
Net interest income	22,290	20,866
Other income and charges	98	(17)
Administrative expenses	(17,418)	(15,034)
Depreciation and amortisation	(651)	(670)
Impairment charges	(102)	(122)
Profit before tax	**4,217**	**5,023**
Taxation	(1,018)	(1,050)
Profit after tax	**3,199**	**3,973**

Net Interest Margin

The Society's interest margin remained flat year-on-year at 1.76%. The Society has continued to manage margin through mortgage and savings re-pricing in response to the Bank of England's rate increases. This must be balanced against a rising cost base, driven by inflationary pressures, to ensure the Society is able to continue its investment in the business and remain sustainable in the long-term.

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.

Administrative Expenses & Depreciation

The Society's administrative 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 of people required to run the business effectively for its Members in order to continue providing excellent products and services.

Administrative expenses were 1.42% of mean assets in 2023 (1.33%:2022). The increase in administrative expenses has been driven by investment in the development of an online savings platform as well as further investment in our people and building a new branch design fit for the future. Inflationary pressures in the UK economy have also put upwards pressure on administrative expenses.

Impairment Charges

Arrears and forbearance metrics have increased over the year but remain relatively low. We expect that the economic impact of a rising interest rate and inflationary environment will cause financial difficulties and hardship for some people during the course of 2024 and beyond. We have planned ahead and taken extra steps to ensure we have the right support in place to give our Members as much support as we can.

Loan loss provisions have increased in the year from £815k to £899k at 31 December 2023 to reflect a deteriorating arrears position.

The number of mortgages in arrears (over 2 months) at 31 December 2023 was 31 (19: 2022), with total arrears outstanding at the year-end on these cases of £156k with an aggregate balance of £3.8m.

We show forbearance where appropriate, and at the year end, there were 16 (17: 2022) cases on which forbearance was being applied. We are not complacent and our arrears management team has been planning and preparing to provide any additional support which may be required by our members in 2024.

Profit

The Society's profit after tax decreased to £3.2m in 2023 (£4.0m:2022). Profit in 2022 benefitted from timing differences related to pricing changes during base rate increases. These timing differences began to reverse in 2023.

Continued profitability demonstrates the Society's resilience in difficult trading conditions. The lower profit in 2023 is largely due to increased costs due to investment in our people and technology. Looking ahead, we expect pressure on our profits in 2024 as we invest in the future but also, as we navigate uncertainty in the economy and potential reductions in interest rates, house prices and mortgage activity.

The key performance indicators are detailed below for ease of reference.

Key Performance Indicators		2023	2022
Balance Sheet	Assets	£1,303m	£1,236m
	Loans and advances to customers	£1,072m	£1,024m
	Shares and deposits	£1,209m	£1,150m
Operating Performance	Management expenses (% of mean assets)	1.42%	1.33%
	Net Interest Margin (% of mean assets)	1.76%	1.76%
	Total balances on mortgage accounts in arrears (>2months)	£3.8m	£2.0m
	Profit after tax	£3.2m	£4.0m
Financial strength	Regulatory capital	£84.3m	£82.1m
	Total capital ratio	17.7%	19.0%
	Liquid assets (% of shares and borrowings)	17.8%	16.5%

Balance Sheet

The demand for mortgages remained remarkably resilient in a turbulent year and we delivered gross mortgage lending of £216m (£263m: 2022). As a result, our mortgage assets grew by 4.6% (6.5%:2022) to £1,072m (£1,024m: 2022) and we plan to maintain a strong pipeline of new business into 2024.

We continue to serve our customers and provide the products they need to help them achieve their aspirations. We are proud to have been able to consistently reach new customers and build our mortgage portfolio.

Demand for new mortgages has decreased as a result of affordability due to the Bank of England base rate increases. However we continue to offer a full range of products and our manual underwriting helps us to understand and assist in more complex circumstances. We are confident in our steady growth plans and product development areas for 2024.

As a mutual, it is our intention to provide residential home loans, where appropriate returns for risk are available, in markets such as first time buyers and self-build. Helping Members in our communities to purchase a home is our core purpose and we will continue to develop our products and propositions to facilitate that within our risk appetite.

We aim to attract and retain retail savings which supports us in funding our lending and we've strived to ensure our savings products remain attractive to Members. We know this is really important for our Members, particularly during this difficult period of economic uncertainty.

We also continued to make use of our ability to access non-retail sources of funding, including wholesale markets.

At the end of the year we held £215m (£190m: 2022) of liquid assets and our liquidity level of 17.8% Share & Deposit Liabilities (SDL) (16.5%:2022) was comfortably above the regulatory requirements.

Society Performance and Strength

The preservation of capital will enable us to protect our Members and sustain the future of the business. Gross capital as a percentage of Share and Borrowings was 7.1% (7.2%:2022) and our total capital ratio 17.7% (19.0%:2022). We have invested capital in our digital proposition, our people and the branch network. Our capital requirements have increased due to mortgage book growth, increased profitability over a 3 year average which increases operational risk capital requirements and in holding a more diverse range of liquid assets having been granted permission to operate under the extended approach to treasury risk management. We have been able to do this because our overall capital position remains strong and well above regulatory minima. It therefore provides strength and security for our members and continues to support the demands associated with the development and investment in the business which will support our future success.

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 2023 the Society's liquidity increased as retail funding has been sourced to prepare for the repayment of the Term Funding Scheme with additional incentives for SMEs (TFSME). This has resulted in our liquid asset ratio increasing from 16.5% of SDL to 17.8% in 2023. Looking ahead, the Society is closely monitoring its liquidity to ensure appropriate liquidity is held for the types and sources of funding attracted.

A key regulatory measure of liquidity is the Liquidity Coverage Ratio (LCR) which was 160.7% as at 31 December 2023, and above the regulatory requirement

Stakeholders Review: Supporting our People, Members & Communities

Supporting our People, Members and Communities

Our commitment to supporting our loyal Members and local communities will remain a focus for us through 2024. We're proud of the help we've been able to provide to some smaller local charities and food banks during the Cost of Living crisis.

We know that as a result of the crisis and its impact, more people in our communities will be vulnerable. We'll continue to do our utmost to ensure our members feel supported during this challenging time and equipped to deal with the difficult circumstances that we face together.

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 expected to continue to face pressure, which could impact the business both in terms of arrears and forbearance levels and the volume of new mortgage applications received.

We expect interest rates to remain volatile and potentially fall, which will put pressure on our margins, as we endeavor to ensure a fair cost and return to our Members whilst safeguarding our future.

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 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. It was announced on 15 February 2024 that the UK economy entered a technical recession in the fourth quarter of 2023, following two consecutive quarters of negative growth.

We've considered the impact of inflation and higher interest rate environment and closely monitor macro-economic data relating to House Price Index (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. We know how important this is in the current economic climate.

Donations

During the year, we made Community Account payments of £121k (£122k: 2022). This is in addition to various donations to charity totaling £41k (£23k: 2022). Our Community Accounts supports 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 2023.

No political gifts or donations were made during the year (NIL: 2022).

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 Generally Accepted Accounting Practice (GAAP),
- Preparing the accounts on a going concern basis (unless it would be inappropriate to do so).

Directors who served during 2023 are listed on page 35. Their biographies are included within our Summary Financial Statement. 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.

The Board continue to seek engagement from their stakeholders, including Members, employees and suppliers, to ensure fair and balanced decisions are made which take their opinions and considerations into account whilst honouring their duty to promote the long term success and sustainability of the Society.

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.

The Board has committed to a refreshed Environmental, Social and Governance (ESG) Strategy which looks to ensure the business conducts itself in a more eco-conscious manner. We have reviewed our scope 1 and scope 2 emissions and are currently building a roadmap to reduce these by 2030.

Our principles are aligned with the UN Sustainability Goal. More details on our strategy can be found on our website.

We are proud to say we are a Living Wage, Disability Confident and Women in Finance accredited employer and as such, we are committed to fostering an inclusive environment that values diverse perspectives and enables everyone to unlock their full potential. The Board approved a revised Diversity, Equity and Inclusion (DE&I) statement during the year which reflects our dedication to creating a safe space for our Members and our people so we can all freely express ourselves and contribute to a culture of openness and respect. You can find out more about our DE&I principles and read our DE&I statement on our website.

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 2023. Mazars LLP has expressed its willingness to continue in office as Auditor and in accordance with Section 77 of the Building Societies Act 1986, a resolution for the re-appointment of Mazars LLP as Auditor will be proposed at the Annual General Meeting 2024.

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.

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 which is reviewed at least annually.

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 at each of its meetings.

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 risk) and the information below highlights the key risks to the Society as at December 2023:

Business and Strategic Risk

Strategic risk is the risk resulting from our strategic decisions which have the potential to impact our Members, the Corporate Plan and forecast results or 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.

In 2024 the Society will continue 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.

We expect that 2024 could be a challenging marketplace for both mortgages, retail savings and wholesale funding, due in part to fluctuations in interest rates, inflation and house prices. Added to strong competition and market demand for funding to repay TFSME in 2024/2025, this may put additional pressure on our ability to manage net interest margin. We're also ensuring we're prepared for the prospect of any further changes to the Bank of England base rate, whether upward or downward.

The current challenging economic environment and competitor pressures on both sides of the balance sheet continues to put pressure on the net interest margin and this has been addressed through our strategy development. Consideration has also been given to the potential ramifications of geopolitical uncertainty on our current and future obligations and the Society's prospects over the Corporate Plan period.

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 HPI impacts the value of these and may increase the loss in the event of default. Furthermore, property and land also becomes harder to sell during an economic downturn and therefore increases the discount on the sale price of the property (forced sale discount), further increasing 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. Higher costs of borrowing during 2023 has resulted in an average indexed reduction of 1.2% to October 2023 and is expected to fall further in 2024 before recovering.

The Credit Risk Committee meets regularly to consider the risks associated with this lending and reviews large 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.

The Society is exposed to Concentration Risk because its activities are highly concentrated in residential lending and/or associated products and services funded predominantly by retail deposits. These risks are monitored via the Retail Credit Risk Committee to ensure that lending is not more than is appropriate for the Group in relation to its Position/Size; Geographic, Funding, Large Exposures and Product Type.

Interest rate risk including Basis Risk

Interest Rate Risk of the Banking Book (IRRBB) reflects the current or prospective risk to both the earnings and economic value of an institution arising from adverse movements in interest rates that affect interest rate sensitive instruments, including gap [repricing] risk, basis risk and option risk.

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

In addition, 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 Society's Assets and Liabilities Committee 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, reviewed at least weekly by the Treasury function.

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 variety of linear and non-linear interest rate scenarios 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 over a 36m period and a 250bps shock over a 12m period.

In response to the strength of the interest rate risk management, the Society was granted regulatory permission in 2023 to move to the 'Treasury Extended Approach'. This allows the Society to start capital reserves hedging and adjust certain administered rate limits (among other items).

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.

In 2023, the Society made early repayments to the Bank of England as part of the TFSME and will continue to pay off further funding over 2024. This will largely be funded by retail deposits, supported by the use of an improved digital distribution channel and the tactical use of a deposit aggregator.

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 Treasury Financial Risk Management Policy (TFRMP) 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 and Recovery 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. The Society is also well-positioned to draw down from the BoE's Discount Window Facility (DWF) after considerable collateral placements in 2023.

Capital Risk

Capital risk refers to the potential for a scenario to occur that reduces the Society's capital to an unsustainable level or below the minimum regulatory requirements. The Society regularly tests various scenarios to ensure it retains sufficient capital to manage foreseeable and possible events.

The Society's Internal Capital Adequacy Assessment Process (ICAAP) is the Society's evaluation of its capital position and requirements and sets out the approaches to manage capital risk across the planning horizon including the evaluation and monitoring of risk appetite limits.

The Society maintains a sufficient level of regulatory capital in order to absorb losses, deliver the Corporate Plan and support the Society's risk profile in both normal and stressed conditions.

The Board has approved a set of risk appetite measures and operating limits to manage and monitor capital levels on an ongoing basis, including:

- maintaining a conservative capital surplus over and above minimum regulatory Pillar 1 and Pillar 2 requirements as well as regulatory buffers over the corporate planning period.
- monitoring profit and mortgage asset growth to ensure the Society's growth remains sustainable.
- monitoring Early Warning Indicators on a monthly basis for both CET1 and Leverage Ratios, ensuring a sufficient surplus to regulatory requirements.

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. With this framework in place, the risk of loss as a result of staff not adhering to procedures/processes due to error/mistake, lack of training or unclear documents (Process Risk) is reduced. The Society has the required systems, controls and processes to ensure that any mistakes are identified and corrected to prevent a significant loss.

Throughout 2023 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.

*Land Registry Data - UK House Price Index, October 2023

The Society has a Management Risk Committee which is chaired by the Chief Risk and Compliance Officer and comprises of representatives of the Society's Leadership Team and several members of the Risk and Compliance function. 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 has made great progress in 2023 in 3rd party and outsourcing management to assess and understand the impact on its operational resilience. With further work identified across different operational risk sub categories to bring risk management in line with good or best practice in 2024. An ongoing calendar of Disaster Recovery (DR) tests and simulations is planned to support the operational resilience of the firm through 2024.

The Society is developing an enhanced digital proposition in 2024 to improve the overall product offering and customer service levels. This will result in changes to the operational risk profile - key personnel and committees are already in action to understand the changes in processes, people and infrastructure that impact the Society's risks profile and implement new or updated controls to ensure that operations are resilient.

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 ongoing challenging economic environment has heightened conduct risks through challenging trading and operating conditions and increased customer vulnerability. We have addressed these risks by continuing to focus on our treatment of customers ensuring fair outcomes are achieved (including those in financial difficulty), increasing governance with more regular management meetings and MI, improving our operational resilience and increasing our fraud prevention monitoring.

Our commitment to fair customer treatment is demonstrated through our Conduct Risk Policy, adherence to Consumer Duty Requirements and monitored through our Conduct Risk management information which is regularly reviewed by the Executive and Management Risk Committees. The Society also adheres to the requirements stated within the Mortgage Charter for which the Society voluntarily signed up to during the year.

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.

Pension Liability Risk

At the end of the year, the scheme had moved to a surplus position of £1.57m (2022: £1.2m surplus). We continue to fund and support the pension plan as necessary.

The Society monitors possible future pension risk as part of the ICAAP process and ensures sufficient capital even in a stressed scenario.

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, on both our mortgaged properties and the Society's own estate, 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.

In 2023 the Society launched its Environmental, Social and Governance Strategy with an associated governing committee to ensure we adopt environmentally sustainable practices in order to mitigate any negative environmental impacts.

The Society will continue to review and develop the Climate Framework where necessary to identify further risks and mitigating strategies. We are currently working on:

- Developing our analysis and criteria for employment sectors at risk,
- Understanding what our carbon footprint is at present, in order to agree how we can improve and by when/at what cost,
- Supporting Members to reduce their carbon footprint and improve their Energy Performance Certificate rating through the introduction of Green Further Advances.

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 2023 analysis highlighted that there were no significant material capital add-ons required from the scenarios in question.

A Final Note from the Chair of the Board Graham Berville

This Directors' Report tells of the progress of your Society in 2023 and I am very proud of what has been accomplished through what has been another challenging year, partly due to the number and scale of interest rate changes. The financial performance is strong as is discussed elsewhere in this report.

As a mutual organisation, owned by you, our Members, our aim is to pay a fair return to our saver Members and charge a fair price to our borrower Members. We retain surplus to keep our Members money safe and to invest to improve services for our Members and the local communities where we live and work. We aim to increase the number of Members we can support, providing both financial resilience and help to buy or build homes.

During the year your Directors have spent time looking to the future and putting a business strategy in place to continue to support our long term ambitions. This will involve investment in both our systems and our branches. We also started thinking about the journey to net zero carbon emissions and how we can contribute; this too is built into our plans.

I am proud to be Chair of the Board and to serve your Society. As a Board, we will continue to focus on delivering benefits to you, our Members and to our local community as we move forward into 2024.

Approved by the Board of Directors on 13 March 2024.

Annual Report & Accounts 2023

Statement of Directors' Responsibilities

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

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

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

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

In preparing the Group and Society Annual Accounts the Directors are required to:

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

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

Directors' responsibilities for Accounting Records and Internal Controls.

The Directors are responsible for ensuring that the Group:

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

The Directors are responsible for such internal control as they determine is necessary to enable the preparation of Annual Accounts that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Society's website. Legislation in the UK governing the preparation and dissemination of Annual Accounts may differ from legislation in other jurisdictions.

Annual Report & Accounts 2023

Corporate Governance Report

Our approach is based on the principles and provisions of the UK Corporate Governance Code as published by the Financial Reporting Council (FRC) in July 2018. Although we are not required to comply with the Code, we pay due regard to its contents as instructed by the Financial Conduct Authority (FCA) and Prudential Regulatory Authority (PRA).

