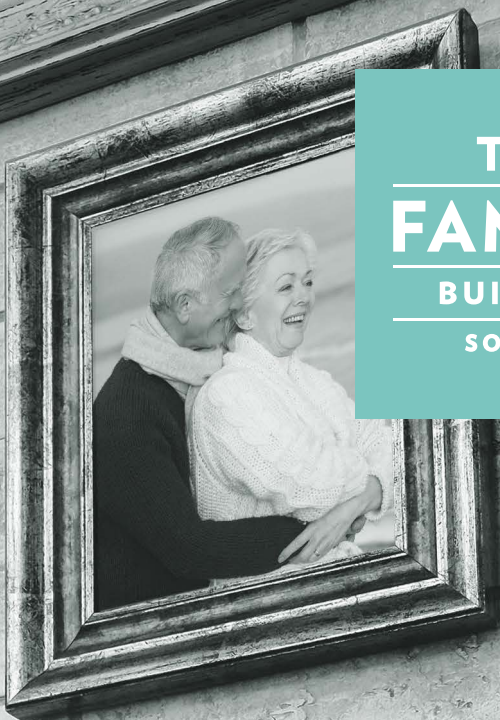


*A brighter
future together*

THE
FAMILY
BUILDING
SOCIETY



ANNUAL REPORT & ACCOUNTS 2022

ncbs
national
counties
building society

A brighter
future together

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This Annual Report and Accounts is for the legal entity National Counties Building Society, although the main trading name of the Society is The Family Building Society.

The first choice

OUR AIM IS TO BE THE FIRST CHOICE FOR FAMILIES' MORTGAGES AND SAVINGS. WE BELIEVE THAT FAMILIES WHO WORK TOGETHER ACROSS THE GENERATIONS DESERVE SAVINGS AND MORTGAGE CHOICES THAT ARE BACKED BY EXCELLENT PERSONAL SERVICE AND INNOVATIVE PRODUCTS.

That's why we are particularly pleased that some of the UK's leading mortgage and savings publications and websites have recognised our efforts across 2022.

LISTED
OPPOSITE ARE
THE ACCOLADES
WE HAVE
COLLECTED
THROUGHOUT
2022



SAVINGS ACCOLADES

SAVINGS CHAMPION AWARDS 2022/2023

Savings Champion Awards acknowledge excellence in a wide range of savings products. We were delighted to be Highly Commended in the category for the Best Junior Cash ISA provider, and to be a finalist in the Best Building Society category too.



MORTGAGE ACCOLADES

FT ADVISER SERVICE AWARDS 2022

These awards have always been considered the benchmark for service standards within the retail finance marketplace, so we're really pleased to have achieved a 'Four Star' award.



WHAT MORTGAGE AWARDS 2022

Nominated and voted for by the public our Family Mortgage helped us to be adjudged the Winner in the **Best Guarantor/Family Support Mortgage Lender** category.



PERSONAL FINANCE AWARDS 2022/2023

We were Highly Commended in the **Best First Time Buyer Mortgage Provider** category, again as voted for by the public.



YOUR MORTGAGE AWARDS 2022/2023

And finally, we were also voted **Best Later Life Mortgage Lender** at these awards, which are widely regarded as the UK's definitive consumer mortgage awards.



2022 Highlights...

Key Performance Indicators

STATUTORY GROUP PROFIT BEFORE TAX

£32.3m

2021: £22.5m

UNDERLYING GROUP PROFIT BEFORE TAX*

£16.4m

2021: £15.3m

**RESERVES
£156.5m**

2021: £133.7m

**TOTAL ASSETS
£2,402m**

2021: £2,338m

THE GROUP'S PROGRESS IS MONITORED BY THE BOARD USING A SET OF STRATEGIC KEY PERFORMANCE INDICATORS (KPIs). THE OUTCOMES FOR THE KPIs ADOPTED DURING 2022, WITH COMPARISON AGAINST THE 2021 RESULTS, ARE REPORTED BELOW WITH EXPLANATORY COMMENT.

2. NET INTEREST

Society net interest margin

2022	2021
1.63%	1.38%

3. COST/INCOME

Society cost/income ratio

2022	2021
61.2%	57.9%

1. GROUP PROFIT

Group profit after tax to mean assets ratio

2022	2021
1.08%	0.78%

4. COMMON EQUITY

Common Equity Tier 1 capital ratio

2022	2021
20.7%	17.9%

5. LOAN MOVEMENT

Movement in Group loan balances†

2022	2021
+4.0%	+2.9%

6. MORTGAGE ARREARS

Group residential mortgages in arrears by more than three months as a percentage of all Group residential mortgage accounts

2022	2021
0.27%	0.38%

†Excludes fair value adjustments

7. COMPLAINTS

Number of complaints upheld in the year as a percentage of average number of Society members

2022	2021
0.14%	0.14%

8. SERVICE

Percentage of members reporting good or better service in the annual customer survey

2022	2021
87.8%	92.2%

1. GROUP PROFIT AFTER TAX TO MEAN ASSETS RATIO:

As a mutual organisation the Society does not seek to maximise profit in order to pay a dividend to external shareholders. Instead, the level of profit is managed to maintain its capital strength against possible losses and to provide the basis for future development. The Group profit after tax ratio in 2022 was 1.08% (2021: 0.78%) reflecting the improved level of profit in the year enabling the Society to increase its capital base.

2. SOCIETY NET INTEREST MARGIN:

This is the difference between the average interest rate the Society receives on its loans less the interest rate it pays on its deposits. This needs to be large enough to allow a level of profit but not too high, in order to give Members fair rates. In 2022, this increased to 1.63% (2021: 1.38%) as a result of significantly increased income from fixed rate mortgage interest rate derivative contracts due to the rise in the linked interest rate during the year.

3. SOCIETY COST/INCOME RATIO:

This ratio measures how efficient the Society is in terms of generating income from its cost base. For 2022 this increased slightly to 61.2% (2021: 57.9%) due to the further investment in staff and IT systems.

4. COMMON EQUITY TIER 1 CAPITAL RATIO:

This ratio, which is widely used to compare credit institutions, takes into account the perceived risk within the Group's balance sheet due to its lending operations and liquidity investment holdings. Understandably, given the events of recent years, regulators and analysts are looking beyond simply the level of capital held, to an institution's capacity to absorb losses and also the relative risks within its operations. Virtually all the Group's capital is accumulated profits in its reserves which meet the definition of Common Equity Tier 1, the highest quality available. The ratio of this to the regulatory risk weighted assets increased to 20.7% in 2022 (2021: 17.9%) following the increased level of profit in the year.

5. MOVEMENT IN GROUP LOAN BALANCES (EXCLUDING ACCOUNTING FAIR VALUE ADJUSTMENTS):

During 2022 the Group increased its loan balances by 4.0% which was slightly above the total for 2021 of 2.9%.

6. GROUP RESIDENTIAL MORTGAGES IN ARREARS BY MORE THAN THREE MONTHS AS A PERCENTAGE OF ALL GROUP RESIDENTIAL MORTGAGE ACCOUNTS:

Our lending policy and underwriting processes are designed to ensure that our lending is responsible and affordable, but economic conditions and domestic situations inevitably give rise to some borrowers having difficulties maintaining their mortgage payments. It is pleasing to note that during 2022 despite the continued disruption to economic activity, the incidence of our borrowers incurring payment difficulties at the level of three months' payment has reduced and remains very low at 0.27% (2021: 0.38%).

7. NUMBER OF COMPLAINTS UPHELD IN THE YEAR AS A PERCENTAGE OF AVERAGE NUMBER OF SOCIETY MEMBERS:

This KPI tracks our service levels. In 2022 it was 0.14% (2021: 0.14%). We try to avoid any complaints, but inevitably some errors will be made. The percentage remains extremely low, but we continue to work to remove any causes for complaint.

8. PERCENTAGE OF MEMBERS REPORTING GOOD OR BETTER SERVICE IN THE ANNUAL CUSTOMER SURVEY:

At 87.8% (2021: 92.2%) this shows that the Society is regarded by most Members as giving consistently good service.

*See page 21 for the definition of underlying group profit before tax



Rodger Hughes

YOUR SOCIETY REPORTS RECORD GROUP PROFITS FOR 2022 AND RESERVES INCREASED BY 17% TO £156M. THE YEAR SAW MAJOR CHANGES IN FINANCIAL MARKETS WHICH WILL IMPACT THE HOUSING MARKET GOING FORWARD. 2023 WILL BE A LOT TOUGHER BUT AFTER TWO PARTICULARLY STRONG YEARS FINANCIALLY THE SOCIETY IS WELL PLACED TO WEATHER ANY STORMS THAT COME ITS WAY.

RESULTS

Group total assets increased by 3% to £2,402 million (2021: reduced by 4% to £2,338 million). Statutory profit before tax for the year was a record £32.3 million (2021: £22.5 million) and underlying profit before tax was £16.4 million (2021: £15.3 million). The difference primarily reflects the required accounting for financial instruments which creates volatility in our statutory results due to the short term valuation of long term assets and liabilities.

Any organisation will only sustain success if it has good people, good systems, sound financials, effective corporate governance and a sensible strategy.

GOOD PEOPLE

Both the financial results and member feedback on the service received evidence how our staff continue to perform at a high level. The Society's success depends on them and they have much to be proud of.

92% of staff said that they enjoyed working for the Society in the annual (anonymous) Staff Engagement Survey, which had an 87% response rate.

GOOD SYSTEMS

The IT systems are fundamental to any organisation and technology continues to advance. During 2022 the Board approved a new IT strategy to support the Society's strategic plan. We were pleased to note that the Executive has been careful to avoid an overly ambitious "Big Bang" approach of the sort that has led to issues at some other organisations in the past. So, while investment in our IT systems is essential, it will be a gradual process, a step at a time. As we do not have an IT specialist among our number, the Board has appointed an experienced external consultant to provide occasional expert independent advice to us as the strategy is implemented by the in-house IT team.

SOUND FINANCIALS

Last year I reported that the Board was considering the feasibility of raising external capital to supplement retained profits and fund future growth. In the light of the large increases in Reserves in 2021 and 2022 this is now unnecessary. It will however be kept under review.

CORPORATE GOVERNANCE - THE BOARD

Peter Navin has joined the Board to replace Fiona Crisp who retired last year. He was selected after a thorough recruitment process using an independent agency.

Peter had a long career with Lloyds TSB, latterly as Distribution Director at TSB Group plc, from which he retired in 2019. His deep experience of retail financial services will be particularly valuable.

The Society's Secretary and Board member, Chris Croft, left the Society in November after 8 years and we are grateful for his service. The Deputy Secretary, Kathy Mendoza, has been promoted to Secretary and Chris's other duties as an executive director have been taken on by other members of the executive team with a consequent cost saving.

STRATEGY

The Society has for some time been following a consistent strategy of carefully controlled growth based on an innovative product range and manual underwriting. After doubling in size from 2014 to 2020 growth in the loan book deliberately slowed in 2021 and 2022 while the capital base was replenished. Although the Society now has the capacity to grow further, 2023 will be a tricky year in the mortgage market and we have no intention of relaxing our cautious approach to lending. The latter pays off when times are tough, as now. Our low (40%) average loan to value ratio means we and our borrowing Members are less exposed than most lenders to a fall in house prices.

MEMBERSHIP/AGM

Your Board never forgets that it is there to represent current and prospective Members of the Society.

To saving Members I can assure you (as a long term saver in the Society myself) that we will do our best to continue to offer some of the most competitive rates in the market.

To borrowing Members, I hope you are enjoying the home we are helping to finance but if you do find yourself in financial difficulties please contact us at the earliest opportunity. We will make every effort to help you find a way through.

I hope that as many of you as possible will attend the AGM and look forward to meeting you there. The Board welcomes the feedback it receives, all of which is properly considered.

Rodger Hughes
Chairman
6 March 2023

Chief Executive's Review

Mark Bogard

2020 AND 2021 WERE TOUGH YEARS. THERE WAS NO RESPITE IN 2022. WE HAD WAR IN EUROPE AGAIN; POLITICAL TURMOIL; INFLATION; STRIKES; INTEREST RATE RISES AND THE DEATH OF THE QUEEN. NEVERTHELESS, FOR YOUR SOCIETY, IT WAS A RECORD YEAR AND SHOULD LAY THE FOUNDATIONS FOR FURTHER MEASURED GROWTH, SO THAT WE CAN HELP MORE MEMBERS MAKE THE MOST OF THEIR MONEY OR BUY A HOME.

BACKGROUND

Russia's invasion of Ukraine bought war to Europe, again.

Beyond the human catastrophe and the horror of war, which should always be in the forefront of our minds, the knock-on economic consequences were significant. Soaring energy prices added to strong inflationary pressures already in the system. With inflation running well above the Bank of England's 2% target, interest rates had to rise to dampen down demand in the economy, even against a tough economic background. This is better news for savers on deposit rates. Having started the year still at just 0.25% the Bank Base Rate was raised eight times during the year ending at 3.5%.

Interest rates are forecast by the market to rise a bit further in the first half of 2023 and then perhaps to flatten out or start to fall later in the year. The Bank of England was trying to manage a smooth rise in interest rates, but this was dislocated by the "mini budget" on Friday 24th September. Interest rates jumped up following this and were very volatile. This made the pricing of mortgages difficult for a time and we had to take the unprecedented step of quickly withdrawing all of our fixed mortgage products because they had become loss making. Given that more than 90% of mortgages taken out are generally fixed rate this was something that we did with great reluctance. Interestingly, between then and the end of the year, we still got a good flow of mortgage applications, a testament to the fact that we offer mortgages to people who might struggle to get one from other, particularly mainstream, providers.

Volatile interest rates mean difficult decisions for borrowers – variable or fixed? Variable now and then fixed in the hope that rates fall? Two-year fixed and then five-year fixed in the hope that they fall? Five-year fixed now because it's affordable and gives peace of mind? Given that rates fell after the financial crash in 2007 to lows not previously seen, there is now a generation of

borrowers who have not seen rising interest rates or rates at higher levels. Higher rates are supposed to make things tougher for borrowers, and they will. The majority of mortgages are taken out at a fixed rate for 2, 3 or 5 years, so rate rises do not impact immediately. As peoples' fixed rate term come to an end, they are likely to find that they have to re-mortgage at higher rates. But there is now a lot more resilience built into the system than there was going into 2007.

Rising interest rates will be reflected in the housing market. They will impact owner occupiers with a mortgage and buy-to-let investors. The market has certainly cooled and we have already seen falls in volumes of transactions and may see some price falls for a period.

In addition to interest rates, some other factors will squeeze the buy-to-let market. There have already been tax changes reducing the interest allowance for individual investors. There are a number of potentially costly energy efficiency requirements coming into play. We do not offer new lending in Scotland but some of the actions taken by the Government there have had a negative impact. There has been talk in Wales and London of introducing similar policies. These factors may lead some landlords to dispose of property. We are watching these developments closely, as buy-to-let is an important part of the lending that we do, and we see a healthy rental sector as an important component in the housing market.

Overall, in the longer term, we see the ongoing imbalance between property supply and demand underpinning values. We simply need to build more homes, but MPs know that this is a hugely emotive issue locally in many of their constituencies.

WHO WE ARE?

The Family Building Society is about how we live today. We believe that families who work together across the generations, to make the most of their money, welcome having their specific needs met with innovative, value for money products, backed by excellent personal service.

We are delighted to receive much positive press comment that often belies our size. We also seek to campaign on issues, like the housing market, that we believe are relevant to our Members, with politicians or regulators. At the heart of this is that we treat people as individuals. Young and old, we look at your individual circumstances; we want to know and understand you. The biggest providers, whatever their intentions, just can't. They are driven too much by the volumes that they must achieve to keep their large operations going.

We are pleased that we have continued to win awards for our products in 2022. For example, we won the What Mortgage Award for Best Guarantor/Family Support Mortgage Lender and the Your Mortgage Award for Best Later Life Mortgage Lender. The combination of these awards really evidences what the Family Building Society is all about.

The Society is sustained by the margin between the deposit rate we offer savers and the interest we can charge our borrowers. That margin was extremely tight in 2020 at 0.99%; it rose in 2021 to 1.38% and 1.63% in 2022, helped by the rise in interest rates. Both the deposit market and the mortgage market are very competitive and establish the pricing parameters within which we have to operate. We seek only to make a fair, sensible return through the economic cycles which we believe Members understand and they are comfortable with. Whatever happens in the market, we will continue to do the best that we can in balancing the interests of our depositors and our borrowers, whilst building for a long-term future.

We have built a reputation with independent mortgage advisers, who introduce most of our mortgage Members to us, for our underwriting process. We do not get computers to take judgments, as our larger competitors who "credit score" people do. As mortgage advisers say to us, we are people that you can tell a story to, set out their client's case, especially if it isn't straightforward. You cannot do that with a computer.

