Summary Financial Statements 2023

Including Notice of Annual General Meeting

Furness Building Society

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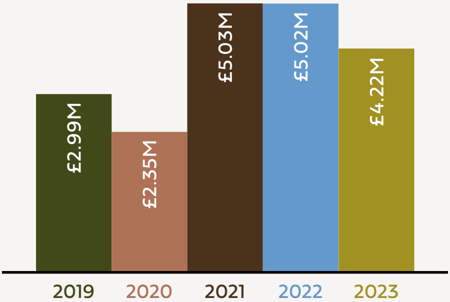
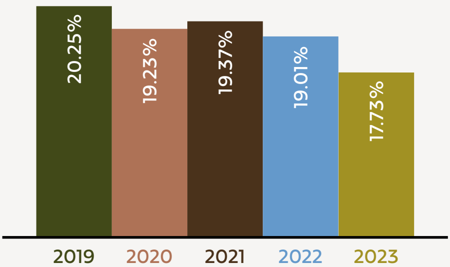
Profit before tax

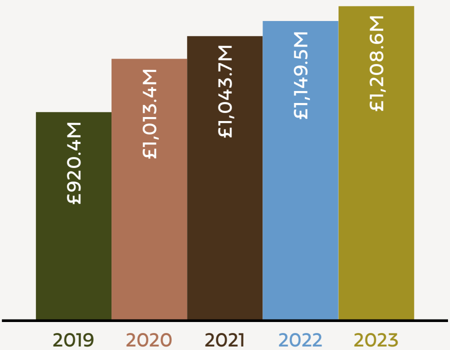


Total Capital Ratio

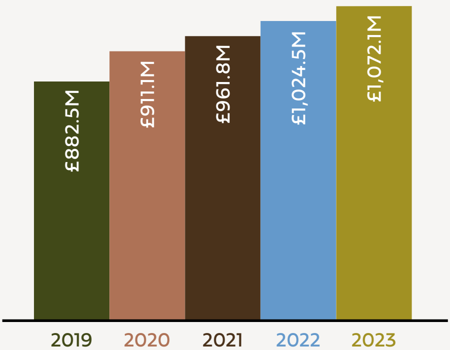


Business Summary

Share and Deposit Balances



Mortgage Balances



Notice of Annual General Meeting 2024

Notice is given that the 157th Annual General Meeting (AGM) of the Members of the Furness Building Society will be held on Tuesday, 23 April 2024 at 4.00pm at Furness Building Society, Emlyn Hughes House, Abbey Road, Barrow in Furness LA14 5PQ for the following purposes:

1. To receive Chair's opening remarks.
2. To receive the Auditor's Report for the year ended 31 December 2023.
3. To receive the Directors' Report, Annual Accounts and Annual Business Statement for the year ended 31 December 2023.
4. To consider, and if thought fit, pass an Ordinary Resolution to approve the Directors' Remuneration Report for the year ended 31 December 2023.
5. To consider, and if thought fit, pass an Ordinary Resolution to re-appoint Mazars LLP as Auditor.
6. To consider, and if thought fit, to re-elect/elect the following as a Director:

(a) To re-elect G M Berville as a Director

(b) To re-elect C M Harrison as a Director

(c) To re-elect L S Hamp as a Director

(d) To re-elect A P Haywood as a Director

(e) To re-elect P A McLelland as a Director

(f) To re-elect P D Rogerson as a Director

(g) To elect D J Hosie as a Director

(h) To elect K Ingham as a Director

Voting Conditions

1. These Notes form part of the Notice of Meeting.
2. You may either vote in person at the Meeting, if attendance is permitted, or you may use the voting form to appoint a representative to attend and vote for you as you direct. You may appoint the Chair of the Meeting or anyone else as your representative, they do not have to be a Member of the Society. Your representative may vote for you at the Meeting on a written poll but not on a show of hands.
3. The final voting date is:

a) 3.00pm on Thursday, 18 April 2024 if you are posting your voting form at a branch,

b) Saturday, 20 April 2024 if you are posting the voting form using the prepaid envelope or voting online, or

c) Tuesday, 23 April 2024 if you vote in person at the Meeting.

4. You are entitled to vote if you are at least 18 years old on 23 April 2024 and you are the first named account holder in our records. You must also either:

a) have had at least £100 in your share account on 31 December 2023, and continue to have a share account with the Society at all times between 31 December 2023 and the voting date.

b) have owed the Society not less than £100 on your mortgage loan(s) on 31 December 2023 and on the voting date.