In 2022, the FRC launched a consultation on restoring trust in Audit and Corporate Governance. Following this consultation, the government invited the FRC to look to strengthen the UK Corporate Governance Code in a number of specific areas. A public consultation was launched during 2023 which aims to enhance the Code's effectiveness in promoting good Corporate Governance.

Following a 16 week consultation into changes to the UK Corporate Governance Code, the Financial Reporting Council published the 2024 UK Corporate Governance Code on 22 January 2024. The updated Code takes a targeted approach, focusing on a limited number of changes to ensure the right balance is struck between UK competitiveness and positive outcomes for companies and their stakeholders.

Although the Society is not required to adhere to the Code, it recognises the importance of the practices within and the assurance these bring to our stakeholders. As such, we are now reviewing the latest Code and will ensure all relevant updates are brought into practice over the coming year.

Please visit www.frc.co.uk for a copy of the Code.

Leadership

The leadership of our Society has continued to meet the increasing complexities of the regulatory and competitive business environments, which has changed at pace in recent years.

Our finances, operations and risks are effectively managed by our Executive Committee (ExCo), led by our Chief Executive. This Committee is also responsible for the delivery of all strategic corporate objectives approved by the Board.

Progress in these areas is subsequently reported into the Board and Board Committees by members of ExCo.

Our Board is committed to delivering the strategy through good governance including effective and informed decision making supported by quality reporting together with robust risk management and compliance ensuring we meet our regulatory requirements.

Board Role

Our long-term sustainability and success is determined by our Board which challenges, evaluates and approves our business strategy.

We draw on the experience and strategic insight of our Board members to ensure we continue to safeguard the interests of our Members. This has been particularly invaluable as we have responded to the fluctuating circumstances of the past few years.

Our Board also values the regular reports received from across the business and regularly invites colleagues and external consultants to attend and present to the Board or Committees. This ensures input from a variety of stakeholders is considered in decision-making.

Specific Board responsibilities include:

- Setting strategic aims and objectives,
- Strategically directing maintenance of a sustainable business model and oversight of our operations,
- Continuous development of our culture and values,
- Determining our appetite for risk,
- Ensuring adequate resources to achieve corporate goals,
- Reviewing the effectiveness of financial and operational risk management policies,
- Reviewing and oversight of the control environment and compliance,
- Reviewing and oversight of the performance of the senior management team.

Whilst some management activities and decisions are delegated to Committees, the Board keeps certain matters for its own approval and these are set out in the Schedule of Matters reserved which is reviewed at least annually.

Board Composition

Our Board remains independent and comprises six Non-Executive Directors and two Executive Directors. Its structure ensures that no individual or group is able to dominate the decision making process and there is no undue reliance placed on any one person.

The fitness, propriety and wider commitments of all members are assessed regularly by our Chair and Company Secretary, whilst the performance of the Board as a whole is reviewed by our Nominations Committee.

The time commitment requirement for all Non-Executive Directors is clear at appointment and reviewed in year within the annual performance reviews. Our annual training plan ensures they are kept up-to-date with Regulatory changes and other knowledge and skill requirements identified.

In accordance with Regulatory requirements, a number of our Non-Executive Directors and Executives have been allocated Prescribed Responsibilities as part of the Senior Management and Certification Regime and have been approved to perform these functions by the Regulatory authorities.

All Directors submit themselves for re-election by Members on an annual basis at our Annual General Meeting (AGM). New Directors are co-opted to the Board when vacancies occur and they are subject to election at subsequent AGM.

We're pleased to report that our Board and its Members continue to perform effectively and impartially, providing the high level of skills and experience required to navigate the challenges ahead as demonstrated throughout this Annual Report.

Board Evaluation

We're committed to providing our Members and employees with the best possible leadership to preserve the long-term future of our organisation.

We have conducted an annual examination of our Board's performance, a separate review of the Chair's performance and that of individual Directors.

Whilst reviews of the Board and Committee effectiveness are undertaken on an annual basis, in line with best practice, periodically an independent review of the Board is undertaken. Deloitte LLP completed an independent Board evaluation exercise in June 2021, and the agreed action plan has also been completed. Following the on-boarding on its two new Board members, the Society will consider when to conduct its next external evaluation, taking in to consideration the best practice advice of every five years as per the UK Corporate Governance code.

Board Meetings

Our Board meets on both a scheduled and on-demand basis throughout the year, reflecting the ongoing requirements of the business and the need for strategic input and guidance from our Board members.

Formal and scheduled monthly meetings took place as usual and we held a total of 12 in 2023. All meetings were quorate and fully documented.

In the rare occurrence a Director cannot attend a meeting, they will receive the papers and provide feedback to the Chair in advance. Occasionally when an urgent decision is needed, the Board may take a decision in writing which is ratified at the next full meeting.

Risk Management

Our Board is responsible for ensuring an effective system of internal control is in place for the management of risk.

We utilise the industry standard three lines of defence model which is designed to identify, understand and monitor business risks and manage them appropriately.

Line 1 – Business operations

The process of identifying and evaluating risks is delegated to our management team who ensure controls are working successfully. This ensures the business is operating within the risk appetite agreed by our Board.

Line 2 – Oversight functions

Risk Management Committees and related functions provide oversight and support the business in identifying and managing risk. These areas provide assurance in the adequacy and operation of the risk and control environment. In the event that we don't have internal expertise or capacity, we engage third parties as necessary.

Line 3 – Independent assurance

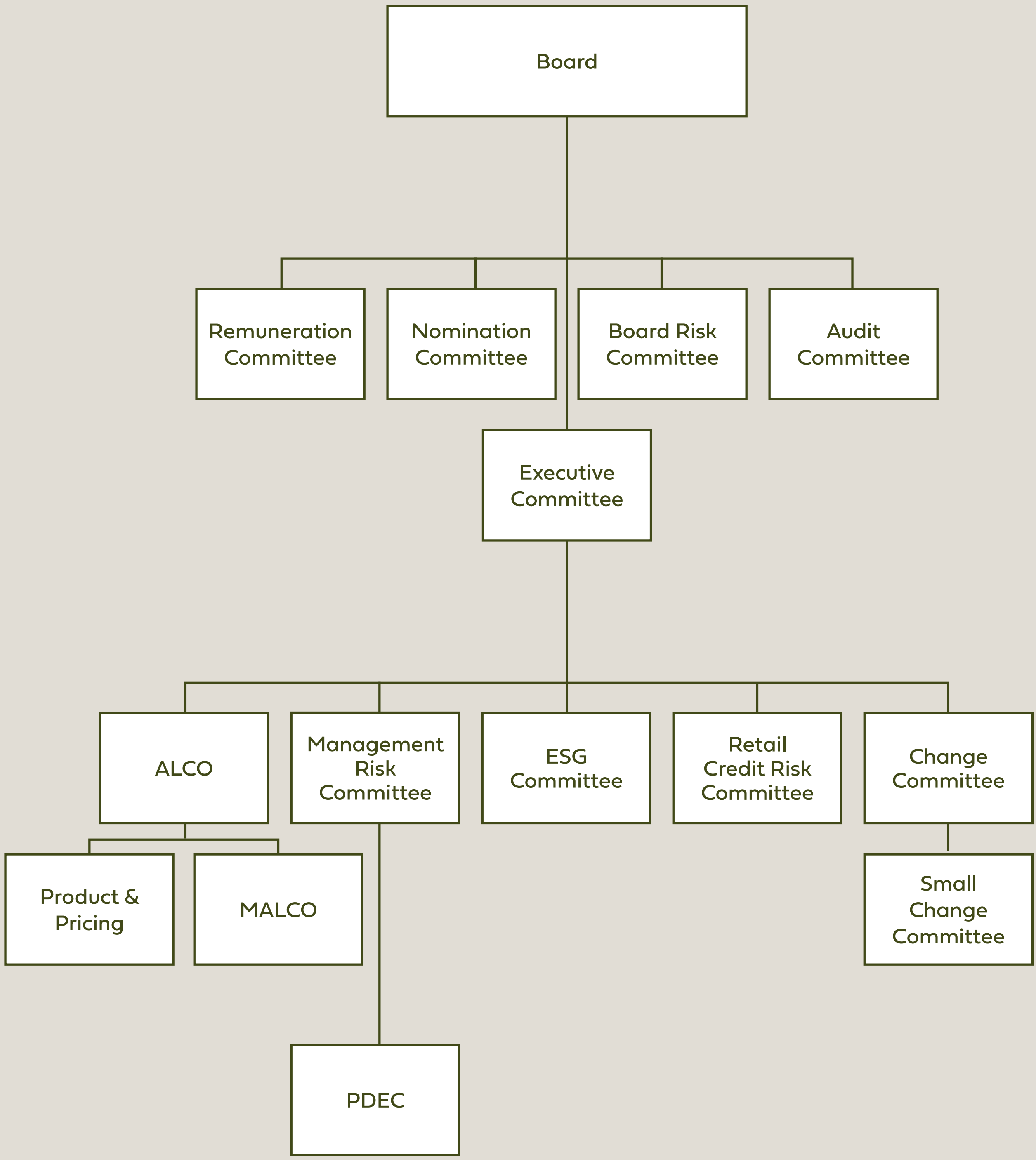
Our Internal Audit function provides independent assurance, reporting to the Audit Committee. This 'backstop' line of defence assures that all risks have been identified and internal control systems and processes are being managed appropriately.

Board Review

The Board has reviewed the adequacy and effectiveness of the risk and control framework in place throughout 2023 and is satisfied that the framework of internal controls meets the business' requirements.

The review considers:

- Regular reports from the Chairs of Audit, Board Risk, Nominations and Remuneration Committees following each Committee meeting,
- Reviews of all minutes from the Board's Sub-Committees,
- Feedback from the annual visit from the Prudential Regulation Authority,
- Detailed audit and compliance activities,
- Reviews from the Internal Audit team (Deloitte),
- Monthly financial reports covering balance sheet, income statement and treasury risks,
- Monthly reports from Chief Executive, Chief Risk and Compliance Officer and Finance Director.


Board
Remuneration Committee
Nomination Committee
Board Risk Committee
Audit Committee
Executive Committee
ALCO
Management Risk Committee
ESG Committee
Retail Credit Risk Committee
Change Committee
Product & Pricing
MALCO
Small Change Committee
PDEC

Our Board and Management Committees

Executive Committee (ExCo)

ExCo's role is to manage all aspects of the Society with delegated authority from the Board. All the Chief Officers are members and the Chief Executive is Chair of the Committee.

Assets and Liability Committee (ALCO)

ALCO's role is to optimise its balance sheet and manage the risks contained within it to enable the business to deliver the Member benefits within agreed risk parameters. The Chief Executive is Chair of the Committee.

Retail Credit Risk Committee (RCRC)

Chaired by the Chief Risk and Compliance Officer, the Committee meets regularly to consider the risks associated with this lending, reviews large exposures, arrears rates and potential accounts in default.

Management Risk Committee (MRC)

The MRC meets regularly 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. The Committee is chaired by the Chief Risk and Compliance Officer.

Change Committee (CC)

Chaired by the Director of Operations and Member Experience, the Committee meets regularly to manage the portfolio of Change across the business.

Environmental, Social and Governance Committee (ESGC)

Following approval of the revised ESG Strategy during the year, the ESG Committee were formed to provide oversight and manage deliverance of the associated action plan. The Committee is Chaired by the Director of Operations and Member Experience.

All Board and Sub Board Committees complete an annual self-assessment to ensure duties and responsibilities mandated by the Board have been effectively undertaken.

Audit Committee

Comprising only Non-Executive Directors, our Audit Committee maintains complete independence in order to assess the work of management and the assurance provided by Internal and External audit functions.

Specific responsibilities include:

- Monitoring the integrity of the business' external financial reporting including reviewing the appropriateness of significant financial reporting judgements,
- Reviewing the effectiveness of internal controls and risk management systems,
- Ensuring satisfactory whistleblowing arrangements are in place and arrangements for investigation of any concerns,
- Providing advice to the Board on whether the Annual Report and Accounts taken as a whole is fair, balanced and understandable and provides the information necessary for Members to assess our position, performance, business model and strategy,
- Reviewing the activities and performance of the Internal and External Auditors and the Compliance function.

The committee invites Executive Directors together with representatives from the Internal and External Auditors to attend meetings and also regularly meets in private with the Internal and External Auditor and our Chief Risk and Compliance Officer and Head of Compliance.

Audit Committee activity in 2023

External Audit:

Tracking and monitoring to completion of actions resulting from the Mazars Audit Management letter recommendations following the 2022 year-end Audit sign off.

Internal Audit:

The Committee considered and agreed an annual plan and reviewed the individual reports and recommendations. Actions were tracked to closure. Focus was maintained to ensure actions were completed in a timely manner.

Reporting:

Receiving regular reports in respect of the Internal Audit Reviews and Compliance monitoring which provided assurance regarding the control environment. In addition, receiving regular, detailed reports from the MLRO regarding AML and fraud monitoring. The reporting suite has continued to be improved.

Key Financial Reporting Judgements in 2023

Credit Risk – Impairment of Loans and Advances

Provisioning for loan impairment involves modelling and assumptions. Our modelling was updated in 2023 to take account of updated ONS data and behavioural data.

Revenue Recognition - Effective Interest Rate Accounting (EIR)

EIR accounting necessarily involves estimates and judgements. The EIR policy and expected mortgage lives assumptions have been reviewed by the Committee, and maintained at one month.

Defined Benefit Pension Scheme

The Defined Benefit Scheme valuation involves significant estimation judgements and assumptions which are based on professional actuarial advice. The Committee and Auditors have reviewed the data and are satisfied with the approach adopted. The Society has recognised a surplus for the year ended 31 December 2023 in line with the treatment applied in 2022.

Going Concern Basis of Preparation for the 2023 Annual Report and Accounts

The Audit Committee reviews and challenges reports and forecasts of business performance, including key indicators such as profitability, capital and liquidity. The assessments are subjected to stress scenarios and consideration of external factors. The Committee concluded the use of the going concern basis remains appropriate.

Fair, Balanced and Understandable

The Audit Committee provided advice to the Board which concluded the Annual Report and Accounts taken as a whole is fair, balanced and understandable and provides the information necessary for Members to assess our position, performance, business model and strategy.

Assurance Framework

The Audit Committee reviewed the assurance framework and monitored the completion of audit and compliance plans. The Committee also considered the Society's financial reporting in accordance with the responsibilities set out in the Committee's Terms of Reference.

Key Areas of Focus for 2024

Control effectiveness reporting will be improved with the continued development of assurance maps as well as overseeing the findings of second and third line reviews and subsequent deliverables.

Board Risk Committee

The Board Risk Committee comprises a majority of Non-Executive Directors including the Chair of Audit Committee, as well as our Finance Director and Chief Risk & Compliance Officer and advises our Board on risk appetite, risk exposure and future risk strategy.

Specific responsibilities include:

- Recommending to the Board the amount of risk the business is willing to take in pursuit of strategic objectives,
- Assessing the principal risks we face as a business,
- Monitoring the effectiveness of the risk framework,
- Ensuring the risk function is adequately resourced,
- Providing technical reviews of key policies and documents,
- Oversight of the ICAAP capital and ILAAP liquidity position and forecasts.

Board Risk Committee Activity in 2023

Health and Safety:

The Committee were satisfied that our risks were well managed and the level of oversight appropriate. The risks to the health and wellbeing of our Members and people were of paramount importance.

Operational Risk Management:

The Committee received regular reports regarding operational risks and business change. Regulatory change remained a significant risk in 2023 due to a number of key changes becoming effective during the period. Resource and specialist knowledge was required to ensure the changes were delivered.

Credit Risk:

The Committee was engaged in and monitored the development of the credit risk modelling and MI which was subject to continued improvement during the year.

Business Change:

The business provided regular updates in respect of the risks associated with significant strategic change projects.

Key Areas of Focus for 2024

In 2024, we'll be supporting ongoing developments to our risk management framework, climate risk management, Consumer Duty regulation and our transformation programme. In addition, we will closely monitor the credit risk position.

Nominations Committee

Our Nominations Committee comprises a majority of Non-Executive Directors as well as our Chief Executive and oversees the selection process of Board members, Executive appointments and Senior Management Team members as well as the allocation of Senior Management Functions.

Specific responsibilities include:

- Considering the structure, size and composition of the Board and the orderly succession plan,
- Recommending the appointment and removal of Executive and Non-Executive Directors to the Board,
- Overseeing the performance appraisal of Executive and Non-Executive personnel.

Nominations Committee Activity in 2023

Board Succession Planning:

Reviewing the requirements for the Directors retirements and appointments over the next three years and appointing a suitable search agency to manage the recruitment programme.

Executive Recruitment:

Reviewing the appointment of two new Non-Executive Directors to the Board in 2024.

Annual Reviews:

Conducting annual reviews of performance, effectiveness, management responsibilities, governance requirements, Director training and Committee membership.