In particular, we have built an expertise over many years of lending money to people in and into retirement. Provided older borrowers properly understand the issues they may face as they grow older, our experience is that they make good

customers, almost without exception. Indeed, lending to older borrowers is becoming ever more of a focus in society generally; this is likely to continue to increase given how people are going to pay for their old age or help their children or grandchildren financially whilst they are still alive.

We are very mindful of our need to offer extra help and support to vulnerable customers. Covid and the lockdowns challenged many; we now face higher energy costs and inflation. We have a dedicated team that are available to offer help and support to those customers who may suffer with an economic challenge, illness, disability, abuse or mental health issues.

I'm pleased to report that our annual overall customer satisfaction survey result was again strong. This is a testament to our staff who serve Members, as background circumstances have inevitably frayed some people.

We also monitor customer compliments, not just complaints (which our regulators require us to do), and I am pleased to say we continue to receive a heart-warming number of compliments which, almost always, mention an individual member of staff by name.

Despite everything that 2022 threw at us and our Members, we have been able to get on with what we are here for, you.

I would now like to turn to our financial performance in 2022.

OVERALL GROUP FINANCIAL PERFORMANCE

Our statutory result is a record profit before tax of £32.3 million, up from £22.5 million in 2021. The underlying Group profit before tax in 2022 was £16.4 million up from £15.3 million the previous year. This is a strong result.

We tend to focus on our underlying result, which is a reflection on how the Society's day to day activities are performing. The difference between the underlying result and the statutory figure is mainly made up by "adjustments" on financial instruments. In particular, there are a number of quite large adjustments associated with the assumptions around the accounting for the Society's legacy book of Lifetime Mortgages (LMs) and associated interest rate swaps. We have benefited from the rising House Price Index and a rise in interest rates as at the year end against where they were the previous year.

Our net interest income was 16% ahead of last year, helped by rising interest rates.

It is pleasing that credit losses and provisions for bad or doubtful lending remain very, very low. They may rise over the coming period if individuals start to struggle more.

The Society's cost income ratio rose slightly to 61.2% in 2022. It will rise, as we invest further in our future.

BALANCE SHEET

The Group's balance sheet was £2,402 million, up 3% from last year. We have grown quite significantly since launching the Family Building Society. Size for size's sake is not a sensible goal but scale is important to help us be able to meet the costs of IT, infrastructure, regulation and compliance and any negative accounting adjustments that we may suffer.

Our Common Equity Tier 1 capital ratio was 20.7% up from 17.9% in 2021. The higher the level of capital, the bigger the loss that can be sustained before the Society is unable to meet its liabilities.

RETAIL SAVINGS

First and foremost, we want to be a safe and attractive home for your savings. In 2022, we took in £510 million and customers withdrew £485 million.

The Society has maintained its tradition for paying some of the highest rates in the market when we are looking to raise funds. Whilst we want to do the best that we can for depositors, we are driven by rates in the market. If we are even a little out of kilter with what others are paying, we would receive a significant excess of savings funds in a short period of time, funds which we simply would not be able to lend out sensibly as mortgages to generate the interest we need to pay depositors their interest.

It is unfortunately not possible for us to pay our Members the market leading rate the whole time and we do not want to compete just on price. Our Windfall Bond product offers savers bank base rate plus the chance of winning prizes of up to £50,000 and we believe, offers a better chance of winning than Premium Bonds, plus the added benefit of paying bank base rate. We hope to open our Windfall Bond up again in 2023, its success having taken it to full capacity. Our Market Tracker product tracks the top 20 accounts, so saving you the bother of endlessly changing accounts. The success of these accounts is a testament to the Society's ability to offer something different and relevant.

MORTGAGES

We received mortgage applications totalling £591 million in 2022, made advances of £324 million and received £255 million of repayments, giving net new lending of £69 million. We went into 2023 with a good pipeline of applications.

Competition in the mortgage market remains intense both on price and criteria. We cannot compete with the largest players on price and we do not want to decay the quality of our loan book by materially loosening our criteria. This means we have to better serve the independent mortgage brokers who introduce most of our business to us and design products to meet specific client needs, whilst maintaining our underwriting standards and margin, and meeting the significant regulatory constraints that govern the overall shape of our mortgage book. We have to be efficient, helpful, innovative, agile and smart.

Total loans and advances including fair value adjustments ended the year at £1.8 billion.

We have remained cautious on the Loan to Value that we will lend at, so that we are more protected than many other firms from any fall in the housing market if, for any reason, our borrowing Members cannot keep up with their repayments. Overall, our average loan to value on new business last year was less than 50%, which is a comfort both to the borrowers and the Society – we do not want to see borrowers overstretched or facing negative equity, especially as interest rates rise.

The Society's prudent lending risk appetite is implemented through the individual assessment of loan applications by experienced underwriters and the success of the approach is demonstrated by the incidence of arrears remaining very low. Whilst we observe responsible lending principles, so that borrowers should find their mortgages affordable, genuine difficulties can arise in relation to maintaining mortgage payments in adverse economic conditions or changes in personal circumstances. We offer overstretched borrowers a range of options in accordance with our arrears policy and procedures which are compliant with regulatory guidance, best practice and the principles of Treating Customers Fairly (TCF) and the forthcoming Consumer Duty. Reaching the best outcome for the customer is, though, dependent on borrowers making early contact with us and openly discussing their circumstances. It is pleasing to report that only 6 residential properties mortgaged to the Group had to be repossessed during 2022, 5 of which were lifetime mortgages where the borrowers were either deceased or

had gone into long-term care. We have only 54 accounts in arrears, only 9 of those by greater than 12 months. A number of these arrears cases are extant whilst the borrower's estate is wound up. In the final analysis, most problems in banking are caused simply by lending money to people who are unable to repay it. This is why credit quality is fundamental to the Society's security and its long-term future.

Our review of the arrears situation at the end of 2022 reduced our provisions in the Group to £0.4 million from £0.6 million.

TREASURY OPERATIONS

The Society's overall funding last year remained strong. We are looking to increase our breadth and sophistication in this area.

Although the Society has not experienced any difficulties in raising funds throughout the different and unusual market conditions that have prevailed across recent years, we recognise the importance of maintaining a strong liquidity position at all times. The Society's framework is subject to ongoing review. Central to this regime is the holding of a portfolio of high quality, readily realisable liquid assets, mainly UK Gilts and cash at the Bank of England, in order to provide a buffer in the event of any major funding issues arising for any reason. Alongside the holding of these assets, there is a requirement to prove their value at regular intervals, either through sale or use as collateral in sale and repurchase (repo) transactions.

As well as taking in retail deposits, we were active in the wholesale money market, taking advantage of the relatively lower interest rates on offer when compared with retail deposit rates. This activity is subject to careful management, with targets set for the mix of funding in terms of both source and duration and other limits set to ensure a prudential approach. It is pleasing that the Society is able to raise wholesale funding of varying maturities, including some longer term funding, on attractive terms. The Society has also previously taken advantage of funding schemes provided by the Bank of England.

CUSTOMER SERVICES

Our guiding principle remains to provide consistently attractive, innovative and dependable products supported by convenient and personal service.

We want to be modern, but with traditional values.

Our online accounts are backed up by experienced and well-trained people on the telephone, all in our Epsom office. Our branch is available for those who wish to deal with us in person. We continue gradually and carefully upgrading and updating our systems and improving our operational resilience, for when, inevitably, something goes wrong. We place an especial and continuing emphasis on our Cyber Security and it is really important for Members to play their part in this by remaining vigilant too at all times. The threat posed in this area is only increasing.

Our goal is always to answer the telephone quickly – we all hate hanging on. On those occasions where we cannot answer, we call people back promptly. Given events in 2022, particularly after the “mini” budget in September, it has sometimes taken us a little longer to answer the phone than we aim for. For this we are sorry, but we sense that we were still rather quicker than many.

Consistent with the principles of TCF and the new Consumer Duty, we take care in the design of our products to ensure they will meet the needs of the customers for whom they are designed and we assess the impact of any new products on existing account holders. We do not reserve any of our products for new customers only and we notify our savers and borrowers of the products available to them upon expiry of special terms, such as fixed or discounted rates. We believe that we do well in retaining mortgage customers at the end of their product terms. Our websites are updated promptly and provide full details of our product range. In addition, there are a number of mailings undertaken each year which we use to keep customers advised generally of service developments.

Feedback from customers is much appreciated, with positive comments reinforcing our actions, whilst any instances of unsatisfactory service cause us to investigate and determine improvements for the future. It is rare that complaints from our Members are referred to the Financial Ombudsman Service (“FOS”). In 2022, a total of 7 FOS decisions were received and 3 of our decisions on the original complaint were overturned.

SUBSIDIARY OPERATIONS

The Society continues to invest in smartmoneypeople.com, a website that allows people to review their experience of financial services products and providers. Like Tripadvisor but for financial services. We believe that this is a service that people will come to increasingly value over time, just as so many now check reviews before doing or buying something. It is run independently from the Society.

Our Family & Arden Homes joint venture, started late in 2018, returns the Society to the original roots of building societies, providing homes. We allocated a small amount of capital to the granting of loans for the purchase of homes for the Society to then let out. To do this, we entered into a partnership with a family who have long experience and have had great success in this area. This capital has now been utilised. It is the intention that the properties are held for the long term, though individual properties may be sold in the interests of managing the portfolio. The annual revaluation of the properties acquired showed a further gain in 2022.

Counties Home Loan Management Limited historically acquired books of mortgages though it has not done so for many years. Its residual balances include a portfolio of Lifetime Mortgages. As the books are in run-off and redemptions exceeded capitalised interest, the balances outstanding reduced during the year. It is funded and supported by the Society.



PERSONNEL

Our staff should be proud of what they have done in 2022.

Across the Society, the people who explain what we have to offer to mortgage brokers, answer calls, give customers advice, open and close accounts, underwrite the loans and process the business, manage the money, evolve our products and produce our marketing materials, make sure our systems and IT operate and are resilient, manage our risks, look after our staff, keep what we do legal and compliant, prepare the accounts and make sure that the office functions, have all themselves had another challenging year.

Our staff now work flexibly between the office and home. Many enjoy the additional flexibility it gives them, nevertheless fulfilling the obligations that their role carries. This goes to a collegiate attitude and the strong desire and commitment of staff to serve.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

The Society has always recognised its community, marketplace, employer and environmental responsibilities. We met these responsibilities, almost instinctively, as a by-product of our mutual, customer owned status and business ethos, but they are also enshrined in a Board-approved CSR Policy Statement that encompasses all facets and provides a steer for the ongoing development of this important issue which is driven by a staff-led Committee.

Our activities in the community include support for selected charities, schools, clubs and voluntary organisations based locally to the Society's head office.

THE FUTURE

Founded on our result for 2022, we hope to grow again in a measured, sensible and cautious way, if circumstances allow, whilst also investing in staff and the future infrastructure of the Society to help us continue to serve our Members in the ways that you want us to.

We have learnt again in 2022 that predicting the future with any accuracy is impossible. So we must continue to remain vigilant, and above all resilient, to dealing with the uncertainties that we all face and which, in significant part, continue to prescribe the Society's relationship with you, our Members.

We still face the future with optimism and we continue to invest in that future. If we offer customers what they want – innovative, good value products, that meet their needs sensibly, delivered efficiently but with old-fashioned customer service, we will continue to prosper.

Mark Bogard
Chief Executive
6 March 2023

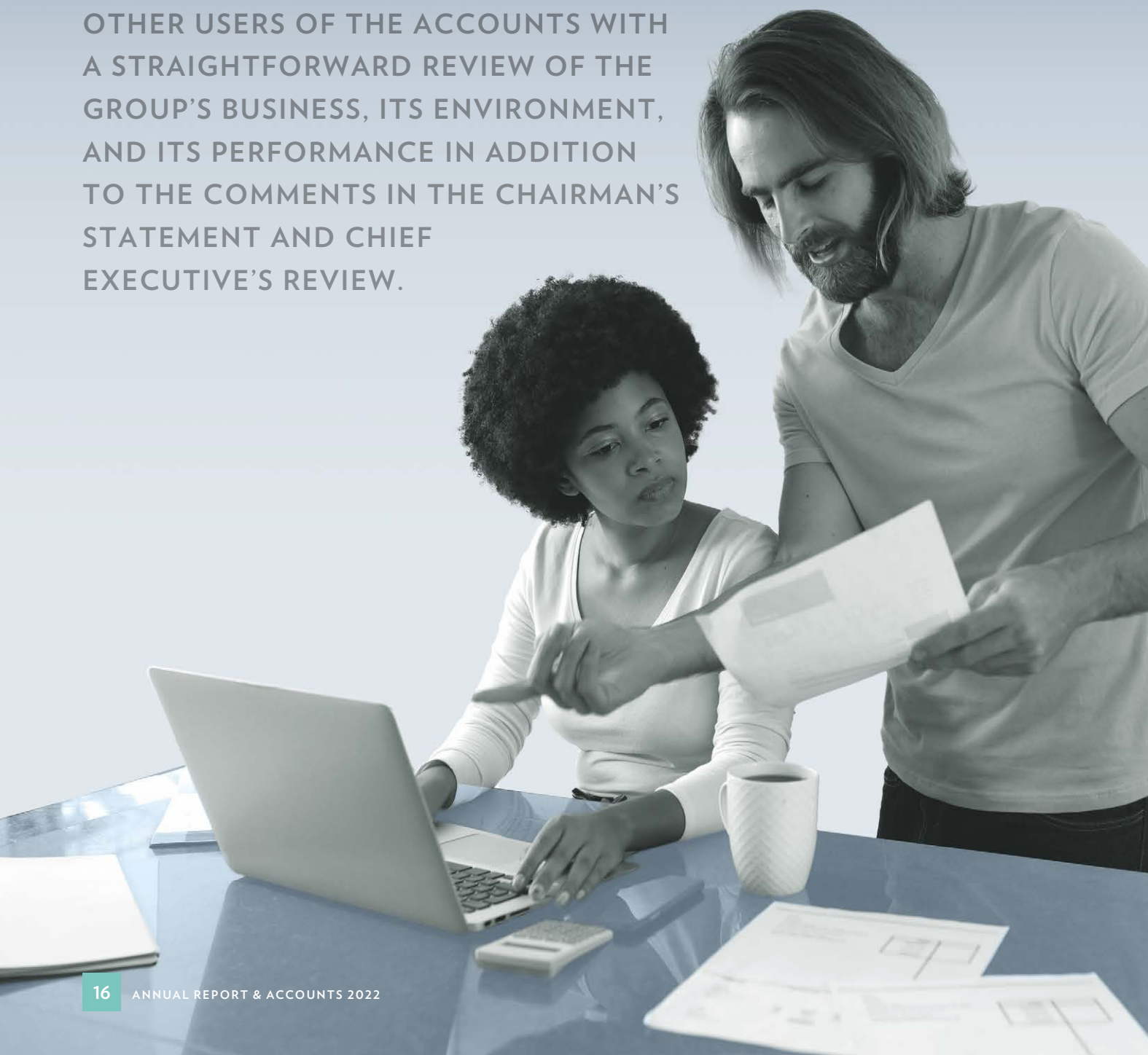
"Excellent, competent service. Very helpful and professionally dealt with all the time. Swift responses to questions and can only say thank you very much. I would highly recommend this building society."

CUSTOMER COMMENT

Strategic Report

Making sense of it all...

THE STRATEGIC REPORT INCLUDES THE BUSINESS REVIEW AND OTHER INFORMATION ABOUT THE GROUP. IT IS INTENDED TO PROVIDE MEMBERS AND OTHER USERS OF THE ACCOUNTS WITH A STRAIGHTFORWARD REVIEW OF THE GROUP'S BUSINESS, ITS ENVIRONMENT, AND ITS PERFORMANCE IN ADDITION TO THE COMMENTS IN THE CHAIRMAN'S STATEMENT AND CHIEF EXECUTIVE'S REVIEW.



WHAT WE DO

Essentially, the Society borrows money from Members to provide them with a return on their savings and lends it out to other Members in the form of mortgages to provide them with the finance to buy residential property mainly as their own home but also for some to rent out to provide homes to others. In doing this we try to balance the rate we pay to savers and the rate we charge borrowers to give a favourable outcome to both. The difference after costs is the profit. Although as a mutual organisation we do not have shareholders to whom we need to pay dividends, we need to make a profit to maintain a strong capital position for the security of Members and to enable growth. In addition to retail deposits, the Society takes deposits in the wholesale money markets as part of its Treasury operations. These help to reduce the overall cost of borrowing for the Society and diversify funding. To manage the various risks which are noted later in this report, the Society also transacts derivatives with major banks within the restrictions established by the regulators and Board.