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

   If you submit a postal vote and submit an online vote then the last vote received by the scrutineer will be counted.
6. Members attending the Meeting will be requested to produce their passbooks or other evidence of membership in order to obtain admission. If you have appointed a representative, please ensure that they bring an appropriate form of identification to the Meeting.
7. If you appoint a representative to vote on your behalf and your representative does not attend the Meeting, your vote will not be counted.
8. Please remember to sign the declaration on the voting form as only signed forms will be valid.
9. A vote withheld is not a vote in law which means that the vote will not be counted in the calculation of votes for and against the resolution.

Directors' Biographies
Directors that served in 2023

Graham Berville

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

Key roles:

Chair of the Board

Chair of Nominations Committee

Wider commitments:

Chair of Keycare Limited

Chair of Keycare Assistance Limited (EIRE)

Chris Harrison

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

Key roles:

Chief Executive

Chair of the Executive Committee

Chair of the Assets & Liabilities Committee

Member of the Nominations Committee

Laura Hamp

Laura joined the Society in 2019 and took on the role of Finance Director in 2022. She is a qualified Chartered Accountant with over 15 years' experience in Audit, Insurance and Financial Services. Laura was awarded 'CFO of the year' at the Women in Finance Awards in 2023. Her prudential risk management and statutory accounting skills as well as championing of the mutual sector support our continued and long-term sustainability.

Key roles:

Finance Director

Member of the Executive Committee

Member of the Assets & Liabilities Committee

Member of the Board Risk Committee

Andy Haywood

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

Key roles:

Chair of Remuneration Committee

Member of the Board Risk Committee

Wider commitments:

Chief Modernisation Officer for Yorkshire Water

Phillip McLelland

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

Key roles:

Chair of the Board Risk Committee

Member of the Audit Committee

Member of the Remuneration Committee

Wider commitments:

Senior Risk Adviser to the Calisen Group

Chair – The Calisen Impact Charitable Trust

Peter Rogerson

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

Key roles:

Member of the Board Risk Committee

Member of the Remuneration Committee

Consumer Duty Champion

Climate Change Champion

Wider commitments:

Director of Redcar and Cleveland Voluntary Development Agency Housing Community Interest

Director of Whitworth West Management Company Limited

Kim Rebecchi

Kim has brought over 30 years' experience in the mutual sector to our Board and has been committed to instilling the benefits of mutuality to our Members and local communities during her tenure on the Board. Kim held a position at Leeds Building Society for 28 years, most recently as an executive member of the Board. Her in-depth knowledge of the sector and marketplace has played a critical role in supporting and guiding the Chair and has been valued greatly by the management team. Kim will be retiring at this year's AGM.

Key roles:

Vice Chair

Member of the Nominations Committee

Member of the Audit Committee

Wider commitments:

Director of Redmayne Bentley Stockbrokers LLP

Director of Cynergy Bank Ltd

Nic Gower

Nic has enjoyed a long and successful career, with the majority spent as a partner at PriceWaterhouseCoopers LLP specialising in Audit and Risk management. As our longest-serving Board member, his experience and insight have been highly valued by all Directors. Nic will be retiring at this year's AGM.

Key roles:

Senior Independent Director

Chair of the Audit Committee

Whistleblowing Champion

Member of the Board Risk Committee

Member of the Nominations Committee

Wider commitments:

Director of the Manchester University NHS Foundation Trust

Directors up for election in 2024

Diane Hosie

Diane has over 35 years' financial experience primarily within the Asset Management sector. She has extensive Board experience and brings a combination of strong governance, commercial focus and client service. Having grown up in the region, Diane is committed to help the Society continue to develop and support its Members and the community they live in.

Key roles:

Non-Executive Director

Wider commitments:

Chair of Legal & General Unit Trust Managers

Non-Executive Director of Morgan Stanley Fund Management (Ireland) Limited

Non-Executive Director of Morgan Stanley sponsored Investment Funds

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Karen Ingham

Karen brings extensive Executive experience from her former role as Vice President at Expedia Group. She has an excellent Sales and Operations background from the financial services, Travel, and Telecoms sectors, including Multi channel and Digital strategy. Her time in one of the Virgin Group businesses has cemented her belief that happy people make happy members, which enables a successful business.