Key Areas of Focus for 2024:

In 2024, we'll be continuing to focus on succession planning and ensuring the new and existing members of the Board and leadership team receive the appropriate training and support to effectively carry out their duties.

Remuneration Committee

The Remuneration Committee is comprised solely of Non-Executive Directors and determines our overall remuneration policy as well as the remuneration packages for Executives. The Chief Executive and Chief Risk and Compliance Officer are invited to attend all meetings, with the exception of those in which their remuneration is due to be discussed.

Specific responsibilities include:

- Determining the terms, conditions and remuneration of our Chair and Executive Directors,
- Approving the terms, conditions and remuneration of Board appointed roles and the Senior Management Team on the recommendation of the Chief Executive,
- Approving the terms, conditions and remuneration of the Chief Executive on recommendation of the Chair.

Remuneration Committee Activity in 2023

Remuneration Packages:

Approving remuneration packages for Executive and Senior Management Appointments and benchmarking our packages where relevant to ensure they remain in line with market rates. Approving the increase to the Board Chair fee based on external benchmarking data.

We also made a small number of salary awards to key staff as required to keep in line with the external market and to recognise the achievement of professional qualifications and increased responsibilities. We continued our commitment to maintain the minimum wage threshold to more than the Real Living Wage Foundation Scheme.

Bonus Schemes:

Approving Bonus scheme rules for 2024 and payments for 2023 performance, including an all colleague award paid in December 2023.

Compliance with Regulation:

Ensuring the business remains compliant regarding regulatory policy and guidance which impacts on remuneration structures.

A detailed report on Directors' remuneration can be found on page 37

The detailed responsibilities of all our Board Committees are set in their respective Terms of Reference and are available on our website. Membership and meeting information, including the attendance of Directors, is set out in the table below.

Board and Sub-Board Committee Membership Attendance in 2023

Director	Board	Audit	Risk	Nomination	Remuneration
G M Berville	12	-	-	5	-
K L Rebecchi	11	6	-	6	2*
N J Gower	11	7	7	5	-
P A McLelland	12	7	8	-	7
A P Haywood	12	-	8	-	7
P D Rogerson	11	-	8	-	7
C M Harrison	12	-	-	6	-
L S Hamp	12	-	8	-	-
Total number of formal meetings held	**12**	**7**	**8**	**6**	**7**

*Indicates attendance for the time as member of the Committee

Annual Report & Accounts 2023

Directors' Remuneration Report

Directors' Remuneration Report

Our Remuneration Policy:

Attracting, retaining and remunerating talent.

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.

Set total remuneration at a competitive level which rewards strong performance.

Provide a clear link to effective risk management consistent with risk appetite.

Meet regulatory standards and good corporate governance.

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.

Executive Director and Non-Executive Director 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 Chair of the Board.

Summaries of the 2023 remuneration elements and packages are shown on page 41.

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 & Compliance Officer provides assurance that the scheme design does not incentivise inappropriate behaviours.	Corporate measures for 2023 are: • Profit, • Cost Management, • Margin, • Risk & Control, • Culture, Customer, Brokers 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 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 principal benefits are: • Life assurance, • Private medical insurance, • Company car allowance, • 6 month notice period, • Other benefits e.g. relocation assistance may be provided based on individual circumstances.	Not applicable.	Not applicable.

Non-Executive Directors are paid a fixed fee and there is an additional payment for the Chair of the Board and Committee Chairs. The level of the fee is based on 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.

It is important that our Non-Executive and Chair fees are fair and reasonable and reflect market rates. It is essential that these are set at a competitive level that attract and retain high calibre individuals to ensure we maintain an effective performance of our Board.

In January 2023 we increased the Board Chair and Non-Executive fee in line with the annual Colleague Pay Award. Following the publication of the Annual Report and Accounts of other comparable Building Societies, we carried out market rate research of Board Chair and Non-Executive fees. This research concluded that our fees were below the competitive average of Societies in a similar asset range to ourselves. In order to maintain market alignment, we therefore applied an additional increase to their fees.

Executive and Senior Leadership Bonus Scheme for 2023

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 and measures including 'financials', 'risk and control environment', 'broker and Member', 'people and culture' and 'delivery of key strategic projects'.

The specific financial measures contained in the bonus structure are:

- Profit
- Cost Management
- Margin (NIM)

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 2023, 9% of Members voted and 88% did so in favour of the Directors' Remuneration Report.

Summary of Directors' Remuneration 2023

Executive Directors' Fees – 2023

2023	Salary	Discretionary Staff Award / Bonus / Ex Gratia	Taxable Benefits	Sub Total	Defined Contribution Scheme	Total
	£	£	£	£	£	£
C. M. Harrison	249,552	89,839	30,033	369,424	-	369,424
L. S. Hamp	152,708	55,800	17,810	226,318	11,383	237,701
Total	**402,260**	**145,639**	**47,843**	**595,742**	**11,383**	**607,125**

Executive Directors' Fees – 2022

2022	Salary	Discretionary Staff Award / Bonus / Ex Gratia	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**

[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.

Non-Executive Directors' Fees

	2023	2022
	£	£
G. M. Berville	53,608	51,452
N. J. Gower	35,121	34,452
K. L. Rebecchi	37,941	36,655
P. A. McLelland	36,034	34,451
A. P. Haywood	34,967	28,846
P. D. Rogerson	31,194	29,515
Total	**228,865**	**215,371**

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

A. P. Haywood
Chair of the Remuneration Committee

13 March 2024

Annual Report & Accounts 2023

Independent Auditor's Report

Independent Auditor's Report

Independent auditor's report to the members of Furness Building Society

Opinion

We have audited the annual accounts of Furness Building Society (the 'Society') and its subsidiaries (the 'Group') for the year ended 31 December 2023 which comprise the Group and Society Statement of Comprehensive Income and Other Comprehensive Income, Group and Society Statement of Changes in Equity, Group and Society Statement of Financial Position, Group Cash Flow Statement, and Notes to the Accounts, including a summary of principal accounting policies.

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

In our opinion, the annual accounts:

- give a true and fair view of the state of the Group's and Society's affairs as at 31 December 2023 and of the Group's and of the Society's income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the annual accounts" section of our report. We are independent of the Group and Society in accordance with the ethical requirements that are relevant to our audit of the annual accounts in the UK, including the Financial Reporting Council's ("FRC") Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the annual accounts, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the annual accounts is appropriate.

Our audit procedures to evaluate the directors' assessment of the Group's and Society's ability to continue to adopt the going concern basis of accounting included but were not limited to:

- Undertaking an initial assessment at the planning stage of the audit to identify events or conditions that may cast significant doubt on the Group's and Society's ability to continue as a going concern;
- Making enquiries of the directors to understand the period of assessment considered by them, the assumptions they considered and the implication of those when assessing the Group's and Society's future financial performance;
- Assessing the reasonableness of the Society's 5-year Corporate Plan, ICAAP and ILAAP documentation, which include management's stress testing, and form the base of their Going Concern assessment;
- Performing a sensitivity analysis by incorporating various stress scenarios to assess the impact on the capital and liquidity position of the Society;
- Assessing the historical accuracy of forecasts prepared by the directors;
- Assessing and challenging key assumptions and mitigating actions put in place in response to the current economic situation, including but not limited to, the 'cost of living crisis', inflation, levels and interest rates;
- Considering the consistency of the directors' forecasts with other areas of the annual accounts and our audit; and
- Evaluating the appropriateness of the directors' disclosures in the annual accounts on going concern.

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

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

Key audit matters

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

We summarise below the key audit matter in forming our audit opinion above, together with an overview of the principal audit procedures performed to address each matter and our key observations arising from those procedures.

This matter, together with our findings, were communicated to those charged with governance through our Audit Completion Report.

<table>
<tr><th>Key Audit Matter</th><th>How our scope addressed this matter</th></tr>
<tr><td>
Impairment losses on loans and advances to customers
Group and Society £899k (2022: £815k)
Refer to note 1.12 for the associated accounting policy, note 1.23 for management's critical judgements and estimates in applying the accounting policy, and note 14 of the annual accounts.
Credit risk and the calculation of the associated impairment provisions is an inherently judgemental area due to the use of subjective assumptions and a high degree of management estimation. The total impairment provision of the Group and Society consists of individual provisions on loans with default indicators and a collective provision on the performing portfolio.
Collective impairment
The collective impairment is derived by management from a model that uses a combination of the Group's and Society's historical experience and, due to the limited volume of historical loss cases, external data, adjusted for current conditions and resultant management estimates. In particular, the impairment assessment is most sensitive to movements in the house price index ('HPI'), the estimates of forced sale discounts ('FSD') applied to collateral values and the probability of default ('PD') of the loans.
In addition, management judgement is applied in determining any further adjustment to the provisioning model to reflect the anticipated reduction in expected cash proceeds on repossession and realisation of collateral.
Specific impairment
Management judgement is applied in estimating the individual provisions. In particular, estimates of the probability of default to reflect the risk associated with loans in arrears by at least three months, or estimates of the collateral value following repossession.
</td><td>
Our audit procedures included, but were not limited to:

Evaluating the design and implementation and testing the operating effectiveness of the key controls operating at the Group and Society in relation to the credit processes (loan origination and approval, loan redemptions and arrears monitoring)
Testing the completeness and accuracy of loans that are assessed by management for specific impairment provision including recalculating the provision charge;
Challenging the reasonableness of management's assumption in respect of the adjustment to the House Price Index;
Assessing the relevance of external data used in the provisioning model based on our understanding of the Group's and Society's portfolio;
Testing the integrity of the spreadsheet model used to calculate the collective and specific impairment provision. This included testing of input data (e.g. House Price Index, Probability of Default) used in the model;
Comparing the Group's and Society's key assumptions (PD, HPI and FSD) with similar lenders or other market players and loan portfolios with similar characteristics and considering whether these assumptions were consistent with industry benchmarks;
Performing sensitivity analysis over the key assumptions of PD, FSD and HPI;
Developing an auditor's range estimate of the collective provision using reasonable alternative assumptions relevant to the Group's and Society's portfolio; and
Assessing the adequacy of Group's and Society's disclosures in relation to the degree of estimation uncertainty involved in arriving at the provision for impairment losses on loans and advances to customers in the annual accounts.

Our observations
Based on the audit procedures performed, we found the resulting estimate of the loan impairment provision as at 31 December 2023 to be reasonable and in compliance with the requirements of IAS 39.
</td></tr>
</table>

Our application of materiality and an overview of the scope of our audit

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual annual account line items and disclosures and in evaluating the effect of misstatements, both individually and on the annual accounts as a whole. Based on our professional judgement, we determined materiality for the annual accounts as a whole as follows:

Overall materiality	Group: £852,000 (2022: £824,000) Society: £826,000 (2022: £801,000)
How we determined it	1% of Reserves
Rationale for benchmark applied	We consider that reserves are the most appropriate benchmark to use for the Group and Society, whose strategy is to provide mortgages, savings products and other financial services for the mutual benefit of members and customers and not one of profit maximisation. Further, reserves as a benchmark is supported by the fact that regulatory capital is a key benchmark for management and regulators, where reserves are an approximation of regulatory capital resources.
Performance materiality	Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the annual accounts exceeds materiality for the annual accounts as a whole. Performance materiality for the group and society £596,000 (2022: £618,000) was applied in the audit based on 70% (2022: 75%) of overall materiality. In determining the performance materiality, we considered a number of factors, including the effectiveness of internal controls and the history of misstatements, and concluded that an amount towards the upper end of our normal range was appropriate.
Reporting threshold	We agreed with the directors that we would report to them misstatements identified during our audit above £43,000 (2022: £41,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

As part of designing our audit, we assessed the risk of material misstatement in the annual accounts, whether due to fraud or error, and then designed and performed audit procedures responsive to those risks. In particular, we looked at where the directors made subjective judgements such as making assumptions on significant accounting estimates.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the annual accounts as a whole. We used the outputs of a risk assessment, our understanding of the Group and Society, their environment, controls and critical business processes, to consider qualitative factors in order to ensure that we obtained sufficient coverage across all annual accounts line items.

Our Group audit scope included an audit of the Group's and the Society's annual accounts. Based on our risk assessment, the group audit team undertook a full scope audit of the Group, the Society and its two trading subsidiaries.

	2023	2022
Number of reporting entities subject to full audit scope	3	3
% Group net interest income	100%	100%
% Group profit before tax	100%	100%
% Group total assets	100%	100%

At the Group level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information.

Other information

The other information comprises the information included in the annual report and accounts, other than the annual accounts and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the annual accounts does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the annual accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual accounts or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the annual accounts or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on the Annual Business Statement and the Directors' Report

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

- the Annual Business Statement and the Directors' Report have been prepared in accordance with the Building Societies Act 1986;
- the information in the Directors' Report for the financial year is consistent with the accounting records and the annual accounts; and
- the information given in the Annual Business Statement (other than the information on which we are not required to report) gives a true representation of the matters in respect of which it is given.

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Building Societies Act 1986 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Society; or
- the Society's individual annual accounts are not in agreement with the accounting records; or
- we have not received all the information and explanations and access to documents we require for our audit.

Responsibilities of Directors

As explained more fully in the statement of directors' responsibilities set out on page 22, the directors are responsible for the preparation of the annual accounts and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the Annual Accounts

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

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

Based on our understanding of the Group and Society and their industry, we identified that the principal risks of non-compliance with laws and regulations related to regulatory and supervisory requirements of the Prudential Regulatory Authority ('PRA') and the Financial Conduct Authority ('FCA') and anti-money laundering regulations, and we considered the extent to which non-compliance with these laws and regulations might have a material effect on the annual accounts.

To help us identify instances of non-compliance with these laws and regulations, and in identifying and assessing the risks of material misstatement in respect to non-compliance with laws and regulations, our procedures included but were not limited to:

- Gaining an understanding of the legal and regulatory framework applicable to the Group and Society, the industry in which they operate and the structure of the Group, and considering the risk of acts by the Group and Society which were contrary to the applicable laws and regulations including fraud;
- Inquiring of the directors, management and, where appropriate, those charged with governance, as to whether the Group and Society are in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;
- Inspecting correspondence with relevant licensing or regulatory authorities, primarily the PRA and the FCA, during the year and up until the date of the approval of the financial statements;
- Reviewing minutes of meetings of Directors held during the year and up until the date of approval of the financial statements;
- Discussing amongst the engagement team the identified laws and regulations, and remaining alert to any indications of non-compliance; and
- Focusing on areas of laws and regulations that could reasonably be expected to have a material effect on the annual accounts from our general commercial and sector experience and through discussions with the Chief Risk Officer, from inspection of the Society's regulatory and legal correspondence and review of minutes of the directors and Audit Committee during the period.

We also considered those other laws and regulations that have a direct impact on the preparation of annual accounts, such as the Building Societies Act 1986 and UK tax legislation.

In addition, we evaluated the directors' and management's incentives and opportunities for fraudulent manipulation of the annual accounts, including the risk of management override of controls, and determined that the principal risks related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, in particular in relation to provision for impairment losses on loans and advances to customers.

Our procedures in relation to fraud included but were not limited to:

- Making enquiries of the directors and management on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud;
- Addressing the risks of fraud through management override of controls by performing journal entry testing; and
- Being skeptical to the potential of management bias through judgements and assumptions in significant accounting estimates, in particular in relation to provision for impairment losses on loans and advances, and performing the procedures described in the "Key audit matter" section of our report.

The primary responsibility for the prevention and detection of irregularities including fraud rests with both those charged with governance and management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

The risks of material misstatement that had the greatest effect on our audit, including fraud, are discussed under "Key audit matter" within this report.

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

This description forms part of our auditor's report.

Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed by the directors on 9 September 2020, to audit the annual accounts for the year ended 31 December 2020 and subsequent financial periods. The period of total uninterrupted engagement is four years, covering the year ended 31 December 2020 to 31 December 2023.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or Society and we remain independent of the Group and Society in conducting our audit.

During the period under review, there was a breach by Mazars LLP of paragraph 2.3a of the FRC Ethical Standard as a Mazars LLP partner working in a non-audit capacity held a share savings account in the Society. Our assessment, which has been shared and agreed with the directors, is that it was a technical breach and does not impact our independence since the respective partner is not considered a covered person as defined by the FRC Ethical Standards. We took immediate action when it was discovered to close off the account. We therefore concluded that we remain independent of the Society in conducting our audit. We continue to monitor and reassess controls in place to prevent such breaches happening in the future.

Our audit opinion is consistent with our additional report to the audit committee.

Use of the audit report

This report is made solely to the Society's members as a body in accordance with section 78 of the Building Societies Act 1986. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body for our audit work, for this report, or for the opinions we have formed.