The Society is regulated by law, in particular the Building Society Act 1986, and several bodies established by the Government. Our banking regulator is the Prudential Regulation Authority (PRA) and our conduct regulator is the Financial Conduct Authority (FCA), although we also still have to comply with certain EU regulations.

Investment continues to be made in the Society's technology infrastructure, operating systems, and software applications to meet regulatory requirements, provide Members with the products and services they expect and to protect the Society and its Members from the ever present cyber related risks.

We first achieved Cyber Essentials accreditation, a UK Government backed scheme, in July 2017 and have continued to improve our ability to protect from, detect, respond to and recover from any malicious attempt to breach our defences. In 2018, we achieved the higher accreditation level of Cyber Essential Plus and this has been successfully sustained each year since. We continually review and remediate any areas of vulnerability and will seek to renew our accreditation again in 2023.

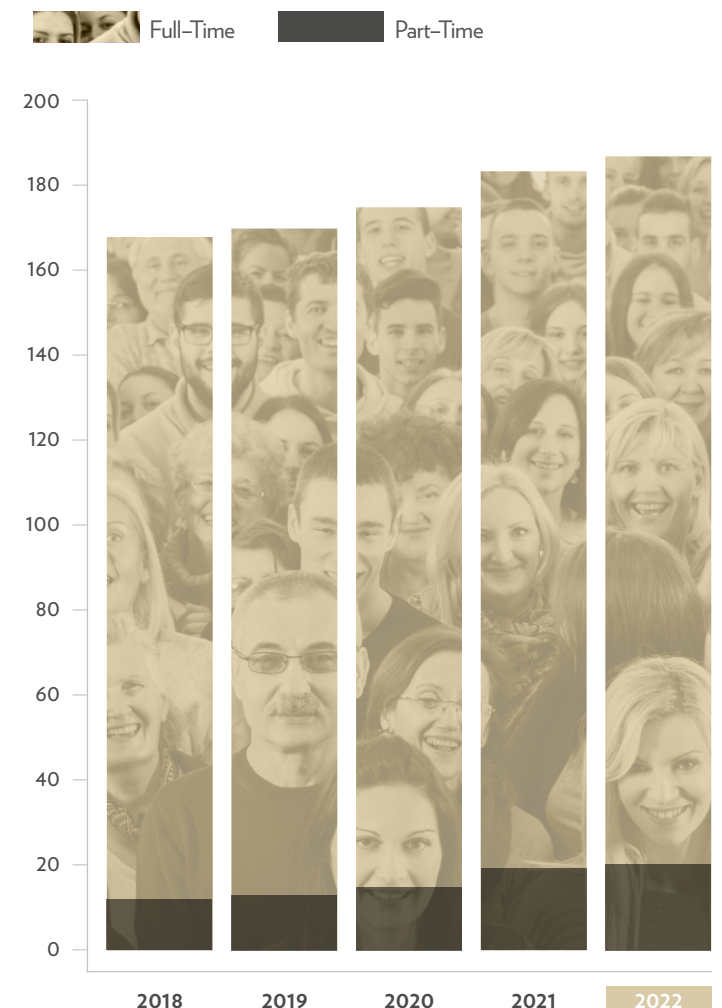
Operational resilience remains a priority area of focus to ensure that the Society can continue to deliver its critical customer facing services if disruption occurs. We have robust business continuity processes that are regularly tested to

prove our ability to operate from our contingency site or to switch to our alternative data centre within the impact tolerances agreed with the Board.

The Society's IT Strategy is reviewed every two years to ensure that our technology investments continue to deliver a secure, resilient and scalable platform.

Investment in our staff is on-going with the average number employed increasing from 156 full time and 12 part time in 2018 to an average of 167 full time and 20 part time this year. Frequent staff training is given both internally and by external providers to give better service to Members and ensure the Society demonstrates the right culture. This will continue into 2023 and beyond. The Board's view is that this investment is essential to the future of the Society and to improve service.

SOCIETY AVERAGE STAFF NUMBERS



THE FAMILY BUILDING SOCIETY

We believe that Members are best served by a Society that is growing sensibly, cautiously and profitably. It means we are relevant and sustainable for the long term. We also believe that families who work together across the generations, to make the most of their money, welcome having their specific needs met with innovative, value for money products backed by excellent, personal service. To meet these aims we launched the Family Building Society (FBS) in July 2014 – the first new building society brand in over 30 years. A number of successful new products have been launched through FBS including the Windfall Bond, the Market Tracker Saver and the Retirement Lifestyle Booster.

On the lending side we underwrite each mortgage individually. Young or old, we approach each borrower on their own merits, something the big banks find hard to do. This, combined with our prudent approach to risk, means that we have developed an enviable book of low Loan-To-Value mortgages with very low levels of default or arrears.

The success of FBS resulted in the decision to make FBS the main brand for the Society from December 2016 onwards. We are, however, very mindful of our need, and our obligation, to continue to serve existing National Counties' customers. We are gradually transferring them to Family Building Society products as they see fit. It is important to note however that this Report & Accounts is for the legal entity National Counties Building Society (NCBS), "the Society", because the legal name of the Society has not been changed. The results are for the Society's business whether that has been conducted under the NCBS or FBS brand; it is just that the branding has now been re-focused on FBS. The Board has considered asking Members to agree to change the Society's name to FBS but this would be a major project and no firm decision has yet been taken when to do this.

The Group results include the results from the following businesses:

Counties Home Loan Management Ltd

This is a wholly owned subsidiary of the Society. It purchased a number of mortgage books in 2006 to 2010 which are slowly running off and no further assets have been purchased since 2010.

Family & Arden Homes LLP

During 2018 the Society established a partnership with the Arden family with the objective of buying a small number of properties to let in the East End of London. The Society controls the partnership. The decision to provide housing is a return to one of the core purposes of the Building Society movement

and with careful purchasing and judicious management we also hope to make a return for Members over the long term. An investment of £10 million in the form of loans to the partnership was allocated to the purchase of property and this became fully utilised during 2020. While the properties bought are showing good returns on capital it is not envisaged that we will expand this further until we can find a way to make the business model more attractive within the accounting and capital constraints of a regulated Building Society.

Smart Money People Limited

In 2018, you may remember we made a small scale investment for a minority stake in Smart Money People (SMP). We think it's important that people get good information on how financial services companies treat their customers. SMP operates a website that allows customers to give their feedback and say what they really think. In recognition of the growing success of the venture the Society acquired the remaining shares of SMP in 2020. The SMP strategy remains consistent with last year. However, we aim to invest more and accelerate the development of the business. We aim to grow the business rapidly with investments in marketing and product development to drive awareness of the brand and the SMP offering. We are investing in the data analytics capability which enhances the offer we are able to make to SMP customers and the Events part of the business will continue to showcase SMP. We are further augmenting the growth plan this year with the potential acquisition of an established digital channel to enhance the content provision within the offering.

Our projections foresee rapid growth ahead and we think this will create a valuable asset for the Society. However, the level and timing of the investment required by our plans mean that losses are expected for the next three years. Each year we conduct an impairment test using a discounted cashflow methodology to assess the value at which the business is held on the balance sheet. As a result of the greater investment and anticipated losses over the near term, the Society has made a provision against the loan provided to SMP to date and written off all but £56,000 of the investment cost in SMP, resulting in a charge of £1.9 million in the Society. This values the Society's investment in SMP at £0.1 million at the year end. At a Group level, the investment cost is replaced by goodwill. The remaining balance of £0.9 million has been written off in full in 2022.

National Counties Financial Services Ltd is now dormant.

ECONOMIC ENVIRONMENT

In our Strategic Report last year, we observed that we had performed well through 2021 and the emergence from lockdown, in a resurgent housing market and with the availability of cheap term funding from the Bank of England. We noted however, that we were concerned for the future of inflation, the impact of a rising rate environment and the prospect of entering a new economic cycle. These were the key features that drove the economic landscape in 2022.

The Bank of England embarked on a sustained programme of rapid interest rate rises throughout the year with base rate rising from 0.25% at the start of the year to 3.5% by the close of December. A further rise to 4% was made in January 2023.

This tempo of rapid rate rises was exceptional and although our results have been positive through this challenge it was an environment that provoked operational strain as we moved to adjust mortgage and savings product pricing. More often than not we raised savings prices before raising mortgage pricing and this had the effect of constraining our margin. At the same time the repricing of the swaps that convert our fixed price mortgages in our back book into a variable rate cashflow benefited us and enabled us to deliver strong results through this period.

The housing market continued to show price growth over the course of the year with relatively rapid price increases over the first half. Price growth was more muted in the second half but remained positive for the year. The Nationwide regional quarterly HPI index increase for 2022 was 4.8%.

The war in Ukraine's impact on the UK economy has been profound and the squeeze on household incomes via inflation and also the impact of increased mortgage rates cannot be ignored. We remain vigilant for signs that this increased strain may show itself in the form of increased forbearance or arrears for our mortgage customers. There was no sign of this in 2022 and at the time of writing there remains little sign that our book is exposed in this regard. Our policy of lending at low LTV's and underwriting each case on its merits stands us in good stead.

The exceptional events surrounding the financial statement made by the short-lived Truss/Kwarteng administration had the effect of creating extreme volatility in the rates we use to price our mortgage products. This meant we were unable to determine a price for fixed rate mortgages that would have given us any prospect of those products being profitable. Unfortunately, this meant that,

alongside almost all mortgage providers, we had to pause offering fixed rate mortgages for a while. We continued to service demand with variable rate products. As a small Building Society we are reliant on being able to manage the interest rate risk associated with offering fixed rate products via larger financial institutions and counterparties. We will continue to offer fixed rate mortgages when market pricing allows.

Despite all of this we continue to think there is sensible lending to be done at sensible margins. In order to succeed regardless of the outcome however, the Society will continue to offer very high levels of service and with innovative products and services for our Members. We think this is the best protection for our Members against whatever a changing economic environment may bring.

KPIs

The Board manages the Society and its business using many tools. One of these is the monitoring of Key Performance Indicators. These are shown on pages 4 and 5.

"The Building Society consistently go above and beyond to help with everything we ask, whether it's a simple question that they probably get asked over and over again, or something more detailed and individual. It's always quick, professional and easy to deal with and the individual case handlers we are assigned are nothing but excellent."

CUSTOMER COMMENT

FINANCIAL PERFORMANCE

FRS 102

The Society was required by law to adopt either full International Financial Reporting Standards (IFRS) or FRS 102, the UK Standard, for the accounting period ended 31 December 2015 and subsequent years. The Society chose to adopt FRS 102. Although slightly less onerous than full IFRS, the Society also chose to adopt IAS 39 on Financial Instruments which has a material effect on the accounting treatment of certain financial instruments. We are required to book these at their fair value which can have a significant impact on the results of the Society and Group. We have chosen to adopt hedge accounting for many assets to reduce volatility in the profit of the Society and Group. Volatility, however, cannot be eliminated entirely.

PROFIT BEFORE TAX

The Group and Society both had an excellent trading year. The Group's statutory result before tax for the year ended 31 December 2022 was a profit of £32.3 million compared with a profit of £22.5 million in 2021. The improvement in profitability was driven by a £5.6 million increase in net interest income and a £8.7 million improvement in the derivative valuation and hedging adjustments booked under FRS 102. An increase in administrative expenses of £3.9 million and an increase in depreciation and amortisation of software and goodwill of £0.6 million, offset some of this. Group underlying profit levels reached £16.4 million, up from £15.3 million in 2021. In the Society, there was a profit before tax of £27.1 million compared with a profit before tax in 2021 of £19.3 million.

STATUTORY PROFIT BEFORE TAX

	GROUP		
	2022 £m	2021 £m	Change £m
Net interest income	39.3	33.7	5.6
Other income	1.7	1.1	0.6
Net gains from financial instruments	15.9	7.2	8.7
Administrative expenses (including pension scheme finance charge)	(22.9)	(19.0)	(3.9)
Depreciation and amortisation of software and goodwill	(1.7)	(1.1)	(0.6)
Impairment losses and provisions	–	0.6	(0.6)
Profit before tax	32.3	22.5	9.8

A reconciliation of the statutory profit above to underlying profit is shown in the section below.

UNDERLYING PROFIT

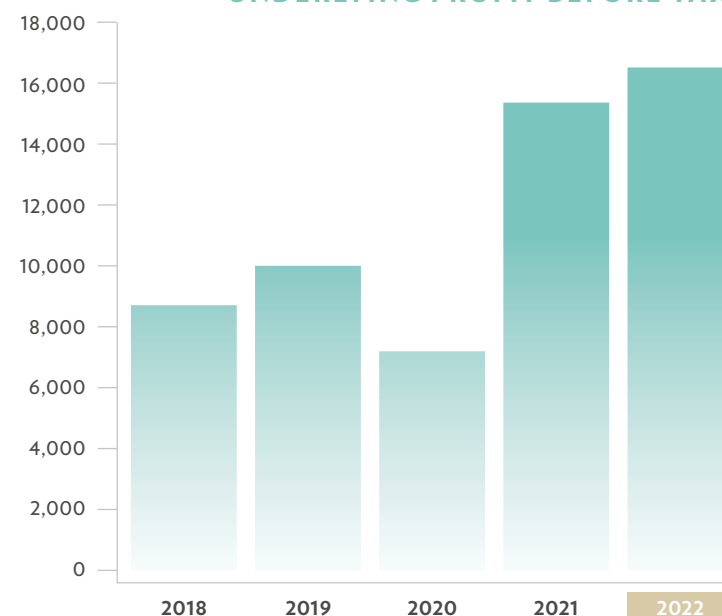
The statutory figures included in the Annual Accounts are prepared under FRS 102 and include the impact of fair valuing derivatives which include the No Negative Equity Guarantee (NNEG) liability and ineffectiveness when accounting for the hedges the Society takes out to economically protect itself from movements in interest and other market rates. These create profit volatility, for example from movements in market interest rates and assumptions. The Board take the view that it would be misleading to include these items in the underlying profit calculation as they are affected by dynamics outside the control of the Society and are largely related to a portfolio of assets (Lifetime Mortgages) that are a closed book in run down. These items do not therefore reflect on the underlying trading of the Society or Group.

The Board believes it is appropriate to remove the effect of these adjustments when looking at the underlying performance of the Society and Group. The Group's underlying profit can therefore be summarised as follows:

UNDERLYING PROFIT BEFORE TAX

	GROUP		
	2022 £m	2021 £m	Change £m
Profit before tax per statutory accounts	32.3	22.5	9.8
Add back net gains from financial instruments	(15.9)	(7.2)	(8.7)
Underlying profit before tax	16.4	15.3	1.1

UNDERLYING PROFIT BEFORE TAX



NET INTEREST INCOME

Net interest income is the amount of interest the Group receives less the interest it pays on its funding. It is the Group's main source of income. This increased by £5.6 million in 2022. Our underlying retail net interest margin was supported by the increase in SONIA interest rates on the variable leg of swaps taken to manage the fixed rate mortgage portfolio. A change in accounting estimate linked to how we calculate the Effective Interest Rate over the life of our fixed rate mortgages accounted for £0.7 million of the increase.

OTHER INCOME

Other income of £1.7 million (2021: £1.1 million) in the summary table includes fees and commissions receivable of £0.2 million (2021: £0.1 million), other income of £0.9 million (2021: £0.7 million) and the net gain on investment properties of £0.7 million (2021: £0.3 million).

Most of the fees received are spread over the expected lives of the underlying asset or liability to which they relate under FRS 102. Net fees and commissions receivable in 2022 were £0.2 million (2021: £0.1 million). Included is modest income from third party suppliers of services for referring our Members to them when they have an interest in additional services not offered directly by the Society.

The other income of £0.9 million (2021: £0.7 million) mainly relates to the rental income from the investment properties and the income from SMP.

The gain on investment properties arises from a £0.7 million gain on the annual revaluation of the investment properties (2021: £0.3 million).

NET GAINS AND LOSSES FROM FINANCIAL INSTRUMENTS

This category includes the movements in fair value of a) derivatives that are not being accounted for as hedging underlying assets or liabilities and b) the ineffectiveness under IAS 39 of any accounting hedges.

The former include: derivatives that are economically hedging the pipeline of mortgages that have yet to complete but which are not allowed to be hedge accounted until the underlying assets complete; swaps taken out to hedge fixed rate savings bonds which have not yet entered a hedge relationship; and the movement in the valuation of the No Negative Equity Guarantee (NNEG) relating to the Lifetime Mortgages which is treated as an embedded derivative.