Key roles:

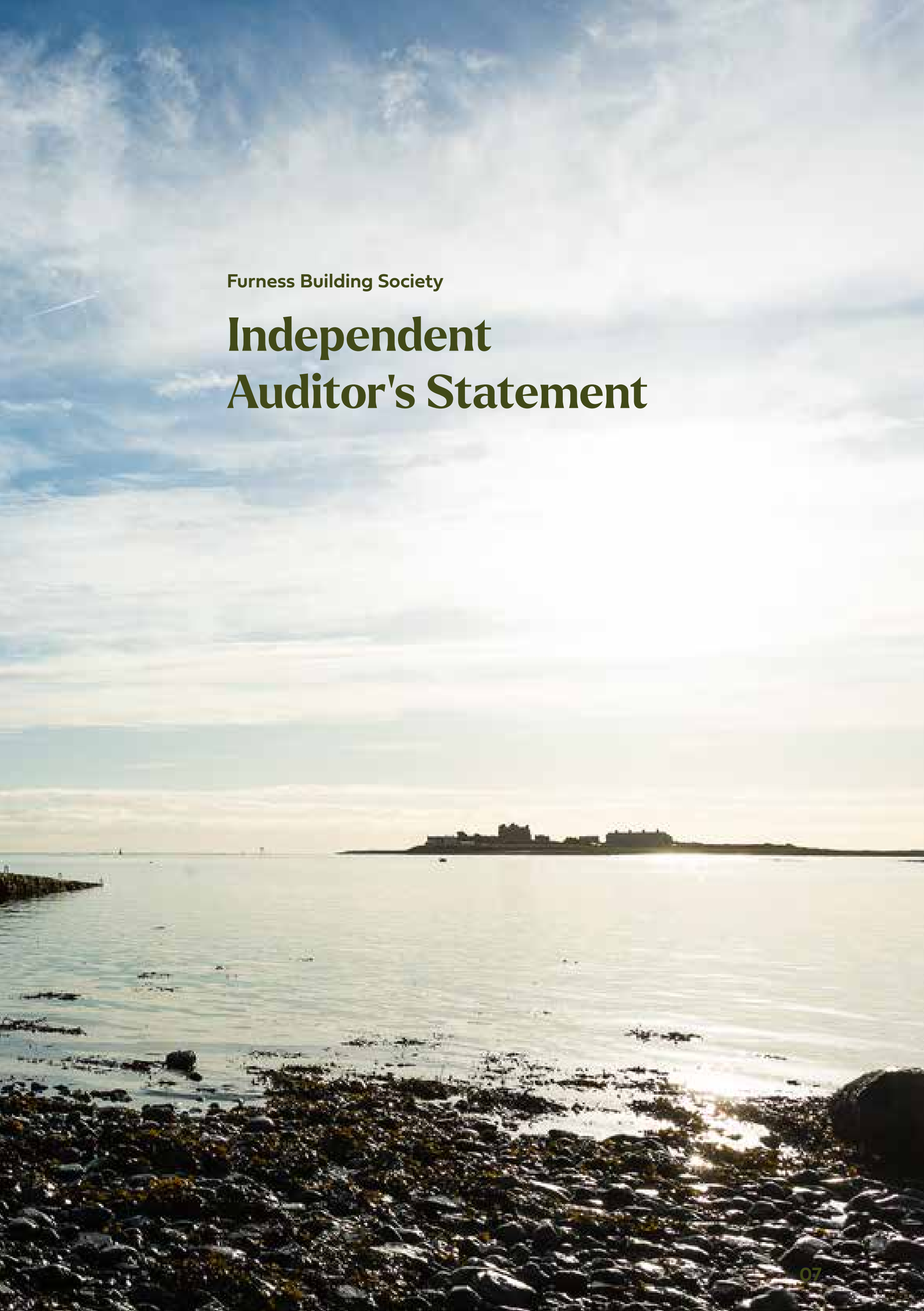
Non-Executive Director

Vice Chair (post April 2024)

Wider commitments:

Non-Executive Director Ramsdens Financial Limited

Non-Executive Director (pro bono) Manhealth CIC



Furness Building Society

Independent Auditor's Statement

Independent Auditor's Statement

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

We have examined the Summary Financial Statement of Furness Building Society (the “Society”) set out on pages 11 to 32.

Respective responsibilities of directors and auditor

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

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

Basis of opinion

Our examination of the Summary Financial Statement consisted primarily of:

- Agreeing the amounts included in the Summary Financial Statement to the corresponding items within the full Annual Accounts, the Annual Business Statement and the Directors’ Report of the Society for the year ended 31 December 2023 including consideration of whether, in our opinion, the information in the Summary Financial Statement has been summarised in a manner which is not consistent with the full Annual Accounts, the Annual Business Statement and Directors’ Report of the Society for the year;
- Checking that the format and content of the Summary Financial Statement is consistent with the requirements of section 76 of the Building Societies Act 1986 and regulations made under it; and
- Considering whether information has been omitted which although not specifically prescribed by section 76 of the Building Societies Act 1986 and regulations made under it, in our opinion, is necessary to ensure consistency with the full Annual Accounts, the Annual Business Statement and the Directors’ Report of the Society for the year ended 31 December 2023.