Tim Hudson (Senior Statutory Auditor)
for and on behalf of Mazars LLP

Chartered Accountants and Statutory Auditor
One St Peter's Square,
Manchester,
M2 3DE,

13 March 2024

Annual Report & Accounts 2023

Furness Building Society Annual Accounts

Furness Building Society Annual Accounts

Statement of Comprehensive Income

For the year ended 31 December 2023

	Notes	Group 2023 £000	Society 2023 £000	Group 2022 £000	Society 2022 £000
Interest receivable and similar income	2	56,505	56,349	32,918	32,807
Interest payable and similar charges	3	(34,215)	(34,215)	(12,052)	(12,052)
Net interest income		**22,290**	**22,134**	**20,866**	**20,755**
Fee and commissions receivable		47	47	48	48
Fees and commissions payable		(255)	(255)	(213)	(213)
Other operating income		219	219	148	148
Net gain from other financial instruments at fair value through profit and loss	4	101	101	16	16
Total net income		**22,402**	**22,246**	**20,865**	**20,754**
Administrative expenses	5	(17,418)	(17,391)	(15,034)	(15,004)
Depreciation and amortisation	16/17	(651)	(651)	(670)	(670)
Operating profit before impairment losses and provisions		**4,333**	**4,204**	**5,161**	**5,080**
Provisions for liabilities	24	(14)	(14)	(16)	(16)
Impairment charge on loans and advances	14	(102)	(102)	(122)	(122)
Profit before tax		**4,217**	**4,088**	**5,023**	**4,942**
Tax expense	8	(1,018)	(986)	(1,050)	(1,035)
Profit for the financial year		**3,199**	**3,102**	**3,973**	**3,907**

Other Comprehensive Income

	Notes	Group 2023 £000	Society 2023 £000	Group 2022 £000	Society 2022 £000
Profit for the financial year		3,199	3,102	3,973	3,907
Changes in fair value of debt securities and treasury bills:					
Valuation gains/(losses) taken to equity		501	501	(215)	(215)
Actuarial (loss)/gain recognised on the pension scheme	28	(1,078)	(1,078)	816	816
Taxation credit/(charge) on Other Comprehensive Income	8	155	155	(204)	(204)
Total Comprehensive Income for the year		**2,777**	**2,680**	**4,370**	**4,304**

The Notes on pages 57 to 84 form an integral part of these Accounts.

Statement of Changes in Equity

Group 2022

	Notes	General reserves £000	Available-for-sale reserves £000	Total £000
Balance as at 1 January 2022		**78,032**	**15**	**78,047**
Profit for the year		**3,973**	**-**	**3,973**
Other Comprehensive Income for the year:				
Actuarial gain recognised on the Pension Scheme	28	816	-	816
Movement in deferred tax relating to the Pension Scheme		(204)	-	(204)
Changes in fair value of debt securities:				
Taken through Other Comprehensive Income		-	(215)	(215)
Other Comprehensive Income for the year		**612**	**(215)**	**397**
Total Comprehensive Income for the year		**4,585**	**(215)**	**4,370**
Balance as at 31 December 2022		**82,617**	**(200)**	**82,417**

Group 2023

	Notes	General reserves £000	Available-for-sale reserves £000	Total £000
Balance as at 1 January 2023		**82,617**	**(200)**	**82,417**
Profit for the year		**3,199**	**-**	**3,199**
Other Comprehensive Income for the year:				
Actuarial loss recognised on the Pension Scheme	28	(1,078)	-	(1,078)
Movement in deferred tax relating to the Pension Scheme		155	-	155
Changes in fair value of debt securities:				
Taken through Other Comprehensive Income		-	501	501
Other Comprehensive Income for the year		**(923)**	**501**	**(422)**
Total Comprehensive Income for the year		**2,276**	**501**	**2,777**
Balance as at 31 December 2023		**84,893**	**301**	**85,194**

The Notes on pages 57 to 84 form an integral part of these Accounts.

Statement of Changes in Equity (continued)

Society 2022

	Notes	General reserves £000	Available-for-sale reserves £000	Total £000
Balance as at 1 January 2022		**75,648**	**15**	**75,663**
Profit for the year		**3,907**	**-**	**3,907**
Other Comprehensive Income for the year:				
Actuarial gain recognised on the Pension Scheme	28	816	-	816
Movement in deferred tax relating to the Pension Scheme		(204)	-	(204)
Changes in fair value of debt securities:				
Taken through Other Comprehensive Income		-	(215)	(215)
Other Comprehensive Income for the year		**612**	**(215)**	**397**
Total Comprehensive Income for the year		**4,519**	**(215)**	**4,304**
Balance as at 31 December 2022		**80,167**	**(200)**	**79,967**

Society 2023

	Notes	General reserves £000	Available-for-sale reserves £000	Total £000
Balance as at 1 January 2023		**80,167**	**(200)**	**79,967**
Profit for the year		**3,102**	**-**	**3,102**
Other Comprehensive Income for the year:				
Actuarial loss recognised on the Pension Scheme	28	(1,078)	-	(1,078)
Movement in deferred tax relating to the Pension Scheme		155	-	155
Changes in fair value of debt securities:				
Taken through Other Comprehensive Income		-	501	501
Other Comprehensive Income for the year		**(923)**	**501**	**(422)**
Total Comprehensive Income for the year		**2,179**	**501**	**2,680**
Balance as at 31 December 2023		**82,346**	**301**	**82,647**

The Notes on pages 57 to 84 form an integral part of these Accounts.

Statement of Financial Position

For the year ended 31 December 2023

Assets	Notes	Group 2023 £000	Society 2023 £000	Group 2022 £000	Society 2022 £000
Liquid assets:					
Cash in hand and balances with the Bank of England	10	56,080	56,080	109,975	109,975
Treasury bills & gilts	9	40,154	40,154	29,138	29,138
Loans and advances to credit institutions	10	68,429	68,160	17,517	17,251
Debt securities	11	50,337	50,337	32,917	32,917
Derivative financial instrument assets	12	10,564	10,564	18,173	18,173
Loans and advances to customers:					
Loans fully secured on residential property	13	1,069,672	1,067,392	1,021,729	1,019,016
Loans fully secured on land	13	2,384	2,384	2,745	2,745
Investments in subsidiary undertakings	15	-	4	-	497
Other assets	18	101	43	11	11
Intangible fixed assets	16	529	529	772	772
Tangible fixed assets	17	1,437	1,437	922	922
Prepayments and accrued income	19	1,891	1,901	981	981
Retirement benefit asset	28	1,570	1,570	1,212	1,212
Total assets		**1,303,148**	**1,300,555**	**1,236,092**	**1,233,610**

Liabilities

Shares	20	1,032,863	1,032,863	955,876	955,876
Amounts owed to credit institutions		14,630	14,630	23,135	23,135
Amounts owed to other customers	21	161,108	161,108	170,504	170,504
Derivative financial instrument liabilities	12	4,981	4,981	668	668
Other liabilities	22	2,382	2,353	1,478	1,462
Accruals and deferred income	23	1,796	1,779	1,834	1,818
Provisions for liabilities	24	194	194	180	180
Total liabilities		**1,217,954**	**1,217,908**	**1,153,675**	**1,153,643**

Reserves

General reserves		84,893	82,346	82,617	80,167
Available-for-sale reserves		301	301	(200)	(200)
Total reserves attributable to Members of the Society		**85,194**	**82,647**	**82,417**	**79,967**
Total reserves and liabilities		**1,303,148**	**1,300,555**	**1,236,092**	**1,233,610**

The Notes on pages 57 to 84 form an integral part of these Accounts.

The Accounts were approved by the Board of Directors on 13 March 2024 and were signed on its behalf by:

G. M. Berville Chair

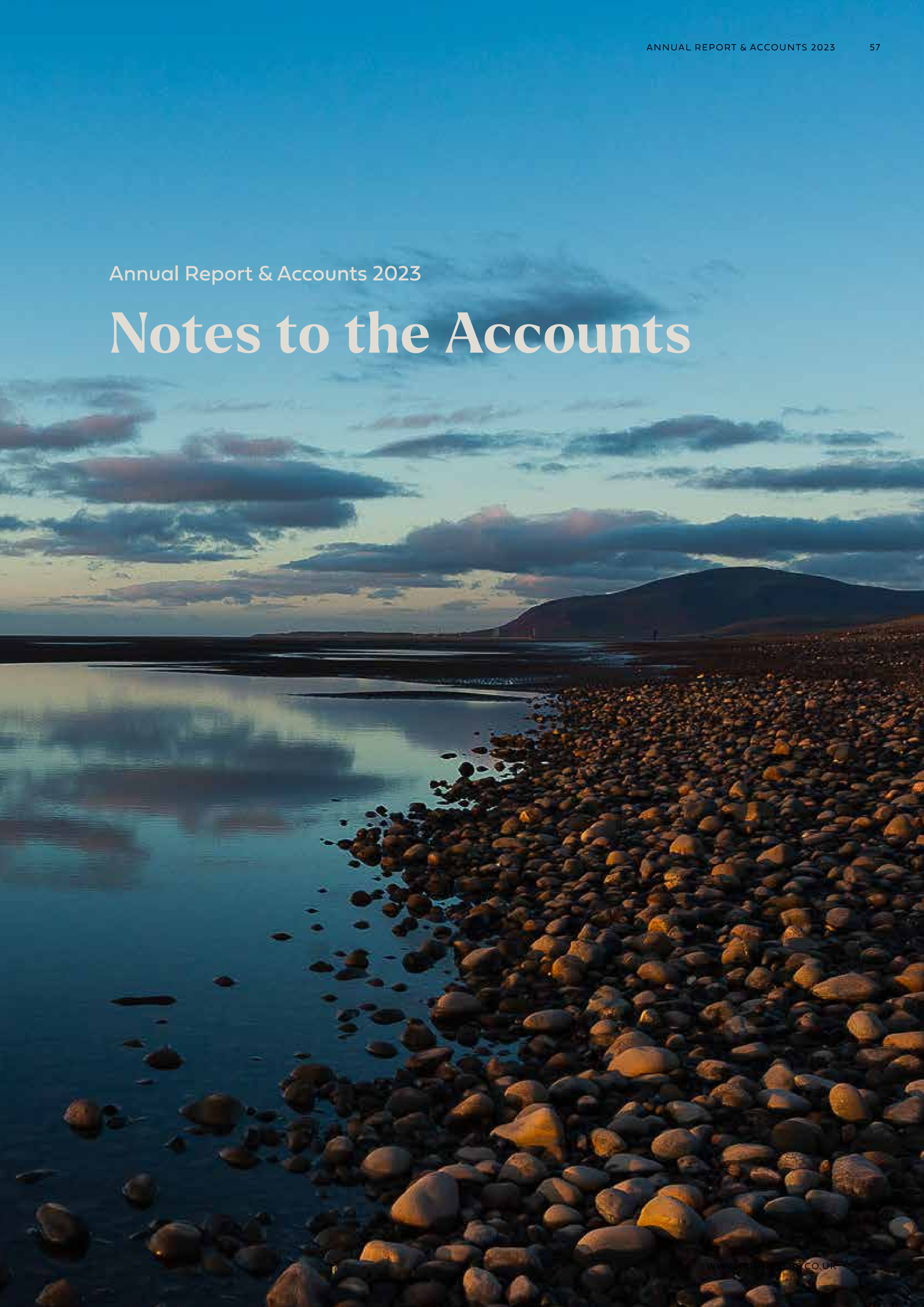
K. L. Rebecchi Vice Chair

C. M. Harrison Chief Executive

Group Cash Flow Statement

Cash flows from operating activities	Notes	Group 2023 £000	Group 2022 £000
Profit before tax		4,217	5,023
Adjustments for:			
Depreciation and amortisation	16/17	651	670
Interest on subordinated debt	3	-	158
Increase in impairment of loans and advances	14	102	122
Movement in premium and accrued interest on debt securities and treasury bills		(1,793)	(434)
Total		**3,177**	**5,539**
Changes in operating assets and liabilities			
(Increase)/decrease in prepayments, accrued income and other assets		(683)	1,342
Increase in accruals, deferred income and other liabilities		822	724
Increase in loans and advances to customers		(36,126)	(78,036)
Increase in shares		76,987	68,958
(Decrease)/increase in amounts owed to credit institutions and other customers		(17,902)	36,838
Increase in loans and advances to credit institutions		(49,016)	(6,520)
Decrease in retirement benefit obligation		(1,540)	(1,272)
Taxation paid		(645)	(1,019)
Net cash (used in)/generated by operating activities		**(28,103)**	**21,015**
Cash flows from investing activities			
Purchase of debt securities and treasury bills	9/11	(97,439)	(67,150)
Disposal of debt securities and treasury bills	9/11	71,289	15,473
Purchase of tangible fixed assets	17	(886)	(297)
Purchase of intangible assets	16	(37)	(40)
Net cash used in investing activities		**(27,073)**	**(52,014)**
Cash flows from financing activities			
Interest and capital paid on subordinated debt	3	-	(5,156)
Net cash used by financing activities		**-**	**(5,156)**
Net decrease in cash and cash equivalents		**(51,999)**	**(30,616)**
Cash and cash equivalents at 1 January		118,556	149,172
Cash and cash equivalents at 31 December	10	**66,557**	**118,556**

The Notes on pages 57 to 84 form an integral part of these Accounts.



Annual Report & Accounts 2023

Notes to the Accounts

01. Principal Accounting Policies

1.1 General information

Furness Building Society is incorporated in the United Kingdom under the Building Societies Act 1986. The address of its registered office is Emlyn Hughes House, Abbey Road, Barrow-in-Furness, Cumbria LA14 5PQ.

The principal accounting policies adopted in the preparation of these financial statements are set out below.

1.2 Basis of preparation

Annual Accounts have been prepared in accordance with Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the UK and Northern Ireland' (FRS 102), and in accordance with the Building Societies Act 1986 and the Building Societies (Accounts and Related Provisions) Regulations 1998. The Society has also chosen to apply the recognition and measurement provisions of IAS 39, 'Financial Instruments: Recognition and Measurement'.

The Society is included in the consolidated Annual Accounts, and is considered to be a qualifying entity under FRS 102 paragraphs 1.9 to 1.13. The following exemptions available under FRS 102 in respect of certain disclosures for the parent Society Annual Accounts have been applied:

- No separate Society Cash Flow Statement with related notes is included; and
- Key Management Personnel compensation has not been included.

Annual Accounts have been prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments and financial instruments classified at fair value through the profit or loss (FVTPL) or available for-sale.

Reclassification of prior year presentation

When presentation or classification is changed comparative amounts shall be reclassified unless impracticable. When amounts are reclassified the entity shall disclose (a) the nature of the reclassification; (b) the amount of each item or class of items that is reclassified; and (c) the reason for the reclassification. If reclassification is impracticable the entity shall disclose the reason why.

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations. An adjustment has been made to the Statement of Comprehensive Income, Group Cash Flow Statement and Note 5 for the year ended 31 December 2022, to reclassify certain figures.

On the Statement of Comprehensive Income, dilapidation costs have been reclassified from administrative expenses to provisions for liabilities. This was done to improve understandability and clarity, to ensure Note 24 Provisions for Liabilities reconciles back to the relevant Statement of Comprehensive income line. As a result of administrative expenses being changed, Note 5 has also been changed so that this reconciles.

On the Group Cash Flow Statement, a new line has been added for movement in premium and accrued interest on debt securities and treasury bills. In prior periods this has been included within increase/decrease in prepayments, accrued income and other assets. This has been moved to its own line as it is a non-cash item so should be shown within the adjustments section. The comparative figures have been amended accordingly.

1.3 Going concern

Annual Accounts have been prepared on a going concern basis. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the date when the financial statements are authorised for issue.

The Board has considered a number of stress scenarios, with the macroeconomic factors being based as a minimum on the Bank of England Annual Cyclical scenario variables, and the impact they would have on the Society's liquidity, capital and operational resilience. The Board have concluded the assumptions in the assessment are relevant and the Society has sufficient capital and liquidity to continue as a going concern.

1.4 Basis of consolidation

The accounting policies below and the Statement of Comprehensive Income and Statement of Financial Position incorporate the Society and its subsidiary undertakings (collectively referred to as the Group) all of which have year-ends of 31 December. Uniform accounting policies are used throughout the Group and are consistent with the prior year. Investments in subsidiary undertakings are stated at cost less any provision for impairment.

1.5 Interest

Interest income and expense are recognised in profit or loss using the effective interest rate (EIR) method. The EIR is the rate that discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes transaction costs and fees, including early redemption fees (ERCs), which are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

The EIR policy remains consistent with prior years. An annual review of the assumptions has taken place and management have elected to maintain assumptions in-line with the previous year.

1.6 Fees and commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate (see 1.5).

Other fees receivable are recognised on the accruals basis when all contractual obligations have been fulfilled. Other fees payable are recognised on an accruals basis when the service has been provided or on the completion of an act to which the fee relates, and are inclusive of VAT where applicable.

1.7 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the Statement of Comprehensive Income except to the extent that it relates to items recognised directly in equity or Other Comprehensive Income.