The latter includes the main hedge ineffectiveness that comes from the Lifetime Mortgage portfolio. Due to the value of the portfolio even small levels of ineffectiveness can cause relatively large movements in the valuation concerned. The effectiveness of hedging for the main residential mortgage book and gilt asset swaps also causes some volatility.

During the year we continued to monitor our hedging arrangements for our Lifetime Mortgage book with the counterparty to match the level of prepayment that we have seen with the aim of reducing the amount of ineffectiveness that may impact our results in future years.

Before 2011 the Society originated and CHLM acquired a portfolio of Lifetime Mortgages (LMs). The Group has not acquired or written any new LMs since then.

A Lifetime Mortgage is one where a loan is taken out against the value of a property but where the interest charged is not paid during the life of the loan. Instead, the interest is added to the loan balance and, at the end of the term (which typically comes on the move into residential care of the borrower or their death), the loan balance (including the rolled-up interest) is deducted from the sale proceeds of the house.

To protect the borrower from the possibility that the loan balance is greater than the property value at the end of the loan the LMs included what is referred to as a No Negative Equity Guarantee (NNEG). This was a promise that the borrower wouldn't be charged for any excess of the loan value over the property value. The inclusion of a NNEG promise in a LM is a normal feature of a LM written to the Safe Home Income Plan standards of the Council of Mortgage Lenders.

This promise has a value and we need to show the users of the accounts what that promise is worth.

IAS39 requires us to use Fair Value Accounting to do this. The standard requires us to value the NNEG by reference to what an independent buyer and seller would value the NNEG at.

Since the Group originally acquired the LMs these mortgages, now sometimes referred to as Equity Release Mortgages (ERMs), are mainly written by insurance companies and residual books of LMs are also held by a number of Building Societies. Therefore, we try to understand how these other market participants would price our NNEG when we work out what it is worth. However, there is no observable market in the sale of NNEG liabilities so we need to model and understand the component parts that make up a NNEG valuation.

Two key determinants of the value of the NNEG are assumed House Price Inflation (HPI) and HPI Volatility. Volatility refers to the probability that any one house price will be above or below the average HPI assumption at any one moment in time. A higher volatility assumption means that there is a greater risk that the house price will be higher or lower than the average assumed. This risk has a cost so that a higher volatility assumption leads to a higher value for the NNEG.

In making a judgement on the volatility assumption, the Directors take note of the paper published by the Actuarial Research Centre of the Institute of Actuaries ('UK Equity Release Mortgages: a review of the No Negative Equity Guarantee') on 19 February 2019 that identified a probable value for volatility in the range of 3-6% and volatility in a stress scenario in the range of 10-13%. In each year, the Directors evaluate data for the UK housing market that continues to bear out this perspective. In addition, other Building Societies have published their own assumptions in their respective Reports & Accounts. These have shown that HPI volatility has been valued in the range of 8-10% and therefore, the Directors concluded that a HPI volatility assumption for the Group of 10% would be appropriate. The Directors also note that the allowance made within the calculations for Dilapidations (the cost of making good a property before it can be sold at a fair market value) is substantial at 1% and is also supported by the work that the Group undertakes to maintain contact with its borrowers and assess the condition of properties during the life of a LM loan. This factor is supportive of a lower volatility assumption than might otherwise be the case.

The Directors also consider the underlying rate of assumed HPI that should be taken into account over the remaining life of the LMs. It is important to note that this assumption relates to HPI over the very long

term. The long term prospects for GDP growth, CPI inflation and the structural housing shortage that persists in the UK are therefore the main factors driving the HPI assumption. Given these factors, the Directors have concluded that a long term HPI assumption of 3.75% would be the most appropriate to use for the Society's lifetime mortgage book. Despite some commentary that short term house prices may suffer during a potential recession in 2023 the Directors have seen no evidence that prices are anything other than higher than they were last year or that the structural drivers of HPI have changed. They don't therefore expect that any short term volatility that a recession may provoke, will impact the long term assumption at this point.

During this year we refreshed our analysis, and as a result of this review, the assumptions relating to the NNEG liability have remained unchanged at the 2022 year end.

Although the main NNEG liability assumptions therefore remain unchanged in 2022, the NNEG liability reduced by £7.8 million. This reduction is due to the following reasons - £2.5 million relates to movements in the discount curve and prepayments, £2.2 million to adopting updated actuarial assumptions, £1.5 million to the effect of the actual rate of HPI in the year being in excess of the assumed long term rate and £1.6 million is due to a reduction in the number of loans from redemptions.

The value of the NNEG is £3.0 million in the Society (2021: £7.5 million) and £5.7 million in the Group (2021: £13.5 million) and the Group credit for 2021 was £7.8 million (2021: credit of £5.8 million).

ADMINISTRATIVE EXPENSES AND DEPRECIATION AND AMORTISATION OF SOFTWARE AND GOODWILL

Administrative expenses (including pension scheme finance charge), which includes staff costs and other operating overheads, increased by £3.9 million in the year from £19.0 million to £22.9 million.

As noted elsewhere, the Group has continued to invest in upgrading its technology and increasing staff numbers and training. This growth in costs is planned carefully to support the growing size of the Society. We expect to continue sensible investments in staff, IT and marketing as the Society continues to grow.

Depreciation of fixed and intangible software assets, and the goodwill relating to the purchase of the shares in SMP, increased by £0.6 million from £1.1 million to £1.7 million. The increase is due to the additional charge in the year for writing off the remaining balance of SMP goodwill.

LOAN IMPAIRMENT AND PROVISIONS

	GROUP		
	2022 £'000	2021 £'000	Change £'000
Residential loan impairment and provisions	14	398	(384)
Commercial and other loan impairment and provisions	-	221	(221)
Total loan impairment and provisions	14	619	(605)

The table above shows an analysis of the £14,000 credit in the Income Statement in the year (2021: credit of £619,000) from provisions for impairment losses on loans and advances.

The total Group loan impairment provisions at the year-end amounted to £0.4 million (2021: £0.6 million). This decrease in provisions reflects a reduction in the provision held against individual residential mortgages, mainly due to the crystallisation of a loss on a loan, offset by a small increase in the collective provision given the changed economic outlook set against the high quality of the overall loan portfolio.

RESIDENTIAL LOAN IMPAIRMENT AND PROVISIONS

The Society continues to experience low levels of impairment and arrears on its residential book because of its stringent lending policies and individual underwriting rather than computer scoring methodologies. Its subsidiary CHLM also has low levels of arrears and losses on the residential loan books it purchased.

For the individual impairment provisions against residential loans without a NNEG, 2022 saw a credit of £129,000 (2021: £40,000) and the collective provision a charge of £115,000 (2021: credit of £358,000).

LOAN FORBEARANCE AND ARREARS

At year-end 2022, the Society had 14 accounts totalling £2.1 million (2021: 15 accounts totalling £3.4 million) subject to forbearance. At the Group level, 27 accounts totalling £3.1 million (2021: 32 accounts totalling £4.7 million) had been subject to forbearance. An analysis of the types of forbearance used by the Group is shown in Note 29.

In terms of accounts in arrears by more than 12 months, the Group had 9 accounts with balances of £1.7 million at 31 December 2022 (2021: 13 accounts with balances of £1.8 million) and £0.2 million arrears (2021: £0.1 million).

During 2020 and 2021, the Society provided some of its Members with Covid-19 related mortgage payment holidays. At the end of 2022 two borrowers were still receiving forbearance assistance after the end of their payment holidays.

COMMERCIAL LOAN IMPAIRMENT AND PROVISIONS

In the past the Society originated a commercial loan book secured on property which has been in run-off for several years. The Society continues to monitor and manage this portfolio carefully. No provision is held against the remaining portfolio of these loans and no credits or charges were made against this portfolio in 2022.

FSCS LEVY

The Financial Services Compensation Scheme (FSCS) provides eligible savers with insurance against the failure of financial institutions up to a maximum level of £85,000 per institution.

The FSCS charges deposit-taking financial institutions levies based on their level of eligible deposits. The levies cover the administrative costs of the FSCS, shortfalls on the recovery of the loans of failed institutions and the cost of interest paid on loans supporting the compensation paid out to depositors until recoveries are made. More detail is given in Note 28 to the Annual Accounts. The charge has been decreasing in recent years. In 2022 there was no charge for the Society (2021: nil).

TAXATION

The Group corporation tax charge of £6.8 million (2021: charge of £4.0 million) represents an effective rate of 21.0% (2021: 17.7%). There are special tax provisions for the treatment of the FRS 102 transition adjustments, pension payments, the Gilts included within the available for sale reserve and the gains on the investment property which affect the timing of the amount of tax payable. Further detail is provided in Notes 11 and 12 to the Annual Accounts.

We were seeking a product where we could assist our son in purchasing his first property. No mean feat considering that we are now domiciled in France. Thankfully, we researched the Family Building Society online and their flexible approach for families and lending rationale seemed to fit our circumstances ... The Society certainly lives up to its name and their approach to individual circumstances is refreshing in a world where perhaps larger institutions fail if you do not fit the stereotype normal.

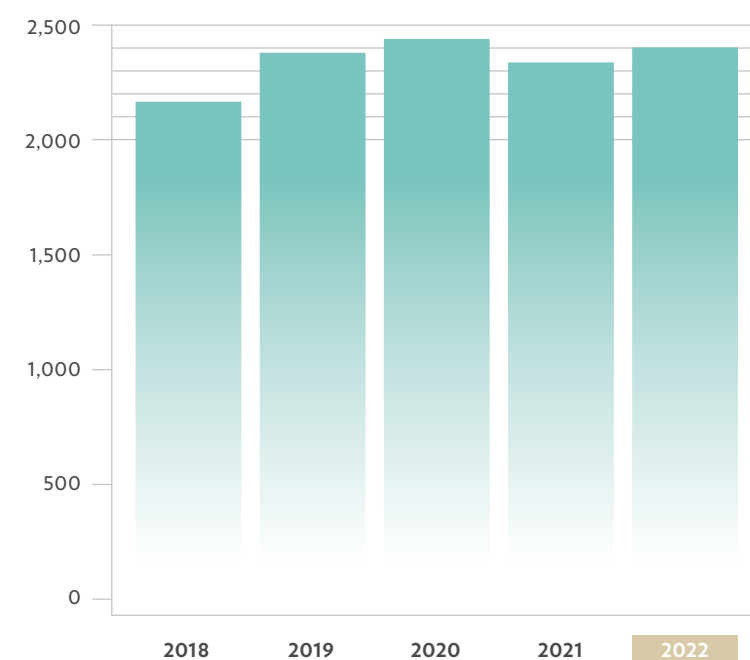
CUSTOMER COMMENT



STATEMENT OF FINANCIAL POSITION

The Group balance sheet increased in the year by 2.7%, which resulted in total assets of £2.40 billion (2021: £2.34 billion).

GROUP TOTAL ASSETS (£million)

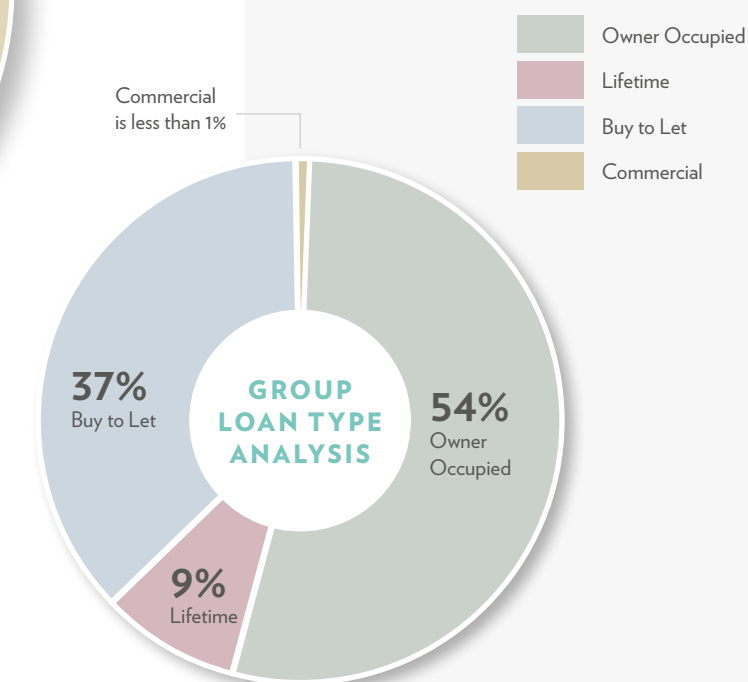
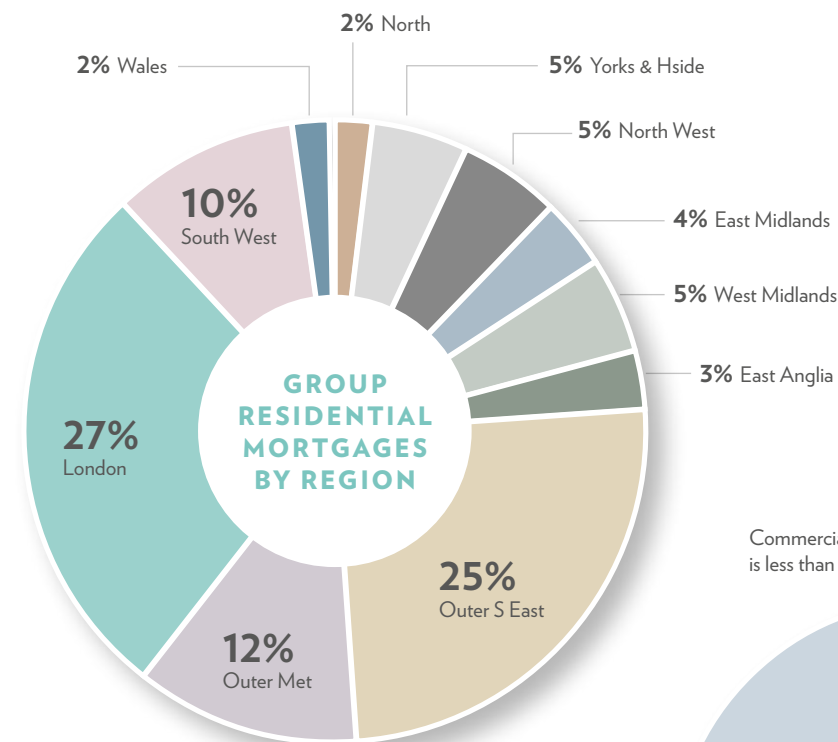
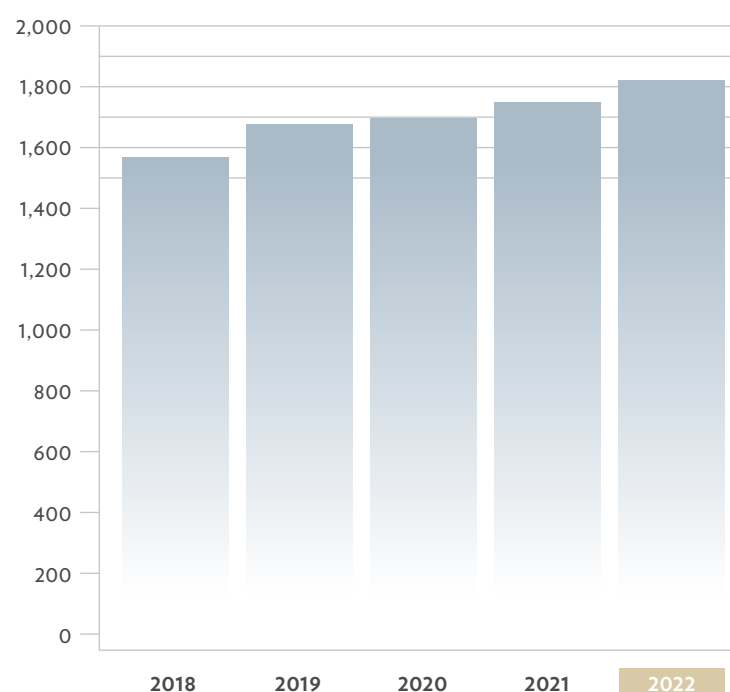


RESIDENTIAL LENDING

Total Group lending secured on residential property (FSRP) as at 31 December 2022 before fair value adjustments was £1.82 billion (2021: £1.75 billion). This represents a growth rate of 4%. Including the fair value adjustments from hedging, the figure was £1.81 billion (2021: £1.87 billion).

This was achieved by the continuation of the Society's strategy of individually underwriting mortgages and providing innovative products. Marketing effectively to bring in new business, combined with strong levels of retention of existing borrowers i.e. who remain with the Society when their initial product term has expired, has delivered continued growth.