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

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

Opinion

In our opinion the Summary Financial Statement is consistent with the full Annual Accounts, the Annual Business Statement and the Directors' Report of Furness Building Society for the year ended 31 December 2023 and complies with the applicable requirements of Section 76 of the Building Societies Act 1986 and regulations made under it.

Use of the statement

This statement is made solely to the Society's members as a body and the Society's depositors as a body in accordance with section 76(5) of the Building Societies Act 1986. Our audit work has been undertaken so that we might state to the Society's members and depositors those matters we are required to state to them in such a statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body and the Society's depositors as a body for our audit work, for this statement, or for the opinions we have formed.

Mazars LLP
Statutory Auditor

One St Peter's Square
Manchester
M2 3DE

13 March 2024

Summary Financial Statement

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 on 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 increase in 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 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.

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 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.

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.

Summary Financial Statement

Directors' Remuneration Report

Our Remuneration Policy.

Attracting, retaining and remunerating talent.

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

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.

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 30.

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

Element	Link to Strategy	Operation
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.
Bonus	Linked to the delivery of annual business plan targets including shared strategic objectives.	Challenging, but achievable objectives are aligned with the Corporate Plan. The Chief Risk Officer provides assurance that the scheme design does not incentivise inappropriate behaviours.
Pension	Provides market competitive remuneration.	Pension contributions are on membership of the Society's Defined Contribution Scheme. Cash equivalent may be offered if requested.
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.

	Performance Measures	Minimum and Maximum Payable
	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.
	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.
	Not applicable.	Matched contributions up to 10% of basic salary.
	Not applicable.	Not applicable.

Executive Directors’ Fees

2023	Salary	Discretionary Staff Award / Bonus	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**

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

[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

Name	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

Summary Financial Statements

Summary Statements

Group Results for year	2023 £000	2022 £000
Net interest receivable	22,290	20,866
Other income and charges	11	(17)
Fair value gain	101	16
Administrative expenses	(18,069)	(15,704)
Operating profit before provisions and taxation	4,333	5,161
Impairment charge	(102)	(122)
Operating profit before FSCS levy	4,231	5,039
Provisions for liabilities	(14)	(16)
Profit on ordinary activities before tax	4,217	5,023
Taxation	(1,018)	(1,050)
Profit for the financial year (PAT)	**3,199**	**3,973**

Group Financial Position at the Year-End	2023 £000	2022 £000
Assets		
Liquid assets	215,000	189,547
Derivative financial instruments	10,564	18,173
Mortgages	1,072,056	1,024,474
Fixed and other assets	3,958	2,686
Retirement benefit asset	1,570	1,212
Total assets	**1,303,148**	**1,236,092**
Liabilities		
Shares	1,032,863	955,876
Borrowings	175,738	193,639
Derivative financial instruments	4,981	668
Other liabilities	4,372	3,492
Reserves	85,194	82,417
Total liabilities	**1,303,148**	**1,236,092**

Approved by the Board of Directors on 13 March 2024 and signed on its behalf by:
G M Berville, Chair | K L Rebecchi, Vice-Chair | C M Harrison, Chief Executive

Summary of Key Financial Ratios

Summary of Key Financial Ratios	2023 %	2022 %
Gross capital as a percentage of shares and borrowings[1]	7.05	7.17
Liquid assets as a percentage of shares and borrowings[2]	17.79	16.49
Profit for the year as a percentage of mean total assets[3]	0.25	0.34
Management expenses as a percentage of mean total assets[4]	1.42	1.33

Profit after tax (£m)	**3.20**	**3.97**
Share and deposit balances (£m)	**1,208.60**	**1,149.52**
Mortgage balances (£m)	**1,072.06**	**1,024.47**

Notes

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

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

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

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

Reference: FBS_AR&A_03_23.

Furness®
Building Society

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

Registered Office. Emlyn Hughes House, Abbey Rd, Barrow-in-Furness, LA14 5PQ.
T. 0800 781 4311 **E.** furness-direct@furness-bs.co.uk **www.furnessbs.co.uk**