Current taxation

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the Statement of Financial Position date, and any adjustment to tax payable in respect of previous years. Corporation tax is charged on the profit on ordinary activities for the year as adjusted for taxation purposes.

Deferred taxation

Provision for deferred tax is made on a non-discounted basis in respect of all timing differences that have originated but not reversed by the Statement of Financial Position date. Timing differences represent differences between gains and losses recognised for tax purposes in periods different from those in which they are recognised in Annual Accounts. No deferred tax is recognised on permanent differences between the Group's taxable gains and losses and its results as stated in the Annual Accounts. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the Statement of Financial Position date.

1.8 Financial assets

At initial recognition the Group classifies non-derivative financial assets either as loans and receivables or as available-for-sale assets. No assets have been classified as held to maturity.

a) Loans and receivables

'Loans and receivables' are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term. Loans and receivables are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest rate method. The Group's cash in hand and balances with the Bank of England, as well as loans and advances to credit institutions and customers are classified as loans and receivables.

b) Available-for-sale financial assets

'Available-for-sale' investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments comprise treasury bills, gilts and debt securities. All available-for-sale investments are measured at fair value after initial recognition. Gains or losses on available-for sale financial assets are recognised in other comprehensive income, except for impairment losses, until the financial asset is derecognised. At that time the cumulative gain or loss previously recognised in other comprehensive income shall be reclassified from equity to profit or loss.

Interest income is recognised in profit or loss using the effective interest rate method. Dividend income is recognised in profit or loss when the Group becomes entitled to the dividend. Impairment losses are recognised in profit or loss.

c) Financial assets at fair value through profit or loss

The Group uses derivative financial instruments only for risk management purposes, and not for trading purposes. Derivatives are recognised at fair value in the Statement of Financial Position with the gain or loss on remeasurement recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The Group designates derivatives held for risk management purposes as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument and hedged items, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at inception of the hedge relationship and on an ongoing basis, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80–125%.

These hedging relationships are discussed in d) below.

d) Fair Value Hedges

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

The Group enters into credit support agreements, which protect against counterparty default in respect of hedging instruments by means of collateral transactions. Collateral balances are included within 'liquid assets' or 'amounts owed to credit institutions' as appropriate and interest receivable or payable reflected in the Statement of Comprehensive Income within 'net interest income'.

1.9 Term Funding Scheme (TFS), Term Funding Scheme with additional incentives for SMEs (TFSME) and Sterling Monetary Framework (SMF)

Loans and advances over which the Group transfers its rights to the collateral thereon to the Bank of England under the TFSME/SMF are not derecognised from the Statement of Financial Position, as the Group retains substantially all the risks and rewards of ownership, including all cash flows arising from the loans and advances and exposure to credit risk. TFSME/SMF borrowings are recognised in 'Amounts owed to other customers'.

1.10 Financial liabilities

All financial liabilities are initially recognised at cost plus directly attributable transaction costs. Subsequent measurement of financial liabilities is at amortised cost using the effective interest rate method, except for those financial liabilities measured at fair value through Profit or Loss.

1.11 Derecognition of financial assets and liabilities

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

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in Other Comprehensive Income is recognised in profit and loss.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires. The difference between the carrying amount of a financial liability extinguished, or transferred to another party, and the consideration paid shall be recognised in the profit and loss.

1.12 Impairment of financial assets

a) Assets carried at amortised cost

Individual assessments are made of all loans and advances against properties and land which are in possession, in arrears, are subject to forbearance activities or other significant cases of concern. Individual impairment allowances are made against those loans and advances where there is objective evidence of impairment, which may include:

- Significant financial difficulty of the borrower/issuer;
- Deterioration in payment status;
- Renegotiation of the terms of an asset due to financial difficulty of the borrower or issuer, including granting a concession/forbearance to the borrower or issuer;
- Becoming probable that the borrower or issuer will enter bankruptcy or other financial reorganisation; and
- Any other information discovered during regular review suggesting that a loss is likely.

If there is objective evidence of impairment, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. In considering expected future cash flows, account is taken of any discount which may be needed against the value of the property at the Statement of Financial Position date thought necessary to achieve a sale and anticipated realisation costs.

In addition the Group assesses at least quarterly whether there is objective evidence to suggest a financial asset or group of financial assets is likely to be impaired. Where a collective assessment is made, each category or class of financial asset is split into groups of assets with similar credit risk characteristics. The Group measures the amount of impairment loss by applying estimated loss factors based on the Group's experience of default, loss emergence periods, the effect of movements in house prices and any adjustment for the expected forced sales value. Where certain impairment characteristics are considered significant but not adequately assessed as part of the impairment model calculation, then management may elect to apply an overlay to the impairment allowance.

The amount of impairment loss is recognised immediately through the Statement of Comprehensive Income and a corresponding reduction in the value of the financial asset is recognised.

b) Available-for-sale assets

The Group assesses at each Statement of Financial Position date whether there is objective evidence that an available-for-sale asset or group of available-for-sale assets is impaired.

Available-for-sale assets are impaired and impairment losses incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event has an impact on the estimated future cash flows of those assets. Loss events may include default of a counterparty or disappearance of an active market for the assets. Where objective evidence exists, that the asset has been impaired, the cumulative loss that had been recognised in Other Comprehensive Income shall be reclassified from equity to profit or loss. Impairment is measured as the difference between the current amortised cost and the current fair value, less any impairment loss on that asset previously recognised.

1.13 Offsetting

Financial assets and liabilities are offset and the net amounts presented in the Annual Accounts only when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

1.14 Cash and cash equivalents

Cash and cash equivalents includes cash in hand and balances with the Bank of England plus loans and advances to credit institutions with an original maturity of less than 3 months. Cash pledged with credit institutions as collateral in respect of derivative contracts is not included in these balances.

1.15 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price of the asset, the costs attributable to bringing the asset to working condition for its intended use, and any branch dilapidation costs.

The Group capitalises the cost of additions and major alterations to office premises and equipment. In the case of leasehold premises with a term remaining in excess of 50 years, depreciation of the original cost of these is charged to the Statement of Comprehensive Income over the lower of 50 years and their estimated useful life.

The cost of other fixed assets is written off on a straight line basis over the estimated useful lives as follows:

- Equipment, fixtures, fittings and vehicles are written off over periods between 2 and 10 years
- Leasehold premises are written off over the lower of 50 years and the unexpired period of the lease
- Freehold property is written off over the lower of 50 years and their estimated useful life.

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period. The effect of any change in useful life is accounted for prospectively.

Tangible assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in the Statement of Comprehensive Income and included in 'Other operating income/(charge)'.

1.16 Intangible assets

Intangible assets consists of externally acquired and internally developed computer software. Internally developed computer software is capitalised as an intangible asset where the software is an identifiable asset controlled by the Group which will generate future economic benefits and where costs can be reliably measured. Costs incurred to establish technological feasibility or to maintain existing levels of performance are recognised as an expense as incurred.

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated, using the straight-line method, to allocate the depreciable amount of the assets to their residual values over the estimated useful lives of the software, which are between 3 and 5 years.

Amortisation is charged to depreciation and amortisation in the Statement of Comprehensive Income. Where factors, such as technological advancement or changes in market price, indicate that residual value or useful life have changed, the residual value, useful life or amortisation rate are amended prospectively to reflect the new circumstances. The assets are reviewed for impairment if the above factors indicate that the carrying amount may be impaired.

Costs associated with maintaining computer software are recognised as an expense as incurred. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

1.17 Software-as-a-Service (SaaS) costs

Where the Society has access to a supplier's software which runs on that supplier's cloud based network infrastructure, this is considered to be a SaaS arrangement. The Society does not have control and direction over the software in a SaaS arrangement, meaning it cannot be recognised as an Intangible Asset and the costs of licensing and hosting such software are expensed as incurred.

1.18 Leasing

The leases entered into by the Group are operating leases. All payments under operating lease contracts are charged to the Statement of Comprehensive Income on a straight line basis over the life of the lease.

1.19 Liquid assets

Debt securities are initially measured at fair value, which is normally the transaction price to the Group, adjusted to exclude interest accrued at the date of purchase. Such assets are subsequently carried at fair value and the changes in fair value are recognised through the available-for-sale reserve. Provision is made for any potential impairment in value if necessary. Where there is a permanent impairment of a liquid asset, a provision is made so as to write down the cost of the security to its recoverable amount.

1.20 Employee benefits

The Group provides a range of benefits to employees, including paid holiday arrangements and defined benefit and defined contribution pension plans.

a) Short term benefits

Short term benefits, including holiday pay and other similar nonmonetary benefits, are recognised as an expense in the period in which the service is received.

b) Pension costs

i. Defined Benefit Pension Plan

The Group operates a defined benefit pension scheme and the assets are held in a separate trustee administered fund. Included within the Statement of Financial Position is the Group's net surplus calculated as the present value of the defined benefit obligation less the fair value of plan assets.

The Society has implemented Section 28 of FRS 102 'Employee Benefits' which covers the accounting and disclosure requirements for employee pensions. In the absence of clear guidance under FRS102, IFRIC14 has been followed regarding the recognition of the defined benefit pension surplus. The Society has determined that recognition of the surplus is acceptable under IFRIC14.

Any remeasurement of the net pension surplus is recognised in the Statement of Comprehensive Income. Actuarial gains or losses are recognised in Other Comprehensive Income.

Any past service costs or interest costs, which reflect the increase in the defined obligation which arises as benefits are one period closer to settlement, are recognised in operating profit.

See Note 29 for further information regarding the Defined Benefit Pension Plan.

ii. Defined Contribution Scheme

The Group also operates a contributory defined contribution pension scheme, the assets of which are held separately from those of the Group. For this scheme, the cost is charged to the Statement of Comprehensive Income as contributions become due. The amount charged represents the contributions payable to the scheme in respect of the accounting period.

1.21 Provisions

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

1.22 Dividends

On occasions the Society's wholly owned subsidiaries may make dividend payments to their parent. Such dividends are decided at the discretion of the subsidiaries' Boards of Directors and are reflected in the Annual Accounts of the respective entities when this occurs. Dividends are only recognised by the Society when approved and paid.

1.23 Critical judgements and estimates in applying the accounting policy

The Group makes estimates and judgements that affect the reported results and amounts of assets and liabilities. These are regularly evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These are described below:

a) Impairment losses on loans and advances to customers

The Group reviews its mortgage advances portfolio at least on a quarterly basis to assess impairment. In determining whether an impairment loss should be recorded, the Group is required to exercise a degree of judgement. Impairment allowances are calculated using historical arrears experience, modelled credit risk characteristics and expected cash flows. Estimates are applied to determine prevailing market conditions (e.g. interest rates, house prices and forced sale discount), customer behaviour (for example, default rates) and the length of time expected to complete the sale of properties in possession. Impairment allowances are therefore affected by changes to these assumptions.

A key assumption is the expected level of defaults in each category of impairment – the probability of default. The Group has calculated collective default rates from its experience over recent years. During that period the Group has had a low number of possessions, and in addition the default rates may have been depressed by the Group's forbearance policy. As a result management has applied an uplift to the actual default rates experienced in its collective impairment assumptions.

The collective impairment policy has remained consistent with the prior year. An annual review of assumptions has taken place and updates have been made as appropriate. As such, the Society has applied a reduction to HPI in its impairment modelling. This reflects an expected fall in house prices through 2024 and has resulted in an increased provision for the year ended 2023.

The Group has applied a sensitivity analysis to its key assumptions. A movement to the Society's existing probability of default assumption of 0.1 percentage points would change the collective impairment provision on loans and advances to customers by +/- £0.02m. A movement to the existing forced sale discount of 1.0 percentage points would result in a change to the total provision requirement of +/- £0.04m.

b) Effective Interest Rate (EIR)

The calculation of an Effective Interest Rate (EIR) requires the Society to undertake an assessment of the expected lives of mortgages and mortgage related fees to be spread over the lives of products. The EIR policy remains consistent with the prior year.

i. Expected Mortgage Lives

In determining the average expected lives of mortgage assets, the Group uses historical and forecast redemption and product switch data as well as management judgement. The expected lives of mortgage assets are periodically reassessed for reasonableness as any variation in the average expected lives will change the Effective Interest Rate (EIR) carrying value in the Statement of Financial Position and the timing of the recognition of interest income.

A movement of 0.25 months to the average expected life of mortgages would change the EIR carrying value by +/- £0.30m.

ii. Mortgage Related Fee

The methodology for calculating the movement in EIR during the year for both interest, mortgage fees and early repayment charges remains unchanged.

c) Defined Benefit Pension Scheme Valuation

The Group operates a defined benefit pension scheme and recognise any surplus as described in 1.20. Significant judgements have to be exercised in estimating the value of the liabilities of the scheme, and hence of its surplus. The assumptions are outlined in Note 29.

Of these assumptions, changes in the discount rate and inflation have the most material impact on the net pension obligation. A movement in the discount rate of +0.50% increases the pension surplus by £1.4m. A movement in the inflation rate of +0.50% decreases the pension surplus by £0.7m.

d) Fair value of derivatives and financial assets

The Group employs the following techniques in determining the fair value of its derivatives and financial assets:

- Available for sale – measured at fair value using market prices.
- Derivative financial instruments – calculated by discounted cash flow models using yield curves that are based on observable market data. Cash flows for swap derivatives are calculated taking into consideration known characteristics of the swap (i.e. maturity date, nominal value, interest rates for fixed and variable rate legs, etc.). Cash flows are subsequently discounted using the swaps designated interest rate i.e. SONIA. Variable leg cash flows are calculated using the latest yield curve data obtained via a third-party.

e) Determination whether configuration and customisation services are distinct from the SaaS access

In line with IFRIC's guidance, the Group has determined that Configuration and Customisation (C&C) expenditure incurred during the set-up of SaaS software is not distinct from the provision of that SaaS arrangement and is therefore recognised as a prepayment and expensed over the term of the initial SaaS arrangement contract.

1.24 Country by Country Reporting

The Capital Requirements Regulations require the Group to disclose the information below as part of 'Country by Country Reporting'.

- Nature of activities and geographical location: The principal activities of the Group are set out in the Director's Report. The Group operates entirely in the UK and so no further Country by Country information has been presented.
- Average number of employees: information is disclosed in Note 6.
- Turnover is equivalent to operating income items disclosed in the Group Statement of Comprehensive Income, comprising net interest income, fees and commissions receivable and payable and other operating (charge)/income.
- Pre-tax profit or loss represents the Group profit or loss before tax, as reported in the Group Statement of Comprehensive Income.
- Corporation tax paid: as disclosed in the Group Cash Flow Statement.
- Public subsidies received: none received.

02. Interest Receivable and Similar Income

	Group 2023 £000	Society 2023 £000	Group 2022 £000	Society 2022 £000
On loans fully secured on residential property net of income/expense on derivatives	47,063	46,897	30,528	30,410
On other loans				
Fully secured on land	174	174	160	160
To subsidiary undertakings	-	10	-	7
On debt securities				
Interest and other income	1,941	1,941	150	150
On treasury bills and gilts				
Interest and other income	1,747	1,747	276	276
On other liquid assets				
Interest and other income	5,580	5,580	1,804	1,804
Total	**56,505**	**56,349**	**32,918**	**32,807**

03. Interest Payable and Similar Charges

	Group 2023 £000	Society 2023 £000	Group 2022 £000	Society 2022 £000
On shares held by individuals	26,689	26,689	9,603	9,603
On other shares	12	12	4	4
On subordinated liabilities	-	-	158	158
On deposits and other borrowings	7,514	7,514	2,287	2,287
Total	**34,215**	**34,215**	**12,052**	**12,052**

04. Net gain from other Financial Instruments at Fair Value Through Profit and Loss

	Group 2023 £000	Society 2023 £000	Group 2022 £000	Society 2022 £000
Derivatives in designated fair value hedge relationships	(12,871)	(12,871)	13,706	13,706
Adjustments to hedged items in fair value hedge accounting relationships	12,942	12,942	(13,644)	(13,644)
Derivatives not in designated fair value hedge relationships	30	30	(46)	(46)
Total	**101**	**101**	**16**	**16**

05. Administrative Expenses

	Group 2023 £000	Society 2023 £000	Group 2022 £000	Society 2022 £000
Staff costs (Note 6)	10,594	10,594	9,150	9,150
Other expenses	6,824	6,797	5,884	5,854
Total	**17,418**	**17,391**	**15,034**	**15,004**

Other expenses include

Amounts payable to auditors (excluding VAT)	195	168	182	168
Amounts payable under operating leases	204	204	161	161

06. Staff Numbers and Costs

The average number of persons employed by the Group and Society (including Executive Directors) during the year was as follows:

Full Time	Group 2023	Society 2023	Group 2022	Society 2022
Principal office and administration centre	113	113	98	98
Branch offices	40	40	33	33
Total	**153**	**153**	**131**	**131**

Part Time

Principal office and administration centre	32	32	31	31
Branch offices	16	16	20	20
Total	**48**	**48**	**51**	**51**

The aggregated costs of these persons were as follows	£000	£000	£000	£000
Wages and salaries	8,849	8,849	7,608	7,608
Social security costs	1,009	1,009	807	807
Other pension costs*	736	736	735	735
Total	**10,594**	**10,594**	**9,150**	**9,150**

*Other pension costs includes employer contributions to the pension Defined Contribution Scheme of £503k.