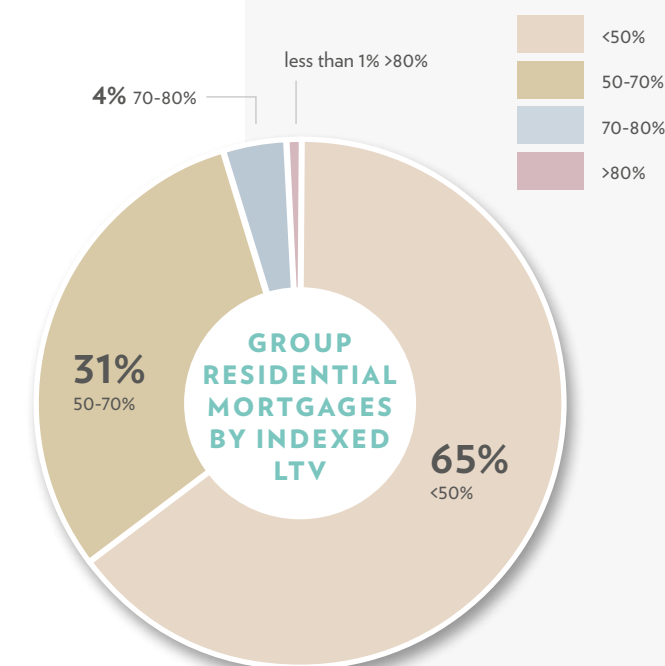
GROUP RESIDENTIAL MORTGAGES (£million)

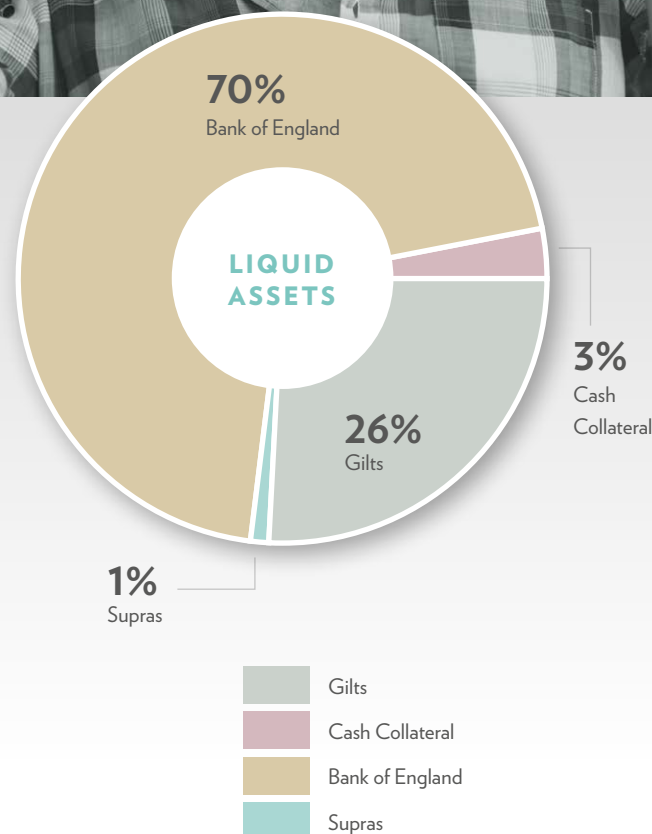


The Group's residential portfolio by geographic region is shown in the diagram above. Although the Society lends throughout England and Wales, there is a concentration towards the South East of England. The Society does not lend overseas.

The Society's residential lending is mainly to prime owner occupiers. We also lend to customers to fund Buy to Let properties. As with all the Society's lending, this is underwritten on an individual loan basis. The loan books that were purchased by our CHLM subsidiary are a mixture of Lifetime, Owner Occupied and Buy to Let mortgages.

The Society does obtain direct business and is able to advise customers when choosing a mortgage. Almost all of the lending however is sourced from mortgage intermediaries. The Society has traditionally had a conservative risk policy and has not sought to increase the level of risk in recent years to counter increased competition and to grow. This applies to both income cover levels and Loan to Value (LTV) levels. Over time the value of some properties has decreased, which can lead to LTVs increasing on an indexed basis. The chart on the right shows the breakdown of LTV levels on the Group's residential mortgage book.





OTHER CUSTOMER LENDING

The Society does not carry out new commercial lending. It does, however, have a legacy book of loans secured on commercial property which is now in run-off. The net balance on these loans before fair value adjustments is £4.4 million (2021: £6.0 million).

LIQUID ASSETS

The Society maintains a portfolio of liquid assets in order to manage its liquidity risk in accordance with the Board's risk appetite and regulatory requirements. These assets are invested very conservatively and are available to meet the Society's payment obligations as they fall due.

The regulatory requirements for liquidity have been evolving since the financial crash and, under Capital Requirements Directive IV, the current key measure introduced in 2015 is the Liquidity Coverage Ratio (LCR). The Society's LCR at 31 December 2022 was 223% (2021: 214%) significantly above the regulatory minimum of 100%.

Total liquid assets at 31 December 2022 held by the Group were £496 million (2021: £441 million) and represented 21% (2021: 19%) of the Group's assets. As can be seen from the chart on the left, the assets are mainly held as cash deposited at the Bank of England and cash collateral supporting derivative transactions, UK Government debt (Gilts) and securities issued by AAA rated European multilateral development banks ('Supras') e.g. the European Investment Bank.

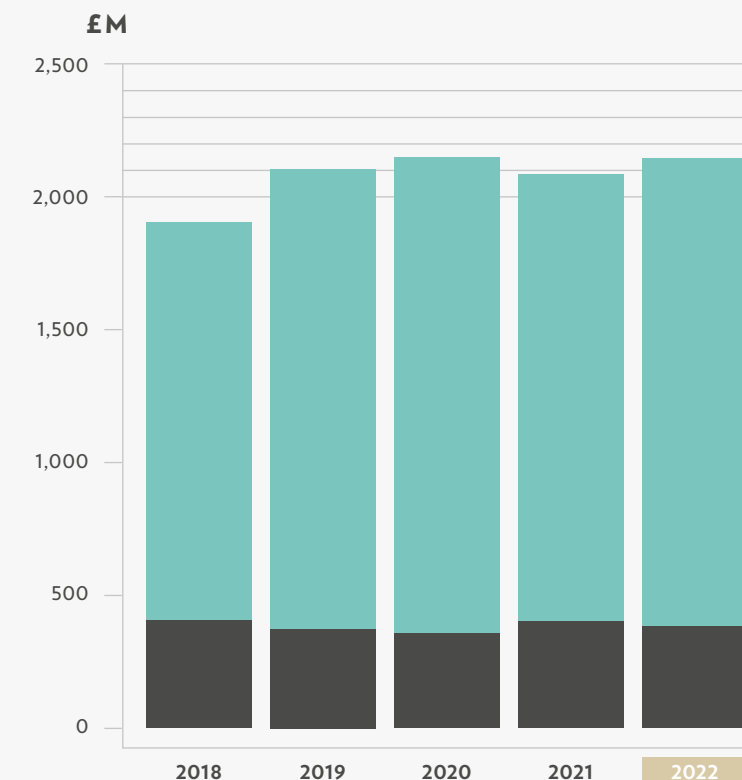
DEPOSIT BASE

The Society's traditional funding base consists of retail deposits from its Members and wholesale deposits from the money markets mainly via brokers. The Society has not issued any covered bonds or securitised bonds. The Society also uses Bank of England facilities for funding where appropriate, such as the Term Funding Scheme with additional incentives for Small & Medium Enterprises (TFSME) launched by the Bank of England in response to the Covid-19 crisis and Indexed Long-Term Repos (ILTR). Access to these facilities also provides contingent liquidity for the Society. In anticipation of the repayment of the TFSME scheme the Society intends to enter into a Bilateral Funding facility during the course of 2023 with a counterparty Bank in order to ensure a diversified funding base into the future.

The growth in the deposit base is shown in the graph opposite. This illustrates the success of the Society in attempting to offer consistently competitive rates on its savings accounts, bonds and ISAs, even in the current very low interest rate environment. The use of innovative products such as the FBS Windfall Bond and Market Trackers also helps attract solid funding.

GROUP DEPOSITS

■ Retail ■ Wholesale



CAPITAL

The Group's capital position is one of the key indicators of its financial strength and security. It reflects its ability to absorb shocks both to the sector as a whole and any specific shocks to the Society without putting it at risk of failure. Group capital as at 31 December 2022 stood at £156.5 million up from £133.7 million in 2021 and consists of reserves built up from the accumulation of profit plus the balance on the Available for Sale reserve. The Society has not issued Permanent Interest Bearing Shares or subordinated debt to the market. The level of reserves is also impacted by credits or charges for potential net liabilities under its defined benefit pension schemes which for 2022 was a charge of £1.0 million net of tax (2021: credit of £0.7 million).

The Group has grown its assets as noted above which increases the Group's regulatory capital requirement. The Society has a Common Equity Tier 1 ratio of 20.7% (2021: 17.9%).

The Society's Individual Capital Guidance from the PRA at the year-end was to hold a minimum amount of capital of 10.75% of Risk Weighted Assets plus a static add-on of £6.1 million in relation to the Society's pension scheme. The Society's capital exceeded this requirement.

In assessing the Society's continued appetite to grow the Board actively considers options to sensibly manage the Group's capital base. This may entail capital raising activity although this is not currently required or envisaged in the short term.

A further important regulatory metric is the leverage ratio, although this is not applicable to entities of our size. This is the ratio of regulatory capital to defined liabilities. The Group's leverage ratio at 31 December 2022 was 6.3% (2021: 5.6%).

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

RISK MANAGEMENT STRATEGY & FRAMEWORK

The Society has adopted an Enterprise Risk Management Strategy and Framework which sets out the risk categories, governance framework and policies, risk appetites and supporting stress testing used to manage the Group's risks. This includes the establishment of triggers and limits, reporting lines, mandates and other control procedures.

The management of balance sheet exposures and the use of financial instruments for risk management purposes are contained within the Board-approved Liquidity Policy and Financial Risk Management Policy. Full details regarding the risks and the financial instruments used by the Group are given in Note 29 to the Accounts.

In addition Board members and function heads have been given individual responsibilities under the Senior Managers Certification Regime (SMCR) which is a regulatory requirement to ensure it is clear that an individual has specific responsibility for all the identified risks and functions.

RISK GOVERNANCE ARRANGEMENTS

The Board exercises governance over risk in the Group through Sub-Committees with Terms of Reference set by the Board. The Committees are:

- **Group Audit Committee**
- **Board Risk Committee**
- **Remuneration Committee**
- **Nomination Committee**

The members of these Committees are all Non-executives of the Board with the exception of the Nomination Committee on which the Chief Executive also sits. The Board approves policies containing the risk appetites, methodologies, monitoring and reporting requirements for material business activities. In particular the key policies relating to Lending, Liquidity and Financial Risk Management are reviewed at least annually and approved by the Board.

These Committees are supported by Executive Management Committees which report through to the Board Committees and have Terms of Reference approved by the Board or relevant Sub-Committee and act with delegated authority from the Board.

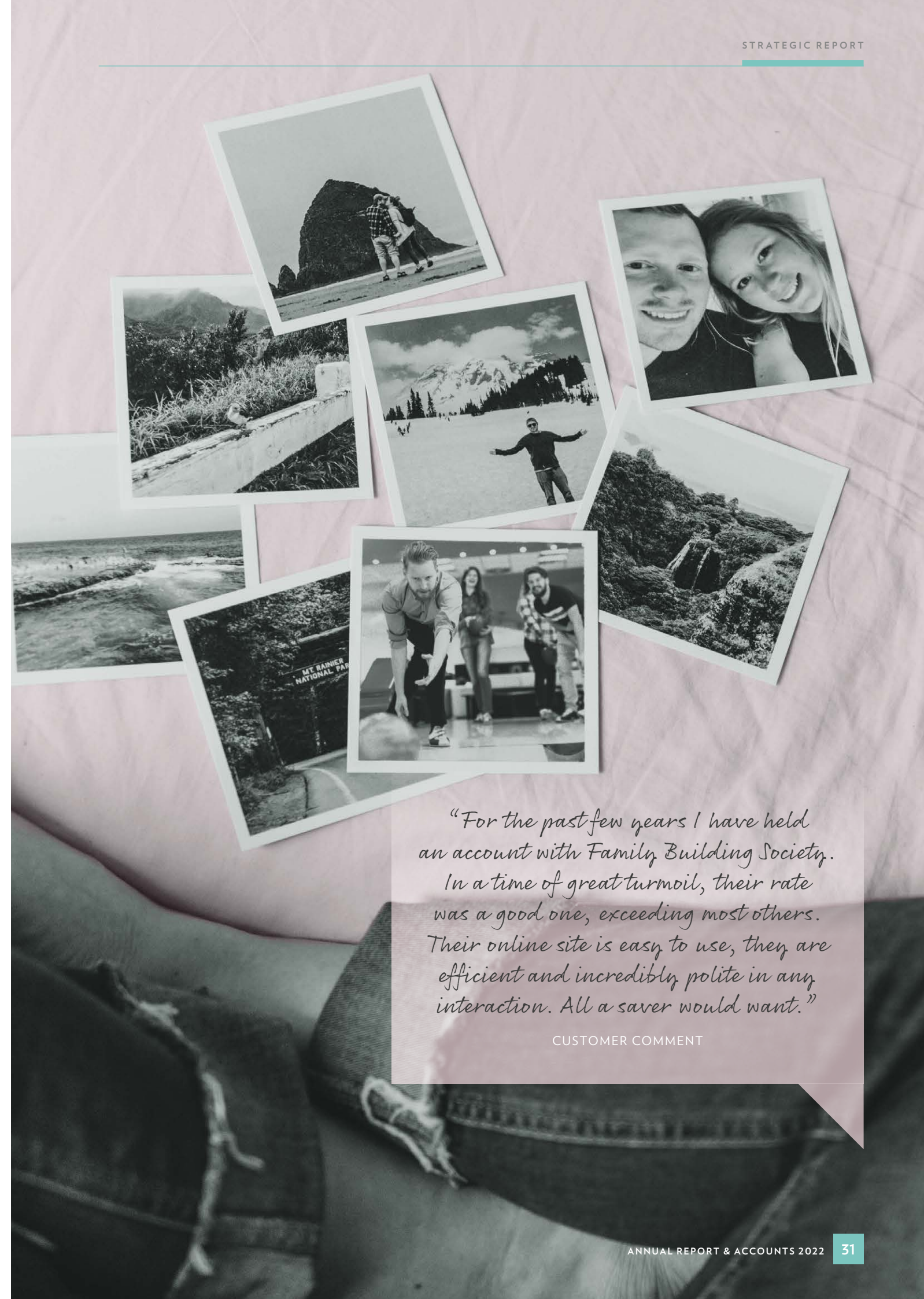
- **Executive Management Committee**
- **Executive Risk Committee**
- **Retail Conduct Risk Committee**
- **Asset and Liability Committee**

The Committees are supported by the Risk Oversight function, the head of which reports to the Chairman of the Board Risk Committee.

Further details of the Committees and their function are contained in the Report on Corporate Governance on pages 44 to 50.

The Group maintains an Internal Capital Adequacy Assessment Process (ICAAP) and an Internal Liquidity Adequacy Assessment Process (ILAAP). These are used to identify and quantify the risks faced by the Group and how those risks affect the levels of capital and liquidity that the Group is required to hold. Stress and reverse stress testing are employed separately, and as part of these processes, to ensure that the Group identifies and understands the extent of potential risks. The output is then used to decide the Group's risk appetite, objectives and limits and encapsulate them in the Financial Risk Management, Liquidity and Lending Policies to ensure that the Group operates within the parameters set by the Board. A Recovery Plan (RP), as required by the Bank of England, has also been prepared to illustrate and help deal with extreme stress situations. It does this by setting out the key risk triggers and limits and specifying the points at which specific actions can be taken by the Board to address and mitigate key stresses and return the Society to a stable situation.

In addition, the PRA carries out an annual assessment of the Society. Following these reviews, the PRA may issue revised capital and liquidity guidance. These specify the minimum amounts of capital and liquidity the Society must hold regardless of its own risk management assessments and appetites.



"For the past few years I have held an account with Family Building Society. In a time of great turmoil, their rate was a good one, exceeding most others. Their online site is easy to use, they are efficient and incredibly polite in any interaction. All a saver would want."

CUSTOMER COMMENT

PRINCIPAL RISKS & UNCERTAINTIES

The principal risks and uncertainties facing the Group, and which are managed under the risk management framework, are noted below.

Each function is responsible for ensuring that risks are identified and managed and policies and processes complied with as the first line of defence.

The Society has a dedicated Risk Oversight function which is run by the Chief Risk Officer (CRO) and reports to the Board Risk Committee. It represents the second line of defence against loss for the Society. The Society also has a Compliance function which acts as the second line of defence for overseeing conduct and regulatory risks. The CRO is responsible for maintaining oversight of all the Group's risks and these are reviewed regularly by the Executive Risk Committee. This Committee also reports to the Board Risk Committee, which comprises Non-executive Directors with specific responsibility to monitor risk management across the Group. This includes compliance with regulatory guidance in respect of lending, treasury and business conduct activity, as well as the ongoing update of the ILAAP, ICAAP and the RP.

The third line of defence is Internal Audit, which is outsourced to a major accountancy firm. Following a competitive tender in late 2016, Deloitte perform this role exclusively, overseen by the Group Audit Committee which consists of Non-executive Directors.

CREDIT RISK

Credit risk is the risk that a financial loss will arise from a customer or counterparty failing to meet their obligations or from a deficiency in the value of property held as collateral for a loan. This primarily arises from the Group's lending activities, which are mainly secured on property, and as a result of the Group's Treasury investments and transactions. This risk is mitigated by the Group's conservative lending and investment approach as prescribed in the Board-approved lending and liquidity policies. Most of the Group's non-customer lending is represented by securities issued in Sterling by AAA-rated Supras, Gilts and deposits with the Bank of England or UK financial institutions.

MARKET RISK

Market risk is the risk of loss through adverse movements in market rates which, for the Group, is mainly changes to, and relative movements in, interest rates. This risk is managed through a combination of natural hedges in the Group

balance sheet and the use of derivative contracts, principally interest rate swaps, as permitted under the Financial Risk Management Policy approved by the Board. The Group is not directly exposed to foreign exchange risk as all its transactions are denominated in Sterling. Under FRS 102 movements in interest rates affect the balance sheet valuation of many financial instruments, particularly derivatives, and this increases the consequent risk of volatility in profits.

LIQUIDITY RISK

Liquidity risk is the risk that the Group will not have sufficient funds to meet its financial obligations as they fall due. This could arise for example as a result of imbalances in the cash flows of its activities. The amount of collateral the Society is required to pledge in support of its derivative hedging transactions can also have an adverse effect on the liquidity position. Liquidity Risk is mitigated through adherence to the Liquidity and Financial Risk Management Policies approved by the Board and by conducting an ILAAP, as required by the PRA. Consequently, the Society maintains a significant portfolio of highly liquid securities that may be sold or used as collateral in sale and repurchase (repo) transactions. This portfolio is supplemented by large call and overnight deposits with the Bank of England and UK clearing banks and with liquidity insurance facilities maintained at the Bank of England to ensure that the Group can meet all its financial obligations.

OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequacies, or failures, in the Group's internal processes and systems, or the actions of its staff. The Society has policies and processes to manage operational risk to ensure it remains within its risk appetite which is set by the Board.

Due to the increase in the volume and sophistication of actual and attempted frauds and cyber attacks directed against financial institutions, the Society recognises the increasing risk of financial and reputational loss and disruption from these activities. Whilst improvements in and the extended use of technology to benefit the Society's operations and products are essential, they add to the risk of criminal attack. The Society has therefore stepped up its defences with significant investment in this area. Reviews and enhancements to its operational controls to maintain their effectiveness are undertaken and advice sought and audits undertaken by specialists. Consequently, the Society has not suffered any material losses from fraud so far but remains vigilant.

CONDUCT RISK

Conduct risk is linked with regulatory risk noted below and Board expectations of the service levels that we provide to our customers. The Society's conduct record is very good, with low levels of complaints. All functions in the Society are responsible for ensuring the highest standards of conduct and regular training takes place to ensure that 'treating customers fairly' is embedded in the Society's culture. The Compliance function acts within the second line of defence and additional oversight is provided by the Retail Conduct Risk Committee. This has been established to oversee the Society's compliance with regulations affecting our customers and to ensure that the correct culture in terms of 'treating customers fairly' is adhered to and embedded in the Society. It is noted that the Society has a very low level of upheld complaints.

REGULATORY RISK

Regulatory risk is the risk of loss arising from failure to comply with statutory and regulatory requirements and the risk that the volume, complexity and cumulative effect of regulatory issues may impact the Society's ability to compete and function effectively. The amount of regulatory change from the many UK regulators who oversee the Society, principally the PRA and the FCA, have caused us to increase the resources in this area. We actively monitor emerging regulation and plan ahead to ensure that we remain compliant. The Society has also implemented those parts of the PRA's ring-fencing requirements that were relevant to it, the Payment Services Directive (PSD2), MIFID 2/ MIFIR and the General Data Protection Regulation (GDPR) during 2017 and 2018.

CLIMATE CHANGE

The Society also recognises the risks and challenges posed by climate change. Although the financial risks from climate change may only crystallise in full over longer time horizons, they are becoming apparent now. We particularly recognise two risks: physical and transitional. Physical risks relate to specific weather events such as flooding, or longer-term events such as rising sea levels. A key element of this risk is to property, both the Society's own properties and properties held as security for lending. Transition risks can arise from the process of adjustment towards a low-carbon economy. This could lead to a changing regulatory expectation in terms of the way the Society is expected to run its own business, including who it uses as suppliers. It may also impact property held as security, for example the energy efficiency

expectations of properties mortgaged for Buy to Let purposes. The Society is increasingly mindful of these risks when making business decisions, including mortgage underwriting ones. The Society monitors the loans portfolio for specific climate risks and uses this information to inform the key risk management processes such as the ICAAP. The Finance Director has responsibility for monitoring the financial risk presented by climate change risk at an operational level, with oversight provided by the Risk Committee.

During 2020 we commissioned an independent expert analysis of the Society's carbon footprint. The conclusion was that it is relatively small and we have signed up to a carbon offset scheme to become carbon neutral. We recognise however that offsetting emissions is not enough and in 2022 took steps to further reduce our carbon footprint. These included upgrading our air conditioning systems to incorporate low impact coolants and obtaining planning permission for the installation of solar panels and EV (Electric Vehicle) charging points at our Head Office in Epsom. These projects should be completed in 2023. We are also introducing a staff scheme to facilitate the use of EV vehicles in place of ICE (Internal Combustion Engine) vehicles.

LOAN PERFORMANCE

Changes in the economy potentially have a mixed impact on the credit risk of the Group's mortgage and commercial loans, despite the strict criteria that the Group applies to all of its lending operations. A stressed economy, particularly high unemployment levels, may increase arrears and defaults on loans. In the medium term, interest rates may rise which becomes more likely if inflation increases further. This could lead to fresh affordability issues. These concerns are factored into our underwriting process which is based on individual case assessment by experienced personnel, low LTVs and the affordability requirements of the regulators.

The Society monitors the payment performance of its existing loan book very closely and proactively contacts borrowers in the event of any potential difficulties so that the Society can try and help alleviate the situation. Instances of arrears in payments are followed up promptly and the full range of forbearance options is considered. These usually include either a temporary reduction in the monthly repayment amount, temporary transfer of the mortgage to interest-only terms or an extension of the term. These actions, designed primarily to assist borrowers facing short-term difficulties, are taken after an individual assessment of the case has been undertaken to ensure that the action is in the

"Recently opened a new savings account. Application process was clear & simple and the account opening went totally seamlessly, including transferring - in funds from another bank. FBS have clearly perfected their systems & processes. Very impressive. Top marks FBS!"

CUSTOMER COMMENT

best interests of both the borrower and the Society. In some instances foreclosure can result in a better outcome for the borrower than temporary help.

Forbearance is also taken account of in the exercise designed to highlight impaired loans and determine appropriate, prudent loss provisioning. This is covered by a specific policy on forbearance.

LIFETIME MORTGAGES

There are a number of risks and uncertainties in respect of the Group's Lifetime Mortgage portfolio that may affect its performance and ultimate recoverability. As a result of the NNEGs noted above, a reduction in mortality/morbidity levels or a reduction in HPI or an increase in its volatility or a lack of maintenance of the underlying property could result in increases to the NNEG valuation. The NNEG valuation is also subject to movements in long term interest rates.

The NNEGs are treated as an embedded derivative under FRS 102, see Note 2.

The Group has hedged some of the risks relating to its Lifetime Mortgage portfolios with an interest rate derivative, the notional value of which varies with the underlying amount of the mortgages. It is subject however to maximum and minimum boundary amounts. The Lifetime Mortgages have pre-paid more quickly than expected so that the value of the portfolio was lower than the minimum boundary at times. This had an adverse effect on the effectiveness of the hedge and resulted in a charge to the income statement. Assumptions regarding the future prepayment levels can also affect this valuation. The assumptions underlying the projections of the Lifetime Mortgages and swap valuations may turn out not to be right. Changes in interest rates also affect the value of the ineffectiveness and these factors can cause profit volatility. The level of interest rates also affects the amount of collateral required to support derivative transactions. The higher the collateral level the more funding is required to maintain adequate liquidity which represents a cost to the Society. The Society monitors the risks associated with the lifetime portfolios and their hedging carefully and will take mitigating action where appropriate.

PENSION SCHEME

The Society has a funding obligation for 'The Pensions Trust 2016 - National Counties Building Society Pension and Life Assurance Scheme', a separate trustee-administered defined benefit pension scheme. This obligation gives rise to the risk that additional funding may be required should the value of the Scheme's assets, together with ongoing employer and member contributions, be insufficient to cover the accrued scheme member benefits. A full actuarial valuation is carried out by a qualified independent actuary every three years and the latest of these was as at 30 September 2020. The scheme deficit at this year end was £574,000 (2021: surplus of £115,000).

The Board will continue to monitor the funding of the Scheme to ensure that they continue to meet the Pension Ombudsman's requirements to remove any deficit over time, either through higher monthly contributions or lump sum payments.

In order to reduce the exposure to further actuarial risks, the Society decided to cease further accrual in the final salary part of the scheme from May 2013, with all employees being eligible for the hybrid cash benefit part of the scheme instead. In January 2015, the Society closed this remaining part of the scheme to new employees, who are eligible instead for a cash contribution scheme which does not present any future actuarial risk for the Society.

OTHER UNCERTAINTIES

The Society pays levies to the FSCS as explained in the Directors' Report and Note 28. Levies will continue to be made in future years in order to pay the Scheme's liabilities. The levy will vary depending on the interest rate charged by the Government to the FSCS, as well as the Society's share of total deposits covered by the FSCS. Should further financial institutions fail and the FSCS covered losses increase, further levies would become payable. The future FSCS cost is therefore uncertain.

The Society is also subject to general business risk from economic uncertainty and competition from existing and new entrants to the sector and key-man risk.

Andrew Barnard
Group Finance Director
6 March 2023

Directors' Report

THE DIRECTORS HAVE PLEASURE IN PRESENTING THEIR ANNUAL REPORT, TOGETHER WITH THE ANNUAL ACCOUNTS AND ANNUAL BUSINESS STATEMENT OF THE SOCIETY AND ITS SUBSIDIARY UNDERTAKINGS (THE GROUP) FOR THE YEAR ENDED 31 DECEMBER 2022.

INFORMATION ON THE GROUP'S STRATEGY AND BUSINESS REVIEW IS CONTAINED IN THE STRATEGIC REPORT, CHAIRMAN'S STATEMENT AND CHIEF EXECUTIVE'S REVIEW.

ASSETS & LIABILITIES

The Group total assets at 31 December 2022 were £2,402 million (2021: £2,338 million).

Total loans and advances to customers at the year-end were £1,813 million (2021: £1,866 million). At 31 December 2022, a total provision of £0.4 million, comprising £0.1 million individual impairment and £0.3 million collective (2021: £0.6 million, comprising £0.4 million individual impairment and £0.2 million collective), was made in the Annual Accounts for possible credit losses. Mortgage arrears are detailed in the Strategic Report.

Liquid assets amounted to £496 million at the year-end (2021: £441 million), representing 23% (2021: 21%) of total shares and borrowings and 21% (2021: 19%) of total assets of the Group. Changes in tangible fixed assets during the year are detailed in Note 17a to the Accounts and in intangible fixed assets in Note 17b.

Savers' share balances totalled £1,743 million at 31 December 2022 (2021: £1,661 million) and deposits by credit institutions and other customers amounted to £401 million at the year-end (2021: £421 million), representing 19% (2021: 20%), of total shares and borrowings.

PROFIT & CAPITAL POSITION

The Group operating profit before impairment losses and provisions was £32.3 million (2021: £21.9 million). After impairment losses and provisions, the Group profit before tax was £32.3 million (2021: £22.5 million). The Group profit for the year after tax was £25.5 million (2021: £18.5 million).

The Group's capital position is represented by general reserves and the Available for Sale (AFS) reserve. Group gross capital at 31 December 2022 amounted to £156.5 million, an increase from 2021's £133.7 million. Gross capital represented 6.5% (2021: 5.7%) of Group total assets at the year-end, or 7.3% (2021: 6.4%) of total shares and borrowings. Group free capital (i.e. capital plus collective impairment provisions, less tangible and intangible fixed assets) amounted to £150 million at the end of the year (2021: £126 million), equivalent to 7.0% (2021: 6.0%) of total shares and borrowings. A key indicator of the Group's capital strength is its Common Equity Tier 1 capital ratio. At 31 December 2022 this ratio stood at 20.7%, (2021: 17.9%).

PAYMENTS TO SUPPLIERS

The Society is committed to maintaining good relationships with its suppliers and its practice has and will continue to be, to pay invoices within 14 days of receipt. The amounts owed to trade creditors at 31 December 2022, as a proportion of the amounts invoiced by suppliers during the full year, was equivalent to four days (2021: six days).

PRINCIPAL RISKS & UNCERTAINTIES

The principal business risks to which the Group and Society are exposed, which include credit, market, liquidity, operational, conduct and regulatory, are set out on pages 32 to 35. To the extent that these and other risks are affected by the UK's economic position over the next few years is a key consideration.

Further explanation and details of the approach the Board takes to managing these risks can be found in the Strategic Report on pages 16 to 35.

CORPORATE GOVERNANCE

The Society's approach to corporate governance is covered in the Report on Corporate Governance on pages 44 to 50. The Directors' responsibilities are set out on pages 56 and 57. The Society's charitable work is set out in the Corporate and Social Responsibility section of the Chief Executive's Review on page 14. No political donations were made in 2022 (2021: nil).

"Excellent Customer Service. Our Mortgage choices were clearly explained and we were even able to discuss our possible options moving forward in the years ahead."

CUSTOMER COMMENT

PILLAR 3 & COUNTRY-BY-COUNTRY REPORTING

The disclosures required for Pillar 3 risk reporting will be published on the Society's website. The requirements for Country-by-Country Reporting are disclosed in Note 32.

DIRECTORS

Full details relating to the Society's Directors can be found in the Annual Business Statement.

In accordance with the requirements of the Corporate Governance Code, to which the Society has due regard, all the Society's Directors, with the exception of Fiona Crisp and Chris Croft, are seeking re-election to the Board. In addition, our new Non-executive Director, Peter Navin, is standing for election.

In summary, the following Directors served during 2022:

- **Rodger Hughes**
(appointed Non-executive Director 2013)
- **Patrick Muir**
(appointed Non-executive Director 2015)
- **Andrew Barnard**
(appointed Executive Director 2018)
- **Mark Bogard**
(appointed Executive Director 2012)
- **Chris Croft**
(appointed Executive Director 2014, terminated 4 November 2022)
- **John Cole**
(appointed Non-executive Director October 2019)
- **Fiona Crisp**
(appointed Non-executive Director 2015, resigned 29 April 2022)
- **Peter Navin**
(appointed Non-executive Director 23 November 2022)
- **Susan Sharrock Yates**
(appointed Non-executive Director 2020)
- **Simon Wainwright**
(appointed Non-executive Director 2015)

At the end of the year, no Director had a beneficial interest in any shares or debentures of any connected undertaking of the Society.

In January 2023, Patrick Muir was awarded 40 B Ordinary Shares in Smart Money People Limited, a subsidiary company, under their share option scheme.

GOING CONCERN

The Society's and Group's business activities and objectives, together with the factors likely to affect its future development, performance and position, are set out in the Chief Executive's Review on pages 8 to 15 and the Strategic Report on pages 16 to 35. The financial and capital position of the Society and principal risks and uncertainties are described earlier within this Report and in the Strategic Report. The Society's position in respect of liquidity risk and other financial risks is shown in Note 29 to the Accounts.