07. Emoluments of and Transactions with Directors

Total Directors' emoluments amounted to £836k (£851k: 2022). Full details are given in the Directors' Remuneration Report on pages 37.

Under the Society rules, all Directors are required to hold a savings balance of at least £1,000. Savings balances were £15k as at 31 December 2023 (£119k: 2022) and are held on normal commercial terms.

At 31 December 2023 there were no (no: 2022) outstanding loans granted in the ordinary course of business to Directors. A register is maintained at the Head Office of the Society which shows details of all loans, transactions and arrangements with connected persons. A statement for the current financial year of the appropriate details contained in the register will be available for inspection at the Head Office for a period of 15 days up to and including the day of the Annual General Meeting. The Directors of the Society are considered to be the only key management personnel, as defined by FRS 102.

08. Tax on profit on ordinary activities

Current Tax	Group 2023 £000	Society 2023 £000	Group 2022 £000	Society 2022 £000
Current tax on income for the period	748	716	689	674
Adjustments in respect of prior periods	(30)	(30)	(1)	(1)
Total current tax	**718**	**686**	**688**	**673**

Deferred tax

Origination/(reversal) of timing differences	125	125	474	474
Adjustment in respect of previous years	(5)	(5)	7	7
Effect of changes in tax rates	25	25	85	85
Total deferred tax	**145**	**145**	**566**	**566**
Total Tax	**863**	**831**	**1,254**	**1,239**

8.1 Tax recognised in Statement of Comprehensive Income

	2023			2022		
Group	Current tax £000	Deferred tax £000	Total tax £000	Current tax £000	Deferred tax £000	Total tax £000
Recognised in profit and loss	603	415	1,018	688	362	1,050
Recognised in Other Comprehensive Income	115	(270)	(155)	-	204	204
Total tax	**718**	**145**	**863**	**688**	**566**	**1,254**

Society

Recognised in profit and loss	571	415	986	673	362	1,035
Recognised in Other Comprehensive Income	115	(270)	(155)	-	204	204
Total tax	**686**	**145**	**831**	**673**	**566**	**1,239**

8.2 Factors affecting tax charge for the year

The tax assessed for the year differs to the standard rate of Corporation tax in the UK 25% from 1 April 2023 (19%: 2022).

Total tax reconciliation	Group 2023 £000	Society 2023 £000	Group 2022 £000	Society 2022 £000
Profit on ordinary activities before tax	4,217	4,088	5,023	4,942
Corporation tax at 23.5%* (19%: 2022)	994	961	954	939

Effects of:

Adjustment to tax charge in respect of previous periods	(35)	(35)	6	6
Tax rate changes	26	26	85	85
Expenses not deductible	35	35	11	11
Other	(2)	(1)	(6)	(6)
Tax Recognised in Profit & Loss	**1,018**	**986**	**1,050**	**1,035**

The Group expects its effective tax rate in future years to be broadly in line with the standard rate of corporation tax in the UK.

* The Corporation Tax rate for the year ended 31 December 2023 is a blended rate of 25% from 1 April 2023, 19% prior to this date.
The movements in deferred taxation are disclosed in Note 25.

09. Treasury Bills and Gilts

	Group 2023 £000	Society 2023 £000	Group 2022 £000	Society 2022 £000
Gilts	17,270	17,270	24,221	24,221
Treasury Bills	22,884	22,884	4,917	4,917
Total	**40,154**	**40,154**	**29,138**	**29,138**

Movements during the year of debt are analysed as follows:

At 1 January	29,138	29,138	10,159	10,159
Additions	80,087	80,087	34,595	34,595
Disposals and maturities	(71,289)	(71,289)	(15,473)	(15,473)
Movement in premium and accrued interest	1,748	1,748	34	34
Net gain/(loss) from changes in fair value recognised in Other Comprehensive Income	470	470	(177)	(177)
Total At 31 December	**40,154**	**40,154**	**29,138**	**29,138**

10. Loans and Advances to Credit Institutions

	Group 2023 £000	Society 2023 £000	Group 2022 £000	Society 2022 £000
Repayable on demand	10,477	10,208	8,581	8,315
Cash pledged as collateral against derivative contracts	5,712	5,712	5,828	5,828
Other loans and advances	52,240	52,240	3,108	3,108
Total	**68,429**	**68,160**	**17,517**	**17,251**

10.1 Cash and cash equivalents

The totals for cash and cash equivalents included in the cash flow statements for each year comprise the following balances:

	Group 2023 £000	Group 2022 £000
Cash in hand and balances with the Bank of England	56,080	109,975

Loans and advances to credit institutions:

Repayable on demand	10,477	8,581
Total	**66,557**	**118,556**

11. Debt Securities

	Group 2023 £000	Society 2023 £000	Group 2022 £000	Society 2022 £000
Issued by UK banks and building societies	26,963	26,963	14,474	14,474
Issued by multilateral European development bank	23,374	23,374	18,443	18,443
Total	**50,337**	**50,337**	**32,917**	**32,917**

Transferable Debt Securities Comprise

Listed on a recognised investment exchange	50,337	50,337	32,917	32,917
Transferable securities held as financial fixed assets at fair value	**50,337**	**50,337**	**32,917**	**32,917**

11.1 Movements during the year of debt securities

Movements during the year of debt securities held as financial fixed assets are analysed as follows:	Group 2023 £000	Society 2023 £000	Group 2022 £000	Society 2022 £000
At 1 January	32,917	32,917	-	-
Additions	17,352	17,352	32,555	32,555
Movement in premium and accrued interest	45	45	400	400
Net gain/(loss) from changes in fair value recognised in Other Comprehensive Income	23	23	(38)	(38)
At 31 December	**50,337**	**50,337**	**32,917**	**32,917**

12. Derivative Financial Instruments
Group and Society

At 31 December 2023	Contractual amount £M	Fair value assets £000	Fair value liabilities £000
Unmatched derivatives - interest rate swaps	-	-	-
Derivatives designated as fair value hedges – interest rate swaps	443	10,564	(4,981)
Total	**443**	**10,564**	**(4,981)**

At 31 December 2022

Unmatched derivatives - interest rate swaps	7	-	1
Derivatives designated as fair value hedges – interest rate swaps	398	18,173	(669)
Total	**405**	**18,173**	**(668)**

13. Loans & Advances to Customers

	Group 2023 £000	Society 2023 £000	Group 2022 £000	Society 2022 £000
Loans fully secured on residential property	1,069,672	1,067,392	1,021,729	1,019,016
Loans fully secured on land	2,384	2,384	2,745	2,745
Total loans	**1,072,056**	**1,069,776**	**1,024,474**	**1,021,761**

Total loans before adjustments	1,073,041	1,070,759	1,038,972	1,036,257
Effective interest rate adjustment	2,824	2,824	2,169	2,169
Provision for impairment losses on loans and advances	(899)	(897)	(815)	(813)
Fair value adjustment for hedged risk	(2,910)	(2,910)	(15,852)	(15,852)
Total loans	**1,072,056**	**1,069,776**	**1,024,474**	**1,021,761**

The Society has pledged as collateral £252.6m (£196.9m: 2022) of mortgages to the Bank of England under the Term Funding Scheme with additional incentives for SMEs

14. Allowance for Impairment

Movements during 2023	Loans fully secured on residential property		Loans fully secured on land		Sub-total		
Group	Individual £000	Collective £000	Individual £000	Collective £000	Individual £000	Collective £000	Total £000
At 1 January 2023	288	474	53	-	341	474	815
Net write-offs and recoveries	(6)	(12)	-	-	(6)	(12)	(18)
Balance	**282**	**462**	**53**	**-**	**335**	**462**	**797**
Impairment allowance	(39)	148	(7)	-	(46)	148	102
At 31 December 2023	**243**	**610**	**46**	**-**	**289**	**610**	**899**
Society							
At 1 January 2023	287	473	53	-	340	473	813
Net write-offs and recoveries	(6)	(12)	-	-	(6)	(12)	(18)
Balance	**281**	**461**	**53**	**-**	**334**	**461**	**795**
Impairment allowance	(39)	148	(7)	-	(46)	148	102
At 31 December 2023	**242**	**609**	**46**	**-**	**288**	**609**	**897**

Movements during 2022	Loans fully secured on residential property		Loans fully secured on land		Sub-total		
Group	Individual £000	Collective £000	Individual £000	Collective £000	Individual £000	Collective £000	Total £000
At 1 January 2022	333	267	95	-	428	267	695
Net write-offs and recoveries	-	(2)	-	-	-	(2)	(2)
Balance	**333**	**265**	**95**	**-**	**428**	**265**	**693**
Impairment allowance	(45)	209	(42)	-	(87)	209	122
At 31 December 2022	**288**	**474**	**53**	**-**	**341**	**474**	**815**
Society							
At 1 January 2022	332	266	95	-	427	266	693
Net write-offs and recoveries	-	(2)	-	-	-	(2)	(2)
Balance	**332**	**264**	**95**	**-**	**427**	**264**	**691**
Impairment allowance	(45)	209	(42)	-	(87)	209	122
At 31 December 2022	**287**	**473**	**53**	**-**	**340**	**473**	**813**

These provisions have been deducted from the appropriate loans in the Statement of Financial Position.

15. Investment In Subsidiary Undertakings

	Society 2023 £000	Society 2022 £000
Loan to subsidiary undertaking	4	497

Movements at cost in the above loan during the year are as follows:

At 1 January	497	912
Repayments	(493)	(415)
Total at 31 December	**4**	**497**

The loan to subsidiary undertaking is entirely to Furness Financial Advisors. The Society has the following subsidiary undertakings in which it directly holds all of the issued shares at a total cost of £6. Each is a company within the meaning of the Companies Act 2006 and is incorporated in the United Kingdom.

15.1 Subsidiary Undertakings

Company name Shares	Class of Share Held	Society's Interest	Cost
Furness Mortgage Services Limited	Ordinary	100%	£1
Furness Independent Financial Advisers Limited	Ordinary	100%	£1
Furness Authorised Financial Advisers Limited	Ordinary	100%	£1
Furness Financial Advisers Limited	Ordinary	100%	£1
Furness Financial Services Limited	Ordinary	100%	£1
Ultimate Mortgages Limited	Ordinary	100%	£1

With the exception of Furness Mortgage Services Limited, none of the subsidiary undertakings carried on business during the year.
The principal activity of Furness Mortgage Services Limited is management of secondary mortgage portfolios in the United Kingdom.
All of the Society's subsidiary companies share the same registered address as the Society.

16. Intangible Assets – Group and Society

Cost	Software £000
At 1 January 2023	5,141
Additions	37
Total at 31 December 2023	**5,178**

Depreciation

At 1 January 2023	4,369
Charges in year	280
Total at 31 December 2023	**4,649**

Net book value

Total at 31 December 2023	**529**
Total at 31 December 2022	**772**

17. Tangible Fixed Assets – Group and Society

Cost	Land £000	Buildings £000	Equipment, fixtures & fittings £000	Total £000
At 1 January 2023	59	1,368	7,350	8,777
Additions	-	-	886	886
Total at 31 December 2023	**59**	**1,368**	**8,236**	**9,663**

Depreciation				
At 1 January 2023	-	1,264	6,591	7,855
Charges in year	-	6	365	371
Total at 31 December 2023	**-**	**1,270**	**6,956**	**8,226**

Net Book Value				
Total at 31 December 2023	**59**	**98**	**1,280**	**1,437**
Total at 31 December 2022	**59**	**104**	**759**	**922**

17.1 Net book value of land and buildings comprises:

	Society 2023 £000	Society 2022 £000
Freehold	98	163
Of which:		
Land and buildings occupied by the Group/Society for its own activities	80	86

18. Other Assets

	Group 2023 £000	Society 2023 £000	Group 2022 £000	Society 2022 £000
Due within one year	101	43	11	11
Total	**101**	**43**	**11**	**11**

19. Prepayments and Accrued Income

	Group 2023 £000	Society 2023 £000	Group 2022 £000	Society 2022 £000
Prepayments and Accrued Income	**1,891**	**1,901**	**981**	**981**

Includes investment in our new digital savings platform

20. Shares Held

	Group 2023 £000	Society 2023 £000	Group 2022 £000	Society 2022 £000
Held by individuals	1,032,445	1,032,445	955,425	955,425
Other shares	418	418	451	451
Total	**1,032,863**	**1,032,863**	**955,876**	**955,876**

21. Amounts Owed to Other Customers

	Group 2023 £000	Society 2023 £000	Group 2022 £000	Society 2022 £000
Amounts owed to other customers	**161,108**	**161,108**	**170,504**	**170,504**

Included in the amounts above for 2023 is £80m (£90m: 2022) borrowed from the Bank of England.
Contractual repayment dates are October 2024 and March 2025.

22. Other Liabilities

	Group 2023 £000	Society 2023 £000	Group 2022 £000	Society 2022 £000
Creditors	**2,382**	**2,353**	**1,478**	**1,462**

Of which tax related:

Corporation tax	357	325	299	283
Deferred tax liability (Note 25)	236	236	91	91

23. Accruals and Deferred Income

	Group 2023 £000	Society 2023 £000	Group 2022 £000	Society 2022 £000
Staff related costs	1,189	1,189	1,076	1,076
Other administrative and operating costs	539	522	683	667
Others	68	68	75	75
Total	**1,796**	**1,779**	**1,834**	**1,818**

24. Provisions For Liabilities – Group and Society

	Regulatory £000	Dilapidations £000	Total £000
At 1 January 2023	48	132	180
Amounts charged in the year	(4)	18	14
At 31 December 2023	**44**	**150**	**194**

Regulatory

This provision relates to compensation that may be payable as a result of previous business activity and is reviewed and adjusted on an annual basis.

Dilapidations

The Society has obligations under certain lease contracts for dilapidation costs. These increase every year across the lease of the Head Office building.

25. Deferred Taxation Liability

The elements of deferred taxation are as follows:	Group 2023 £000	Society 2023 £000	Group 2022 £000	Society 2022 £000
Difference between accumulated depreciation and amortisation and capital allowances	(21)	(21)	23	23
Deferred tax asset relating to FRS 102 transition[1]	49	49	98	98
Deferred tax liability relating to payroll and pension asset	(264)	(264)	(212)	(212)
At 31 December	**(236)**	**(236)**	**(91)**	**(91)**

25.1 Deferred taxation movement in the year

The elements of deferred taxation are as follows:	Group 2023 £000	Society 2023 £000	Group 2022 £000	Society 2022 £000
At 1 January	(91)	(91)	475	475
Amount released to Statement of Comprehensive Income[2]	(145)	(145)	(566)	(566)
At 31 December	**(236)**	**(236)**	**(91)**	**(91)**

The deferred tax liability as at 31 December 2023 has been calculated using the rates substantively enacted for the expected periods of utilisation of 25% (25%: 2022).
[1] In the transition to FRS102 the Group has made measurement and recognition adjustments. The adjustments have been spread over 10 years.
[2] See Note 8.1 for further details.

26. Financial Commitments

Future minimum lease payments under non-cancellable operating leases	Group 2023 £000	Society 2023 £000	Group 2022 £000	Society 2022 £000
Amounts payable within 1 year	272	272	269	269
Amounts payable within 1 to 5 years	104	104	285	285
Amounts payable after 5 years	-	-	-	-
Total	**376**	**376**	**554**	**554**

27. Financial Instruments

A financial instrument is a contract which gives rise to a financial asset of one entity and a financial liability of another entity. The Group is a retailer of financial instruments in the form of mortgages and savings. The Group also uses wholesale financial instruments to invest liquid asset balances, raise wholesale funding and to manage the risks arising from its operations.

The Group has a formal structure for managing risk, including establishing risk limits, reporting lines, mandates and other control procedures. The structure is reviewed regularly by the Society's Assets and Liabilities Committee, which is charged with the responsibility for managing the Group's balance sheet exposure and the use of financial instruments for risk management purposes.

Instruments used for risk management purposes include derivative financial instruments ('derivatives'), which are contracts or agreements whose value is derived from one or more underlying price, rate or index inherent in the contract or agreement, such as interest rates.

27.1 Derivatives

Derivatives used by the Group are exclusively interest rate swaps used to hedge Group balance sheet exposures arising from fixed rate mortgage lending and savings products. The Board of Directors has authorised the use of derivatives in accordance with the Building Societies Act 1986. Derivatives are not used in trading activity or for speculative purposes and all derivatives are therefore designated as hedging instruments. The Accounting Policies for hedging contracts are described in the accounting policies in Note 1. An interest rate swap is a contract to exchange one set of interest rate cash flows for another. Such swaps result in the economic exchange of interest rates. No exchange of principal takes place. Instead interest payments are based on notional principal amounts agreed at inception of the swap. The duration of the interest rate swap is generally short to medium term and their maturity profile reflects the nature of the exposures arising from the underlying business activities.