The Group and Society meet their day-to-day liquidity requirements through managing both their retail and wholesale funding sources and are comfortably in excess of their regulatory capital requirements. The Board has made an assessment of going concern covering a period of at least 12 months from the date of approval of these financial statements. This assessment was based on forecasts prepared by the Group, which incorporated severe but plausible downside scenarios to stress test impacts on capital requirements and liquidity taking into account the PRA published stress test scenario for building societies not participating in the annual concurrent stress test, which includes the Society, published in February 2021. The Society's additional stress tests include stresses to longer term interest rates, margin, and house prices. Even after combining these stresses the Society continued to exceed its all-in regulatory capital requirement which is derived from stress tests considered to be at least as severe as the relevant Bank of England scenario. Based on the above, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for a period of at least 12 months from the date of approval of these financial statements. Therefore, they continue to adopt the going concern basis of accounting in preparing the Annual Accounts.

AUDITOR

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Society's auditor is unaware and each Director has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Society's auditor is aware of that information.

It is proposed that KPMG LLP are re-elected as the Society's auditor at the AGM in April 2023.

POST BALANCE SHEET EVENTS

In the Directors' opinion, no post balance sheet events have occurred since the year-end that would have a material effect on the financial position of the Group as disclosed in the Annual Accounts.

Rodger Hughes
Chairman
6 March 2023

Group Audit Committee Report

THE GROUP'S AUDIT COMMITTEE IS A SUBCOMMITTEE OF THE BOARD AND CONSISTS OF NON-EXECUTIVE DIRECTORS. IT IS CHAIRED BY JOHN COLE AN EX-EY PARTNER AND SIMON WAINWRIGHT AND PATRICK MUIR ARE MEMBERS. IT IS ATTENDED BY THE EXECUTIVE DIRECTORS, OTHER NON-EXECUTIVE DIRECTORS AND THE EXTERNAL AND INTERNAL AUDITORS WHERE APPROPRIATE.

Having only Non-executive Directors as members ensures the independence of the Committee. Following a competitive tender process in late 2016 for both internal and external audit work, the Society appointed KPMG as External Auditor and Deloitte as its Internal Auditor. The latter enhances the independence and skill set of the audit function compared with employing our own audit staff. Both KPMG and Deloitte have formally confirmed their independence for the year.

The Committee's purpose is to monitor the activities of the Internal Audit function to ensure that controls are in place and effective and to make recommendations to the Board upon any issues of concern. It also considers and reviews the findings arising from External Audit control and systems work and reviews, prior to approval by the Board, the final Annual Report and Accounts, Directors' Report and Summary Financial Statement.

The full Terms of Reference of the Committee can be found on the Society's website.

The Committee is required to self-assess its performance during the year. It is content that it has operated effectively, met its Terms of Reference and has the appropriate resources and experience of the financial sector to perform its role.

INTERNAL AUDIT

The Committee reviews the proposed Internal Audit programme of work regularly and as well as ensuring a balanced set of audits is performed across the whole business on a three-year cycle, it focuses the team on any particular areas of concern or attention that it would like audited. This includes any areas that the Society's regulators have identified specifically or across the sector as requiring review.

At each Committee the internal audit reports completed in the period are reviewed and management's responses challenged. If necessary, the Executive are required to follow up further on issues identified.

At the year end, the internal auditors produce an annual conclusion on the Governance, Risk and Control framework based on their work during the year which allows the Committee to form their own opinion on the internal control framework.

The Committee appoints and removes the Internal Auditors and monitors their performance. It also agrees their fees for the year.

The Committee has considered Deloitte's annual conclusion on the Governance, Risk and Control framework and is satisfied with the conclusion

of the report. It is also satisfied with Deloitte's independence and performance during the year and they have confirmed that they have sufficient resources to undertake their role.

EXTERNAL AUDIT

The Committee also recommends the appointment and removal of the External Auditors, subject to approval by Members at the Annual General Meeting, and monitors their performance and agrees their fees for the year. It also agrees any non-audit work carried out by the External Auditors to ensure there is no conflict of interest.

The Committee meets with the External Auditors to discuss key areas of significance and concern throughout the year. KPMG's views are considered together with the Committee's and the Executive's so that all the areas which should be given more focus and audited in more depth are identified, included in the audit plan and subsequently reviewed in more detail. These areas for 2022 are noted below. Any other findings and any management letter points are also reviewed and challenged.

The Committee has considered KPMG's interim audit report and final memorandum of findings for 2022 and is content with the conclusions and management's responses. It is also content with KPMG's independence and performance during the year.

FINANCIAL REPORTING

When producing the management and statutory financial statements, it is essential that they are produced in accordance with the applicable accounting standards, particularly in the Society's case, FRS 102 and IAS 39. The Accounting Policies need review to ensure that they are still applicable and challenged if necessary. It is also important that the Annual Report contains fair, balanced and understandable information for Members to assess the performance of the Society and its strategy, business model and governance. The Committee is satisfied that the 2022 Annual Report and Accounts do so and that the accounting policies are appropriate. In preparing the accounts a number of significant judgments, assumptions and estimates need to be made. These are noted in Note 2 of the Annual Report and Accounts. They are discussed with management and the External Auditors and for 2022 the following items were given particular attention.

LIFETIME MORTGAGES

The Group has a legacy portfolio of Lifetime Mortgages (LMs) with a book value at the year end of £157 million (2021: £163 million). It has a swap with a variable notional value which was taken out to hedge the LMs through their life against movements in market interest rates. The hedge accounting is complex with the expected cash flows generated by a model, in the absence of appropriate observable market data, which has longevity, morbidity, interest rates, future drawdowns and voluntary repayments as inputs. The Committee has reviewed and challenged the assumptions and treatment of the LM hedge accounting and is content with them.

The LMs also have a no negative equity guarantee (NNEG) included in their terms. For accounting purposes under IAS 39, this is treated as a derivative and must be fair valued with movements taken to the Income Statement. The valuation of the NNEG included with the Statement of Financial Position of £5.7 million (2021: £13.5 million), depends on expected future loan balances which are driven by actuarial mortality and morbidity assumptions, voluntary repayment assumptions, interest rates on the loans, predicted property sale costs and assumptions for long term house price movements and volatility. The Committee has reviewed and challenged the appropriateness of all the assumptions that underpin the valuation of the NNEG and have agreed the assumptions made are reasonable.

HEDGE ACCOUNTING

The Society adopts hedge accounting in accordance with IAS 39 where it uses interest rate swaps to hedge the risk of changes in interest rate risk. This reduces the volatility through the Income Statement from valuations of the swaps. It is used for its main residential mortgage portfolio, for its asset swapped gilts and its Lifetime Mortgage portfolio. The fair value ascribed to these net assets (2021: liabilities) in the Statement of Financial Position is £52 million (2021: liability of £85 million).

The Committee considered the appropriateness of the hedging arrangements and processes and agreed them and that they had been applied in accordance with IAS 39.

PROVISIONS

The Group makes provisions against loans that have suffered impairment as at the balance sheet date but not yet crystallised in accordance with IAS 39. These are either individual or collective. This involves making assumptions about default rates, emergence periods and loss given default rates.

At 31 December 2022 the Group had total impairment provisions of £0.4 million (2021: £0.6 million) – see Note 10a of the Annual Report and Accounts for more detail. Provisions against the LMs are effectively covered by the valuation of the NNEG instead of a provision.

The Committee reviewed and challenged the level of impairment provisions and the assumptions used in their calculation and is satisfied with the outcome.

REVENUE RECOGNITION

Income and expenditure are recognised in accordance with the accounting policies and standards with accruals and prepayments made to allocate it to the correct accounting period. One area that relies significantly on assumptions and estimations is with the application of Effective Interest Rates (EIR). The intention is to spread the overall interest and fees received and paid on lending and borrowing over the expected life of the loan by adjusting the effective interest rate accordingly. This mainly applies to fees received and paid on mortgages and assumptions have been made about the expected lives of the mortgages based on behavioural analysis. During the year, the Society adopted external software to provide a more robust approach to the monthly EIR accounting estimation process. At the year end, the Society had a deferred net asset of £4.1 million (2021: £2.8 million) and the Group had a deferred net asset of £4.8 million (2021: £3.6 million) which were included in the balance sheet.

The Committee reviewed the analysis of the impact of the transition to the new EIR software application and the assumptions and estimates made, including the redemption profiles, and agreed the judgments made were reasonable.

INVESTMENT PROPERTY

In 2018 the Society entered into a partnership with Arden & Sons Limited, to acquire, refurbish and let property to residential tenants. The investment properties of £11.5 million (2021: £10.6 million) are included within the Statement of Financial Position using independent open market valuations provided by a suitably qualified RICS surveyor.

The Committee considered the appropriateness of the valuations and are content with the outcome.

PENSIONS

The Group operates a defined benefit pension scheme. A full actuarial valuation is performed by a qualified independent actuary every three years and the last actuarial valuation was carried out as at 30 September 2020.

The Group's pension scheme obligation included within the Statement of Financial Position is based on the results of the last actuarial valuation rolled forward to the reporting date to take account of the passage of time, the accrual of new benefits for active members, membership movements, actual revaluation of deferred benefits, expected benefits paid out of the Scheme and changes in actuarial

assumptions between 30 September 2020 and 31 December 2022. The figure included within the Statement of Financial Position at 31 December 2022 is a deficit of £574,000 (2021: surplus of £115,000).

The Committee reviewed and challenged the assumptions used in calculating the pension scheme obligation included with the Statement of Financial Position and agreed the judgements made were reasonable.

INVESTMENT IN SMART MONEY PEOPLE

The Society is required to perform an annual impairment test using a discounted cashflow methodology to support the value of goodwill the Society holds on the Group balance sheet, relating to the acquisition of the shares in Smart Money People (SMP). Based on the latest forecasts of SMP, which reflect the increased investment to support the accelerated growth plans, SMP is expected to incur increased losses in the near term. As a result of this review, the Society has made a provision against the loan provided to SMP to date, and written off all but £56,000 of the investment cost in SMP, resulting in a charge of £1.9 million in the Society. This values the Society's investment in SMP at £0.1 million at the year end. At a Group level, the remaining balance of goodwill of £0.9 million has been written off in full in 2022.

The Committee has reviewed the annual SMP impairment test and is satisfied that the resulting write-down of the goodwill and investment cost, and provision made against the loan, are reasonable.

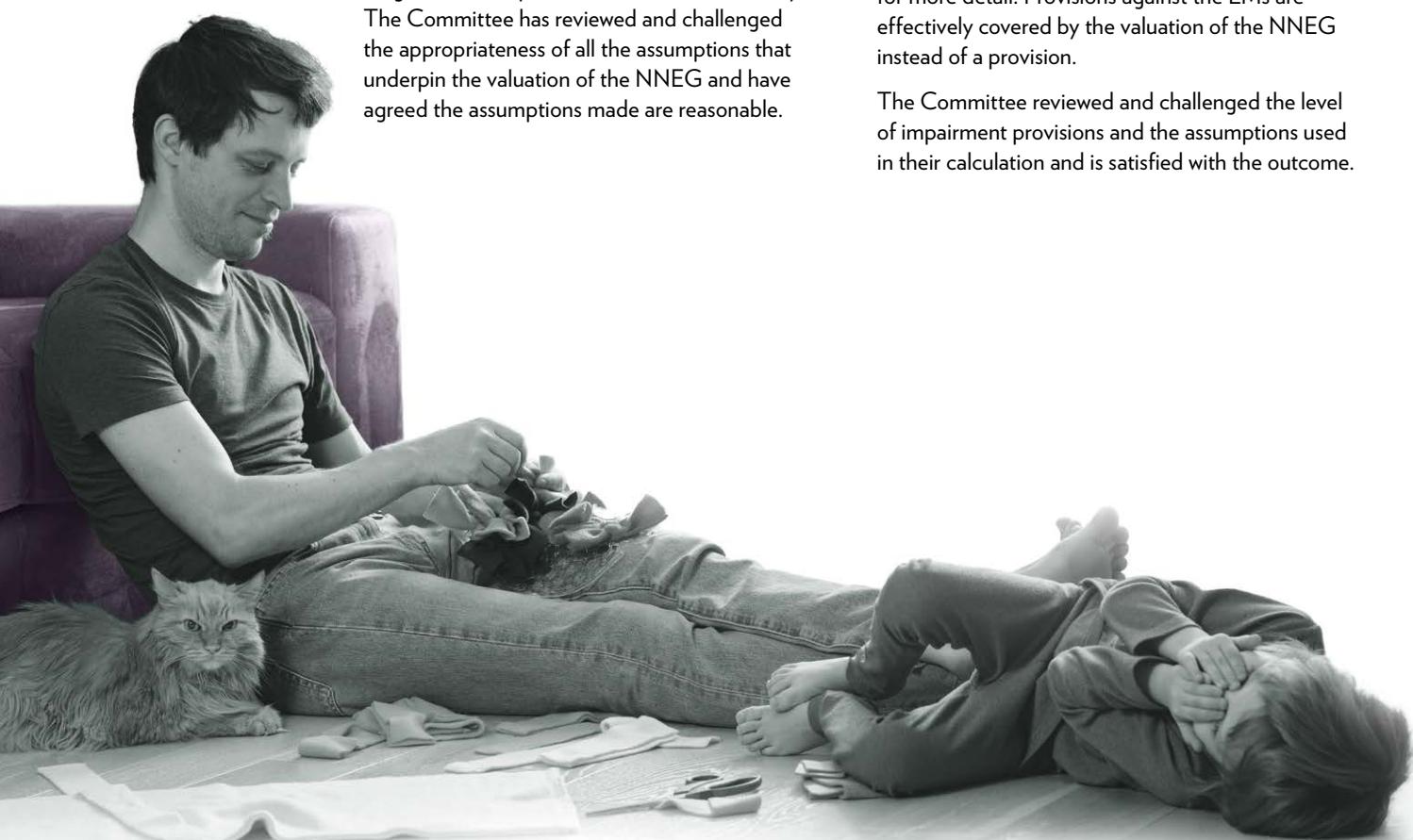
GOING CONCERN

The Committee has reviewed management's assessment of its viability for the foreseeable future as noted in the Directors' Report on page 39 and its assessment of the current situation within the UK economy and housing market as noted in the Strategic Report on pages 16 to 35 and agrees with their opinion that the Group is a going concern and that is the appropriate basis for preparing the Annual Report and Accounts.

John Cole
Chairman, Group Audit Committee
6 March 2023

"FBS have clearly perfected their systems & processes."

CUSTOMER COMMENT

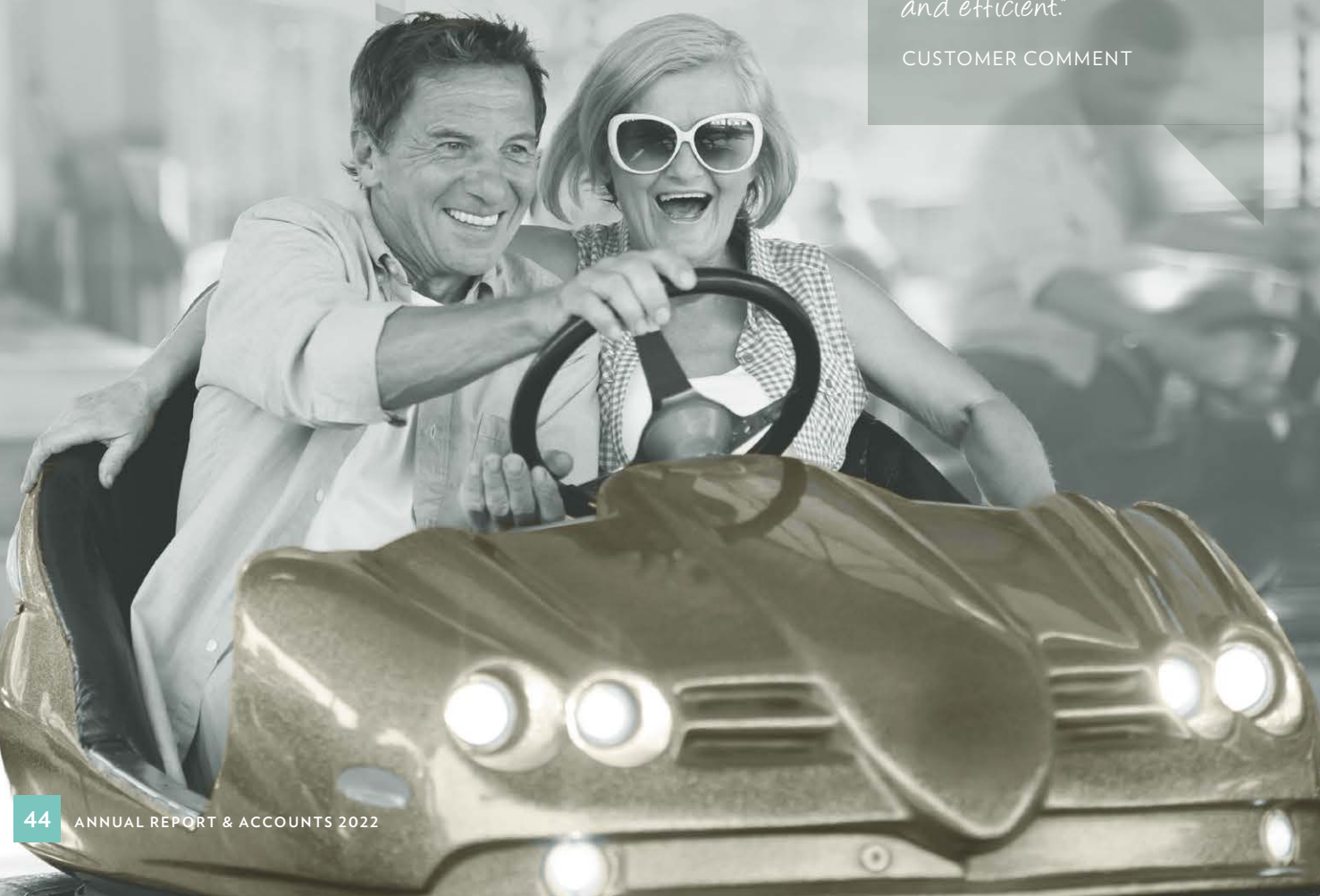


Report on Corporate Governance

THE BOARD IS COMMITTED TO BEST PRACTICE IN CORPORATE GOVERNANCE. THIS REPORT EXPLAINS HOW THE SOCIETY HAS REGARD TO THE PRINCIPLES IN THE UK CORPORATE GOVERNANCE CODE ISSUED BY THE FINANCIAL REPORTING COUNCIL IN JULY 2018 (THE CODE), WHICH IS THE PREVAILING GUIDANCE FOR THE YEAR COVERED BY THIS REPORT.