The recognition and measurement of financial instruments is set out in the Accounting Policies (Note 1). The table below shows the assets and liabilities of the Group assigned to the categories by which they are recognised and measured. The differences between Group and Society are immaterial.

At 31 December 2023	Measured at amortised cost		Measured at fair value			Total
Financial assets	Loans and receivables £000	Assets and liabilities at amortised cost £000	Available for sale £000	Derivatives designated as FVTPL hedges £000	Unmatched derivative £000	£000
Cash in hand	-	56,080	-	-	-	56,080
Treasury bills and gilts	-	-	40,154	-	-	40,154
Loans and advances to credit institutions	68,429	-	-	-	-	68,429
Debt securities	-	-	50,337	-	-	50,337
Derivative financial instruments	-	-	-	10,564	-	10,564
Loans and advances to customers	1,072,056	-	-	-	-	1,072,056
Total financial assets	**1,140,485**	**56,080**	**90,491**	**10,564**	**-**	**1,297,620**
Non-financial assets	-	5,528	-	-	-	5,528
Total assets	**1,140,485**	**61,608**	**90,491**	**10,564**	**-**	**1,303,148**
Financial liabilities						
Shares	-	1,032,863	-	-	-	1,032,863
Amounts owed to credit institutions	-	14,630	-	-	-	14,630
Amounts owed to other customers	-	161,108	-	-	-	161,108
Derivative financial instruments	-	-	-	4,981	-	4,981
Subordinated liabilities	-	-	-	-	-	-
Total financial liabilities	**-**	**1,208,601**	**-**	**4,981**	**-**	**1,213,582**
Non-financial liabilities	-	4,372	-	-	-	4,372
Total liabilities	**-**	**1,212,973**	**-**	**4,981**	**-**	**1,217,954**

At 31 December 2022	Measured at amortised cost		Measured at fair value			Total
Financial assets	Loans and receivables £000	Assets and liabilities at amortised cost £000	Available for sale £000	Derivatives designated as FVTPL hedges £000	Unmatched derivative £000	£000
Cash in hand	-	109,975	-	-	-	109,975
Treasury bills and gilts	-	-	29,138	-	-	29,138
Loans and advances to credit institutions	17,517	-	-	-	-	17,517
Debt securities	-	-	32,917	-	-	32,917
Derivative financial instruments	-	-	-	18,173	-	18,173
Loans and advances to customers	1,024,474	-	-	-	-	1,024,474
Total financial assets	**1,041,991**	**109,975**	**62,055**	**18,173**	**-**	**1,232,194**
Non-financial assets	-	3,898	-	-	-	3,898
Total assets	**1,041,991**	**113,873**	**62,055**	**18,173**	**-**	**1,236,092**
Financial liabilities						
Shares	-	955,876	-	-	-	955,876
Amounts owed to credit institutions	-	23,135	-	-	-	23,135
Amounts owed to other customers	-	170,504	-	-	-	170,504
Derivative financial instruments	-	-	-	669	(1)	668
Subordinated liabilities	-	-	-	-	-	-
Total financial liabilities	**-**	**1,149,515**	**-**	**669**	**(1)**	**1,150,183**
Non-financial liabilities	-	3,492	-	-	-	3,492
Total liabilities	**-**	**1,152,007**	**-**	**669**	**(1)**	**1,153,675**

27.2 Valuation of financial instruments carried at fair value

The Group holds certain financial assets and liabilities at fair value, grouped into Levels 1 to 3 of the fair value hierarchy as outlined below. Fair values are determined using the following fair value hierarchy that reflects the significance of the inputs in measuring fair value:

Level 1

The most reliable fair values of financial instruments are quoted market prices in an actively traded market. The Group's Level 1 portfolio consists principally of debt securities and treasury bills for which traded prices are readily available.

Level 2

These are valuation techniques for which all significant inputs are taken from observable market data. These include valuation models used to calculate the present value of expected future cash flows and may be employed when no active market exists and quoted prices are available for similar instruments in active markets. We have evaluated these using estimated credit losses, interest rates and discount rates (eg yield curves). The Group's Level 2 portfolio consists of interest rate swaps for which traded prices are readily available.

Level 3

These are valuation techniques for which one or more significant input is not based on observable market data. Valuation techniques include net present value by way of discounted cash flow models.
We have no assets or liabilities of this type.

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

At 31 December 2023 Financial assets	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Available-for-sale				
Debt securities	50,337	-	-	50,337
Treasury bills & gilts	40,154	-	-	40,154
Fair value through profit and loss				
Derivative financial instrument assets	-	10,564	-	10,564
Total	**90,491**	**10,564**	**-**	**101,055**
Financial liabilities				
Fair value through profit and loss				
Derivative financial instrument liabilities	-	4,981	-	4,981
Total	**-**	**4,981**	**-**	**4,981**

At 31 December 2022 Financial assets	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Available-for-sale				
Debt securities	32,917	-	-	32,917
Treasury bills & gilts	29,138	-	-	29,138
Fair value through profit and loss				
Derivative financial instrument assets	-	18,173	-	18,173
Total	**62,055**	**18,173**	**-**	**80,228**
Financial liabilities				
Fair value through profit and loss				
Derivative financial instrument liabilities	-	668	-	668
Total	**-**	**668**	**-**	**668**

27.3 Financial assets pledged as collateral

The total financial assets recognised in the Statement of Financial Position that had been pledged as collateral for liabilities at 31 December 2023 and 2022 is shown in the following table.

	Group 2023 £000	Society 2022 £000
Treasury bills	-	4,917
Loans and advances to credit institutions	5,712	5,828
Loans and advances to customers	252,574	196,894
Total	**258,286**	**207,639**

Financial assets are pledged as collateral to the Bank of England to support both Term Funding Scheme with additional incentives for SMEs borrowings and to support contingent liquidity drawdowns if required. Mortgage loans of £253m were pledged to the Bank of England as at 31 December 2023. In addition the Society places collateral with a central clearing provider to support initial margin and mark to market movements under derivative contracts used to manage interest rate risk.

27.4 Credit risk

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

All loan applications are assessed with reference to the Group's Lending policy. Changes to policy are approved by the Board and the approval of loan applications is mandated. The Board is responsible for approving treasury counterparties.

The Group enters into credit support agreements, which protect against counterparty default in respect to hedging instruments by means of collateral transactions. Collateral balances are included within 'liquid assets' or 'amounts owed to credit institutions' as appropriate and interest receivable or payable reflected in the Statement of Comprehensive Income within 'net interest receivable'.

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

	Group 2023 £000	Society 2023 £000	Group 2022 £000	Society 2022 £000
Cash in hand and balances with Bank of England	56,080	56,080	109,975	109,975
Treasury bills and gilts	40,154	40,154	29,138	29,138
Loans and advances to credit institutions	68,429	68,160	17,517	17,251
Debt securities	50,337	50,337	32,917	32,917
Derivative financial instruments	10,564	10,564	18,173	18,173
Loans and advances to customers	1,072,056	1,069,776	1,024,474	1,021,761
Loans to Subsidiaries	-	4	-	497
Total Statement of Financial Position exposure	**1,297,620**	**1,295,075**	**1,232,194**	**1,229,712**
Off balance sheet exposure – mortgage commitments	77,549	77,549	84,269	84,269
Total	**1,375,169**	**1,372,624**	**1,316,463**	**1,313,981**

27.5 Credit quality analysis of loans and advances to customers

The tables below set out information about the credit quality of financial assets and the provision for impairment/ loss held by the Group against those assets.

	2023		2022	
	Loans fully secured on residential property £000	Loans fully secured on land £000	Loans fully secured on residential property £000	Loans fully secured on land £000
Neither past due nor impaired	1,040,194	1,012	1,011,317	1,631
Past due but not impaired				
0-60 days	7,060	272	6,631	61
60-90 days	557	-	550	-
90-180 days	1,620	7	726	14
180 days+	921	-	-	-
Impaired				
Not past due	16,331	819	10,440	819
0-60 days	3,133	274	5,798	273
60-90 days	-	-	503	-
90-180 days	717	-	-	-
180 days+	60	-	130	-
Possession	64	-	79	-
Total	**1,070,657**	**2,384**	**1,036,174**	**2,798**
Allowance for impairment				
Individual	243	46	288	53
Collective	610	-	474	-
Total allowance for impairment	**853**	**46**	**762**	**53**

The status 'past due but not impaired' includes any asset where a payment due is received late or missed but no individual impairment has been made against that asset. The amount included is the entire loan amount and not just the overdue amount.

27.6 Assets obtained by taking possession of collateral

There was 1 (1: 2022) financial asset obtained during the year by taking possession of collateral held as security against loans and advances and held at year-end. This represents a total mortgage balance of £64k (£79k: 2022).

The Group's policy is to pursue timely realisation of the collateral in an orderly manner. The Group does not generally use the non-cash collateral for its own operations.

27.7 Collateral held and other credit enhancements

Average loan to value of loans and advances to customers:

Group 2023	Society 2023	Group 2022	Society 2022	Principal type of collateral held
41.6%	41.7%	38.9%	39.0%	Property

The Group and Society holds security against its mortgage loans and advances in the form of property collateral in order to mitigate credit risk.

The table opposite analyses the average loan to value of underlying collateral for our loans and advances to customers, based on the indexed valuation. The Society uses the HM Land Registry to revalue property collateral held against individual mortgage loans in order to calculate indexed valuations.

LTV ratio	Group 2023 £000	Society 2023 £000	Group 2022 £000	Society 2022 £000
Less than 50%	411,657	409,374	456,104	453,389
50-70%	365,641	365,641	376,802	376,802
71-90%	256,491	256,491	194,985	194,985
91-100%	37,364	37,364	10,181	10,181
More than 100%	1,889	1,889	900	900
Total	**1,073,042**	**1,070,759**	**1,038,972**	**1,036,257**

The tables opposite further stratify credit exposures from mortgage loans and advances to retail customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan to the value of the collateral. The gross amounts exclude any impairment allowance. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the indexed valuation.

27.8 Forbearance

A range of forbearance options are available to support customers who are in financial difficulty. The purpose of forbearance is to support customers who have temporary financial difficulties and help them get back on track. The main options offered by the Group include reduced monthly payment, an arrangement to clear outstanding arrears, capitalisation of arrears or extension of the mortgage term.

The table below analyses residential mortgage borrowers with renegotiated terms at the year end date:

	Group 2023 Number	Group 2022 Number
Arrangement	2	3
Interest Only	-	-
Extension of Term	8	9
Others	6	5
Total	**16**	**17**

The cases above represent total mortgage balances of £1.9m (£1.4m: 2022).

Impairment provisions of £0k (£35k: 2022) are held in respect of these mortgages.

27.9 Liquidity risk

Liquidity risk is the risk that the Group will not have sufficient financial resources available to meet its obligations as they fall due under either normal business conditions or a stressed environment.

It is the Group's policy that a significant amount of its total assets are carried in the form of cash and other readily realisable assets in order to:

1. meet day-to-day business needs;
2. meet any unexpected cash needs;
3. maintain public confidence; and
4. ensure maturity mismatches are provided for.

Monitoring of liquidity, in line with the Group's prudent policy framework, is performed daily. Compliance with these policies is reported regularly to the Board Risk Committee. The Group's Liquidity policy is designed to ensure the Group has sufficient liquid resources to withstand a range of stressed scenarios. A series of liquidity stress tests has been developed as part of the Individual Liquidity Adequacy Assessment (ILAA) process. They include scenarios that fulfil the specific requirements of the Prudential Regulation Authority (PRA) and scenarios identified by the Group which are specific to its business model. The stress tests are performed monthly to confirm that liquidity policy remains appropriate.

27.10 Maturity analysis for financial assets and financial liabilities

The tables below set out the remaining contractual maturities of the Group's financial liabilities and financial assets. In practice, contractual maturities are not always reflected in actual experience. For example loans and advances to customers tend to repay ahead of contractual maturity and customer deposits (for example shares) are likely to be repaid later than on the earliest date on which repayment can be required.

At 31 December 2023

Financial assets	On demand £000	Not more than three months £000	More than three months but not more than one year £000	More than one year but no more than five years £000	More than five years £000	Total £000
Cash in hand & balances with Bank of England	56,080	-	-	-	-	56,080
Treasury bills and gilts	-	-	22,974	17,180	-	40,154
Loans and advances to credit institutions	10,477	27,642	23,042	5,712	1,556	68,429
Debt securities	-	-	-	50,337	-	50,337
Derivative financial instruments	-	1,021	1,116	8,427	-	10,564
Loans and advances to customers	-	1,856	9,599	77,923	982,678	1,072,056
Total financial assets	**66,557**	**30,519**	**56,731**	**159,579**	**984,234**	**1,297,620**

Financial liabilities

Shares	886,000	18,899	47,071	78,053	2,840	1,032,863
Amounts owed to credit institutions	-	9,730	-	4,900	-	14,630
Amounts owed to other customers	27,921	32,386	42,413	58,388	-	161,108
Subordinated debt	-	-	-	-	-	-
Derivative financial instruments	-	259	178	4,544	-	4,981
Off balance sheet exposure	77,549	-	-	-	-	77,549
Total financial liabilities	**991,470**	**61,274**	**89,662**	**145,885**	**2,840**	**1,291,131**

At 31 December 2022

Financial assets	On demand £000	Not more than three months £000	More than three months but not more than one year £000	More than one year but no more than five years £000	More than five years £000	Total £000
Cash in hand & balances with Bank of England	109,975	-	-	-	-	109,975
Treasury bills and gilts	-	-	24,320	4,818	-	29,138
Loans and advances to credit institutions	8,581	1,503	-	5,828	1,605	17,517
Debt securities	-	-	-	32,917	-	32,917
Derivative financial instruments	-	644	3,066	14,463	-	18,173
Loans and advances to customers	-	567	5,891	78,206	939,810	1,024,474
Total financial assets	**118,556**	**2,714**	**33,277**	**136,232**	**941,415**	**1,232,194**

Financial liabilities

Shares	829,345	5,419	28,197	92,915	-	955,876
Amounts owed to credit institutions	-	3,019	4,549	15,567	-	23,135
Amounts owed to other customers	25,185	15,187	19,513	110,619	-	170,504
Subordinated debt	-	-	-	-	-	-
Derivative financial instruments	-	4	43	621	-	668
Off balance sheet exposure	84,269	-	-	-	-	84,269
Total financial liabilities	**938,799**	**23,629**	**52,302**	**219,722**	**-**	**1,234,452**

Off balance sheet exposures pertain to amounts payable on demand for undrawn loan commitments and have been included accordingly.

The tables below set out maturity analysis for financial liabilities that shows the remaining contractual maturities at undiscounted amounts. The analysis of gross contractual cash flows differs from the analysis of residual maturity due to the inclusion of interest accrued at current rates, for the average period until maturity on the amounts outstanding at the Statement of Financial Position date.

Group at 31 December 2023

Financial liabilities	On demand £000	Not more than three months £000	More than three months but not more than one year £000	More than one year but no more than five years £000	More than five years £000	Total £000
Shares	886,000	18,977	48,047	85,824	3,123	1,041,971
Amounts owed to credit institutions	-	9,730	-	4,900	-	14,630
Amounts owed to other customers	29,586	32,535	7,583	52,811	-	122,515
Subordinated debt	-	-	-	-	-	-
Derivative financial instruments	-	259	178	4,544	-	4,981
Subtotal	**915,586**	**61,501**	**55,808**	**148,079**	**3,123**	**1,184,097**
Other liabilities	-	-	4,372	-	-	4,372
Total financial liabilities	**915,586**	**61,501**	**60,180**	**148,079**	**3,123**	**1,188,469**

Group at 31 December 2022

Financial liabilities	On demand £000	Not more than three months £000	More than three months but not more than one year £000	More than one year but no more than five years £000	More than five years £000	Total £000
Shares	829,345	5,432	28,542	98,378	-	961,697
Amounts owed to credit institutions	-	3,000	4,569	15,566	-	23,135
Amounts owed to other customers	25,185	15,232	19,801	117,126	-	177,344
Subordinated debt	-	-	-	-	-	-
Derivative financial instruments	-	4	43	620	-	667
Subtotal	**854,530**	**23,668**	**52,955**	**231,690**	**-**	1,162,843
Other liabilities	-	-	3,492	-	-	3,492
Total financial liabilities	**854,530**	**23,668**	**56,447**	**231,690**	**-**	**1,166,335**

27.11 Market risk

Market risk is the risk of changes to the Group's financial condition caused by market interest rates. The Group is exposed to market risk in the form of changes (or potential changes) in the general level of interest rates, changes in the relationship between short and long-term interest rates and interest rates for different balance sheet elements (basis risk).

The management of interest rate risk is based on a full Statement of Financial Position gap analysis. In addition management review interest rate basis risk. Both sets of results are measured against the risk appetite for market risk. These are in turn reviewed monthly and reported to the Board Risk Committee.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and financial liabilities to various standard and non-standard interest rate scenarios. The key scenario that is considered on a monthly basis is that of a 200 basis point (bps) parallel fall or rise in the SONIA yield curve.

The following is an analysis of the sensitivity of the Group's equity reserves to an increase or decrease in market interest rates, assuming no asymmetrical movement in yield curves and a constant financial position.

Market Risk Group 31 December 2023	200bps parallel increase £000	200bps parallel decrease £000
Sensitivity to profit and reserves	**(1,013)**	1,094
31 December 2022		
Sensitivity to profit and reserves	**(1,556)**	1,702

27.12 Capital

The Society's policy is to maintain a strong capital base to maintain member, creditor and market confidence and to sustain future development of the business. The Society's actual and expected capital position is reviewed against stated risk appetite which aims to maintain capital at a specific level above its Internal Capital Guidance. The Board manages the Society's capital and risk exposures to maintain capital in line with regulatory requirements which also includes monitoring of:

Lending and business decisions

The Society does not use an application scorecard and all cases are individually underwritten using credit reference data and a number of sources of evidence regarding the status of the borrower. A detailed Lending policy sets out the Society's lending criteria for different types of lending supported by ongoing monitoring within the business to ensure the loans are affordable and all lending is responsible. The Credit Risk Committee meets regularly to monitor and control the risks associated with the mortgage lending portfolio and to ensure activity remains within policy and approved limits.

Concentration risk

The Society is exposed to concentration risk principally because its activities are highly concentrated in residential lending and/or associated products and services funded predominantly by retail deposits. Concentration risk is concerned with the risk that in extreme scenarios, the lack of diversification may mean the losses resulting from such concentrations may be sufficient to impact the solvency of the Group. The following types of concentration risk are monitored to ensure that lending is not more than is appropriate for the Group in relation to its position/size; Geographic, Funding, Large Exposures and Product Type.

Counterparty risk

The Society is exposed to the risk that market counterparties will fail to meet their obligations as they fall due and subsequently default resulting in losses. Counterparty risk principally arises from the Society investing in liquid assets as part of its Treasury operations. The Society controls the risk arising from liquid assets via a Board approved policy which restricts investments principally to cash held with the Bank of England, UK Government issued debt instruments and liquid regulatory compliant AAA rated debt securities. The Society's liquid asset investments are monitored by the Society's Assets and Liabilities Committee (ALCO) to ensure activity remains within policy and approved limits.

Pricing risk

Product pricing models are utilised for both new mortgage product launches and to assess ongoing pricing changes to the existing product portfolio in order to manage acceptable levels of net interest income margin and returns to support planned profitability and capital levels. All pricing decisions are reviewed and approved through the Product Pricing Committee.

28. Society Pensions

The Society previously operated a Defined Benefit Pension Scheme, now closed to new entrants and further accrual, on which it recognises gains and losses in each period in the Statement of Comprehensive Income.

The Defined Benefit Pension Accounting policy is set out in Note 1.20.

The Society's Defined Benefit Pension Scheme was closed to new entrants in September 2000 and to further accrual in January 2017. Under current arrangements eligible employees can join a defined contribution pension arrangement known as Group Personal Pension Scheme, under which the Society assists with contributions. In 2023, the Society contributed £503k to this scheme (£405k: 2022).

The Defined Benefit pension scheme is funded by the Society. Funding of the scheme is based on a separate actuarial valuation for funding purposes for which the assumptions may differ from the assumptions below. The last actuarial valuation of the scheme was undertaken as at 6th April 2020. The 6 April 2023 valuation is currently underway and we expect the preliminary results to be shared with the Trustees in Q1 2024. However, given these are not immediately available to incorporate into the disclosures we have rolled forward from the 6 April 2020 valuation when producing this year's disclosures. The Society's cash contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. Funding requirements have been agreed to 2025 as part of a repayment schedule, with the aim to move towards a position of self-sufficiency. Pension contributions in 2023 were £1.54m (includes £0.1m scheme administration expenses).

Note 1.20 describes the accounting policies applied for employee pensions.

The fair value of the Defined Benefit Pension Scheme assets was £22.96m at 31 December 2023 (£22.173m: 2022). The Scheme's assets include no assets from the Society's own financial instruments and do not include any property occupied by, or other assets used by the Society.

The key assumptions used in this valuation are:

- Discount rate 4.5%
- Inflation assumption-CPI 2.70%

Disclosures under FRS102 may be volatile from year-to-year. This is because the liabilities are measured by reference to corporate bond yields whereas the majority of the Society's assets are invested across a variety of asset classes that may not move in the same direction.

The post retirement mortality assumptions are based on the mortality table known as S3PXA with reference to members' years of birth. Allowances have been made for improvements in mortality in the recent past and currently expected in the future.

The assumptions are equivalent to expecting a 62-year old to live for a number of years as follows:

- Current pensioner aged 62: 23.8 years male, 26.5 years female.
- Future retiree upon reaching 62: 25.2 years male, 28.0 years female.

28.1 Pension breakdown

Net pension surplus	2023 £000	2022 £000
Defined benefit obligation	(21,390)	(20,961)
Plan assets	22,960	22,173
Surplus in the Scheme	**1,570**	**1,212**
Related deferred tax liability	(393)	(303)
Net pension asset	**1,177**	**909**

The deferred tax liability is calculated at 25% and is included under Note 25.

Movement in surplus during the Year

Deficit in the Scheme at beginning of year	1,212	(876)
Interest credit/(cost)	88	(5)
Actuarial (loss)/gain	(1,078)	816
Employer contributions paid	1,348	1,277
Surplus in the Scheme at end of year	**1,570**	**1,212**

The fair value of the Scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the Scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, are shown in the following tables:

Changes in the fair value of scheme assets:	2023 £000	2022 £000
Opening fair value of Scheme assets	22,173	32,441
Interest on assets	1,049	583
Loss on asset return	(562)	(10,778)
Contributions by employer	1,348	1,277
Benefits paid	(1,048)	(1,350)
Closing fair value of Scheme assets	**22,960**	**22,173**

Changes in the present value of the defined benefit obligation

Opening defined benefit obligation	20,961	33,317
Interest cost	961	588
Loss/(gain) on changes in assumptions/ from experience	516	(11,594)
Benefits paid	(1,048)	(1,350)
Closing defined benefit obligation	**21,390**	**20,961**

The pension costs for the Defined Benefit Pension Scheme in 2023 were as follows:

Analysis of other pension costs charged in arriving at operating profit:	2023 £000	2022 £000
Interest on Pension Scheme liabilities	88	(5)
Net credit/(charge) to operating profit	**88**	**(5)**

Analysis of amount credited through other comprehensive Income:

Loss on assets	(562)	(10,778)
Changes in assumptions	(516)	11,594
Net (charge)/credit through Other Comprehensive Income	**(1,078)**	**816**

Principal actuarial assumptions (expressed as weighted averages) at the year-end:

	2023	2022
Discount rate	4.5%	4.7%
Inflation - RPI	3.2%	3.3%
Inflation - CPI	2.7%	2.8%

The loss on the scheme's invested assets over the year was 2.53%, equivalent to £0.562m in monetary terms.

The total actuarial loss recognised in Other Comprehensive Income in 2023 was £1.078m (£0.816m gain: 2022).

The fair value of the plan assets were as follows:

	2023 Fair Value £000	2022 Fair Value £000
Equities	0	0
Bonds	12,554	16,283
Other*	10,406	5,890
Total	**22,960**	**22,173**

*Includes £2.396m in diversified growth fund that allocates funds across a broad range of asset classes including equities.

Following the High Court ruling on 26 October 2018 regarding the equalisation of Guaranteed Minimum Pension ('GMP') benefit within the Lloyds pension scheme, the Society included an allowance for the impact of GMP equalisation within its 2018 accounting figures, where an uplift of 0.3% was applied to the FRS102 liabilities. The liabilities as at 31 December 2023 are based on these figures and therefore allow for this adjustment. However, this remains an estimated figure with no further adjustment to this estimate to date. Once detailed calculations have been undertaken by the Scheme Trustee, the difference between this estimate and the actual cost of equalisation will be treated as an actuarial gain/loss in the Other Comprehensive Income.

On 20 November 2020 the High Court issued a supplementary ruling in the Lloyds bank GMP equalisation case with respect to members that have transferred out of their scheme prior to the ruling. The Society has estimated the impact of this ruling to be less than 0.1% of liabilities and has therefore excluded the impact from its 2023 accounting figures.

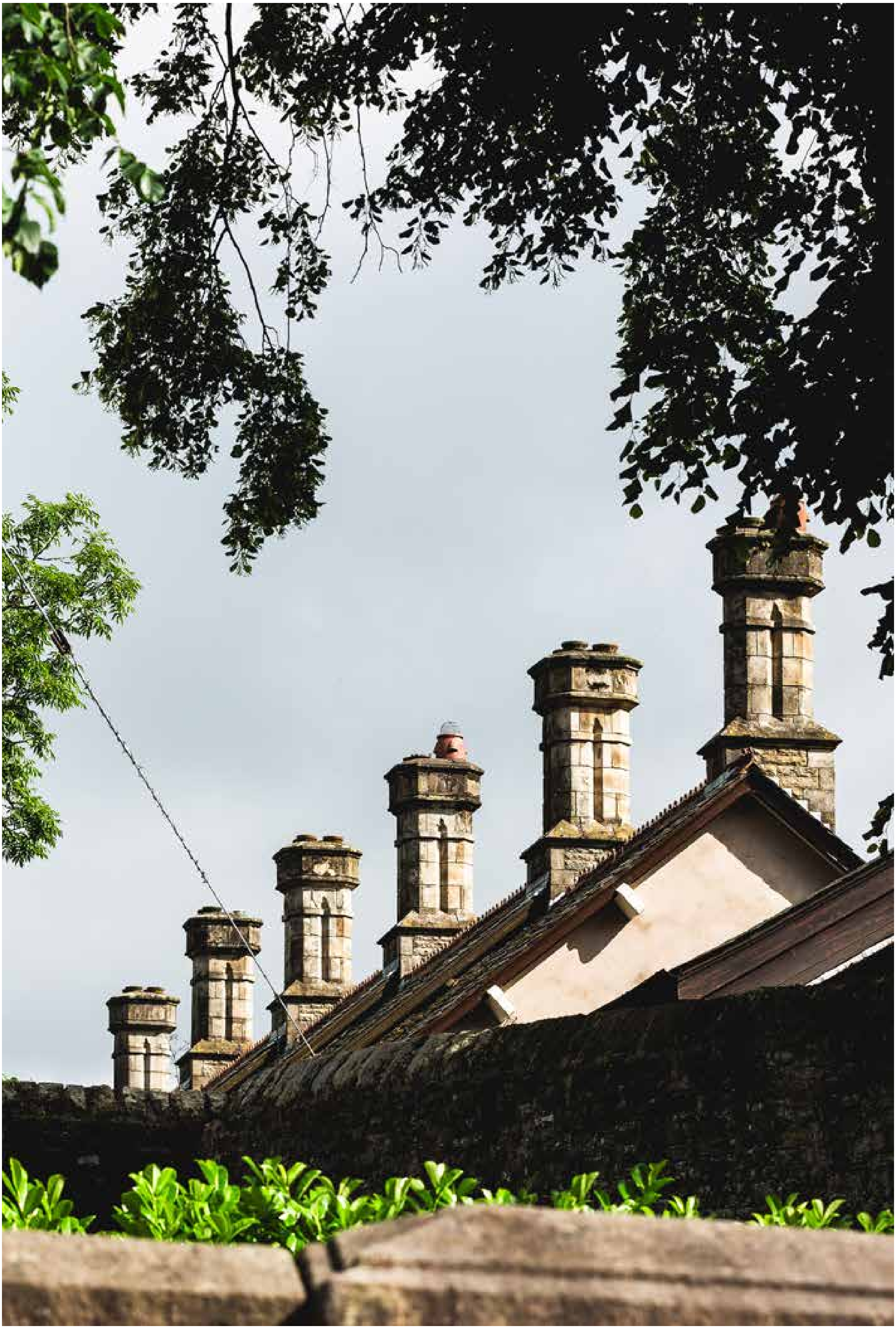
29. Related Party Transactions

The Group has taken exemption as provided in section 33.1A of FRS 102 and does not disclose transactions with members of the same Group that are wholly owned. The Group would disclose transactions with related parties which are not wholly owned with the same Group; however, during the year under consideration, there have been no such related party transactions which need to be disclosed.

As at 31 December 2023 the Society loan to subsidiary Furness Mortgage Services Limited was fully repaid (£0.493m: 2022).

The Society was owed £0.004m by its subsidiary Furness Financial Advisers Limited (£0.004m: 2022).

See Note 7 for disclosure of Directors' emoluments and details of transactions with Directors.



Annual Report & Accounts 2023

Annual Business Statement

For the year ended 31 December 2023

Statutory Percentages

Statutory Percentages	At 31.12.2023	At 31.12.2022	Statutory limit
Proportion of business assets not in the form of loans fully secured on residential property (the 'lending limit')	1.52%	2.22%	25%
Proportion of shares and borrowings not in the form of shares held by individuals (the 'funding limit')	14.58%	16.88%	50%

The above percentages have been prepared from the Group's Annual Accounts.

The percentages are calculated in accordance with, and the statutory limits are those prescribed by, sections 6 and 7 of the Building Societies Act 1986.

Business assets are the total assets of the Group as shown in the Statement of Financial Position plus impairment allowance on loans and advances to customers, less fixed assets and liquid assets.

Loans fully secured on residential property are the amount of principal owing by borrowers and interest accrued not yet payable. This is the amount shown in the Statement of Financial Position plus impairment allowance on loans and advances to customers.

Other Percentages

Summary of Key Financial Ratios	2023 (%)	2022 (%)
Gross capital as a percentage of shares and borrowings	7.05	7.17
Free capital as a percentage of shares and borrowings	6.94	7.06
Liquid assets as a percentage of shares and borrowings	17.79	16.49
Profit for the year as a percentage of mean total assets	0.25	0.34
Management expenses as a percentage of mean total assets	1.42	1.33

The above percentages have been prepared from the Group's Annual Accounts.

'Shares and borrowings' represent the total of shares, amounts owed to credit institutions and amounts owed to other customers.

'Gross capital' represents aggregated reserves and subordinated liabilities as shown in the Group Statement of Financial Position.

'Free capital' is gross capital plus collective impairment on loans and advances less tangible and intangible fixed assets in the Group Statement of Financial Position.

'Mean total assets' represent the average of total assets at the beginning and end of the financial year for the Group.

'Liquid assets' represent the total of cash in hand and balances with the Bank of England, loans and advances to credit institutions, debt securities and treasury bills.

'Management expenses' are the aggregate of administrative expenses and depreciation and amortisation taken from the Group Statement of Comprehensive Income.

Directors as at 31 December 2023

Name	Age	Date of Appointment	Business Occupation	Other Directorships
Mr G M Berville	67	31/10/2018	Company Director	Chair Key Care Ltd Chair Key Care Assistance LTD (Eire)
Ms K L Rebecchi	57	05/01/2016	Company Director	Redmayne-Bentley Stockbrokers LLP Cynergy Bank Ltd
Mr N J Gower	64	20/05/2014	Company Director	Manchester University NHS Foundation Trust
Mr P A McLelland	57	26/10/2016	Company Director Senior Risk Advisor	Calisen Impact Charitable Trust
Mr A P Haywood	60	25/04/2018	Company Director Chief Modernisation Officer	Yorkshire Water
Mr P D Rogerson	59	29/10/2019	Company Director	Whitworth West Management Company Limited RCVDA Community Housing CIC
Mr C M Harrison	62	06/04/2017	Chief Executive	Furness Building Society Subsidiaries
Mrs L S Hamp	37	11/01/2019 Finance Director: 25/01/2023	Finance Director	Furness Building Society Subsidiaries Sparrowhawk Leisure Limited

Documents may be served on the above named Directors at the following address:
Furness Building Society, Emlyn Hughes House, Abbey Road, Barrow-in-Furness, Cumbria LA14 5PQ.

Particulars of Directors' Remuneration and Expenses

Details of Directors' remuneration and expenses can be found in the Directors' Remuneration Report on pages 37 to 41.

Furness®
Building Society

For more information talk to us on 0800 781 4311 or visit furnessbs.co.uk

Furness Building Society Reg No. 221 B; Registered Office: Emlyn Hughes House, Abbey Road, Barrow-in-Furness, Cumbria LA14 5PQ.