"Fantastic lender. Family offer some great products along with criteria that fits clients that do not generally fit mainstream lenders. The underwriting process is very personalised and efficient."

CUSTOMER COMMENT



The Code was designed for listed companies and there are a small number of provisions which are either disproportionate or not relevant to a mutual organisation of our size. The areas of non-compliance during the year were:

- Provision 3 which requires the Chair and Committee Chairmen to seek regular engagement with major shareholders and to relay their views to the Board as a whole.
- Provision 41 which includes requirements to describe the engagement that has taken place with shareholders and the impact this has had on remuneration policy and outcomes and to describe the engagement with the workforce to explain how executive pay aligns with the wider employee pay policy.

As a mutual organisation owned by its members, we do not have major shareholders and the above provisions are therefore not relevant to the Society.

- Provision 10 under which one of the criteria for assessing the independence of the Non-executive Directors is whether they have served on the Board for more than 9 years from the date of their appointment. The Chairman was appointed to the Board in July 2013 and has therefore served on the Board for more than 9 years. More detail is provided in the section on Composition, Succession and Evaluation on page 48.

BOARD LEADERSHIP AND COMPANY PURPOSE

CODE PRINCIPLE A.1:

A: A SUCCESSFUL COMPANY IS LED BY AN EFFECTIVE AND ENTREPRENEURIAL BOARD, WHOSE ROLE IS TO PROMOTE THE LONG-TERM SUSTAINABLE SUCCESS OF THE COMPANY, GENERATING VALUE FOR SHAREHOLDERS AND CONTRIBUTING TO WIDER SOCIETY.

B: THE BOARD SHOULD ESTABLISH THE COMPANY'S PURPOSE, VALUES AND STRATEGY, AND SATISFY ITSELF THAT THESE AND ITS CULTURE ARE ALIGNED. ALL DIRECTORS MUST ACT WITH INTEGRITY, LEAD BY EXAMPLE AND PROMOTE THE DESIRED CULTURE.

C: THE BOARD SHOULD ENSURE THAT THE NECESSARY RESOURCES ARE IN PLACE FOR THE COMPANY TO MEET

ITS OBJECTIVES AND MEASURE PERFORMANCE AGAINST THEM. THE BOARD SHOULD ALSO ESTABLISH A FRAMEWORK OF PRUDENT AND EFFECTIVE CONTROLS, WHICH ENABLE RISK TO BE ASSESSED AND MANAGED.

D: IN ORDER FOR THE COMPANY TO MEET ITS RESPONSIBILITIES TO SHAREHOLDERS AND STAKEHOLDERS, THE BOARD SHOULD ENSURE EFFECTIVE ENGAGEMENT WITH, AND ENCOURAGE PARTICIPATION FROM, THESE PARTIES.

E: THE BOARD SHOULD ENSURE THAT WORKFORCE POLICIES AND PRACTICES ARE CONSISTENT WITH THE COMPANY'S VALUES AND SUPPORT ITS LONG-TERM SUSTAINABLE SUCCESS. THE WORKFORCE SHOULD BE ABLE TO RAISE ANY MATTERS OF CONCERN.

SOCIETY'S APPROACH

The Society's Board is collectively responsible for the long-term success of the organisation. Its principal function is to determine the strategy and policies of the Society within an effective control framework which enables risk to be assessed and managed. The Board has responsibility for ensuring that the necessary financial and human resources are in place for the Group to meet its objectives and that business and management performances are reviewed. Furthermore, the Board ensures that the Group operates within the Society's constitution, relevant legislation and regulation and that proper accounting records and effective systems of business control are established, maintained, documented and audited.

The Board reviews the Society's strategy and the sustainability of the Society's business model on a regular basis and each year holds a meeting focussed solely upon reviewing the long-term strategy and sustainability of the Society's business model.

The Board assesses and monitors the Society's culture through a number of ways such as key performance indicators, customer feedback and employee surveys, and reports from the Diversity & Inclusion Officer. The Society is committed to promoting equal opportunities in employment and seeks to create an environment where the diverse backgrounds, experiences and opinions of its staff are respected and valued and add to the Society's ability to grow and offer excellent customer service.

The Board has a formal schedule of matters which are reserved for its consideration at its meetings and it has established four Committees to consider specific issues in greater detail, being the Group Audit, Board Risk, Remuneration and Nomination Committees. The Terms of Reference for each of these Committees are published on the Society's website.

GROUP AUDIT COMMITTEE

The Group Audit Committee meets at least four times each year and comprises three Non-executive Directors, currently John Cole (Chairman), Simon Wainwright and Patrick Muir. The Chairman of the Board, the Executive Directors and representatives from the internal and external auditors attend by invitation. Its role is described more fully below.

More details relating to the role of the Group Audit Committee can be found in the Group Audit Committee Report on pages 40 to 43.

BOARD RISK COMMITTEE

The Board Risk Committee comprises three Non-executive Directors, currently Simon Wainwright (Chairman), John Cole and Susan Sharrock Yates. The Executive Directors, the Chief Risk Officer and the Operational Risk Manager attend by invitation. The Committee meets at least four times a year and is responsible for reviewing the Society's risk management framework as described later.

REMUNERATION COMMITTEE

The Remuneration Committee usually meets at least three times a year and comprises three Non-executive Directors, Patrick Muir, Simon Wainwright and Rodger Hughes, with the Chief Executive attending by invitation. It is currently chaired by Patrick Muir and is responsible for determining the remuneration of all Executive Directors and functional Directors and for oversight of the remuneration policies within the Society. It also sets the additional payments for the Chairman of the Board, the Chairmen of the Group Audit, Remuneration and Board Risk Committees and the Senior Independent Director, with Committee members not taking part in discussions concerning their own remuneration. More detail relating to the role of the Remuneration Committee can be found in the Report on Remuneration on pages 52 to 55.

NOMINATION COMMITTEE

The Nomination Committee, which meets at least once a year, is comprised of the Society's Chairman (Rodger Hughes), the Senior Independent Director

(Patrick Muir) and the Chief Executive. It is chaired by Rodger Hughes and is responsible for making recommendations to the Board on matters relating to the composition of the Board, including Executive and Non-executive Director succession planning, the appointment of new Directors and the election and re-election of Directors. It is responsible for reviewing the diversity policy and practices within the Society and making recommendations about any imbalances.

STAKEHOLDER ENGAGEMENT

As a mutual body, the Society does not have institutional shareholders but has a membership composed of individuals, all of whom are also customers of the Society. Periodic customer newsletters are produced and mailings undertaken to ensure that Members are kept informed of developments, with reaction and feedback encouraged. As the Members are individuals and the majority are spread across the United Kingdom it is not practicable for the Society to have regular informal meetings with them. However, the Society canvasses Members' views through an annual survey of all Members, sometimes through focus groups on specific strategic issues and through discussion at the Annual General Meeting. Specific market research is also undertaken on new product initiatives. Communication with Members is also increasingly undertaken through the Society's websites. The Senior Independent Director is the point of contact for Members if for any reason they feel communication with the Chief Executive or Chairman is inappropriate.

Each year the Society sends details of the AGM, including appointment of a proxy and voting forms, to Members who are eligible to vote. Consistent with the Code, the AGM voting forms include a 'Vote withheld' option. The Society's normal practice is that a poll is called in relation to each resolution at the AGM and all proxy votes cast are included in the voting results which are published subsequently on the Society's website. All members of the Board are normally present at the AGM each year and the Chairmen of the Board and its four Committees are therefore available to answer any questions.

The Society has a number of channels to engage with the workforce. Aside from informal contact, the Society conducts workforce engagement surveys. Regular focus groups are held on matters relevant to staff. Both the Society's internal auditors and the Human Resources Department have conducted reviews of internal culture. The Society has set up a staff forum to enable feedback from staff. In addition to whistleblowing procedures, the Board has

appointed a Non-executive Director to take specific responsibility for workforce engagement and to provide a conduit for staff to raise concerns.

Other key stakeholders are the Society's mortgage intermediaries and suppliers. The Society has a team of Business Development Managers who are in regular contact with mortgage intermediaries to update them on the Society's products and to act as a conduit with the Society for queries and issues. In recent years, the Society has been enhancing its procurement and supplier management framework to strengthen the oversight and relationship we have with our suppliers and to ensure risks are identified and appropriately managed. The performance of key suppliers is closely monitored on an ongoing basis to ensure compliance with service levels agreements.

DIVISION OF RESPONSIBILITIES

CODE PRINCIPLES:

F: THE CHAIR LEADS THE BOARD AND IS RESPONSIBLE FOR ITS OVERALL EFFECTIVENESS IN DIRECTING THE COMPANY. THEY SHOULD DEMONSTRATE OBJECTIVE JUDGMENT THROUGHOUT THEIR TENURE AND PROMOTE A CULTURE OF OPENNESS AND DEBATE. IN ADDITION, THE CHAIR FACILITATES CONSTRUCTIVE BOARD RELATIONS AND THE EFFECTIVE CONTRIBUTION OF ALL NON-EXECUTIVE DIRECTORS, AND ENSURES THAT DIRECTORS RECEIVE ACCURATE, TIMELY AND CLEAR INFORMATION.

G: THE BOARD SHOULD INCLUDE AN APPROPRIATE COMBINATION OF EXECUTIVE AND NON-EXECUTIVE (AND IN PARTICULAR, INDEPENDENT NON-EXECUTIVE) DIRECTORS, SUCH THAT NO ONE INDIVIDUAL OR SMALL GROUP OF INDIVIDUALS DOMINATES THE BOARD'S DECISION MAKING. THERE SHOULD BE A CLEAR DIVISION OF RESPONSIBILITIES BETWEEN THE LEADERSHIP OF THE BOARD AND THE EXECUTIVE LEADERSHIP OF THE COMPANY'S BUSINESS.

H: NON-EXECUTIVE DIRECTORS SHOULD HAVE SUFFICIENT TIME TO MEET THEIR BOARD RESPONSIBILITIES. THEY SHOULD PROVIDE CONSTRUCTIVE CHALLENGE, STRATEGIC GUIDANCE, OFFER SPECIALIST ADVICE AND HOLD MANAGEMENT TO ACCOUNT.

I: THE BOARD, SUPPORTED BY THE COMPANY SECRETARY, SHOULD ENSURE THAT IT HAS THE POLICIES, PROCESSES, INFORMATION, TIME AND RESOURCES IT NEEDS IN ORDER TO FUNCTION EFFECTIVELY AND EFFICIENTLY.

The offices of Chairman and Chief Executive are distinct in their purpose and held by different people. The role of each is set out in their terms of appointment and service contract respectively. The Chairman sets the direction of the Board and promotes a culture of openness and debate by facilitating the effective contribution of Non-executive Directors and ensuring constructive relations between Executive and Non-executive Directors. The Chairman also ensures that Directors receive accurate, timely and clear information. The Chief Executive is responsible for managing the Society's business and operations on a day-to-day basis within the parameters set by the Board.

At the year end, the Board comprised Six Non-executive Directors (including the Chairman) and two Executive Directors. All Non-executive Directors are considered by the Board to be independent in character and judgement and to have an appropriate balance of skills and experience. They are all also considered to be free of any relationship or circumstances which could materially interfere with the exercise of their judgement, impede the provision of constructive challenge to management and provide assistance with the development of strategy. The Vice Chairman is designated to be the Senior Independent Director, to act as a sounding board for the Chairman and an intermediary for the other Directors when necessary. The Board and the Nominations Committee consider the overall Board skills and are satisfied as to the overall balance of skills which was endorsed by the last external review of board effectiveness referred to below. The Society also maintains a Board Skills matrix to record the skills and experience of the Directors which is reviewed from time to time. In addition, the Society makes available skills training to the Directors on relevant regulatory and technical matters. Each Board Member has a written responsibility statement.

Attendance of Directors at the Board and its committees during 2022 is shown in the table below, with the total number of meetings each Director was eligible to attend shown in brackets.

DIRECTOR	BOARD	AUDIT	RISK	REMUNERATION	NOMINATION
Rodger Hughes	10 (10)			4 (4)	3 (3)
Patrick Muir	10 (10)	4 (4)		4 (4)	3 (3)
John Cole	10 (10)	4 (4)	4 (4)		
Fiona Crisp*	3 (3)	1 (1)	1 (1)		
Simon Wainwright	10 (10)	3 (4)	4 (4)	4 (4)	
Susan Sharrock Yates	10 (10)		4 (4)		
Mark Bogard	10 (10)				3 (3)
Chris Croft**	9 (9)				
Andrew Barnard	10 (10)				

* Fiona Crisp retired in April 2022

** Chris Croft ceased to be a Director in November 2022

The Chairman ensures that the Board receives accurate, timely and clear information in a form and of sufficient quality to enable it to fulfil its responsibilities, with a review being undertaken by the full Board at least annually. The scope and content of management information presented to the Board is subject to regular assessment and to internal audit. All Directors have access to the advice and services of the Secretary who is responsible for ensuring compliance with all Board procedures and advising the Board on governance matters.

COMPOSITION, SUCCESSION AND EVALUATION

CODE PRINCIPLES

J: APPOINTMENTS TO THE BOARD SHOULD BE SUBJECT TO A FORMAL, RIGOROUS AND TRANSPARENT PROCEDURE AND AN EFFECTIVE SUCCESSION PLAN SHOULD BE MAINTAINED FOR BOARD AND SENIOR MANAGEMENT. BOTH APPOINTMENTS AND SUCCESSION PLANS SHOULD BE BASED ON MERIT AND OBJECTIVE CRITERIA AND, WITHIN THIS CONTEXT, SHOULD PROMOTE DIVERSITY OF GENDER, SOCIAL AND ETHNIC BACKGROUNDS, COGNITIVE AND PERSONAL STRENGTHS.

K: THE BOARD AND ITS COMMITTEES SHOULD HAVE A COMBINATION OF SKILLS, EXPERIENCE AND KNOWLEDGE. CONSIDERATION SHOULD BE GIVEN TO THE LENGTH OF SERVICE OF THE BOARD AS A WHOLE AND MEMBERSHIP REGULARLY REFRESHED.

L: ANNUAL EVALUATION OF THE BOARD SHOULD CONSIDER ITS COMPOSITION, DIVERSITY AND HOW EFFECTIVELY MEMBERS WORK TOGETHER TO ACHIEVE OBJECTIVES. INDIVIDUAL EVALUATION SHOULD DEMONSTRATE WHETHER EACH DIRECTOR CONTINUES TO CONTRIBUTE EFFECTIVELY.

The Society's Rules require that all Directors are submitted for election at the AGM following their first appointment to the Board, except where their appointment occurs in the period between the end of the Society's financial year and the AGM itself, in which case they must seek election at the AGM in the following year. The Board has also agreed that in line with the recommendations of the Code, all Directors should seek re-election every year. The Board's policy with regard to maintaining the independence of Non-executive Directors is that they can normally expect to serve between 6 and 9 years, with the exception of the Chairman who may serve a maximum of 12 years. These terms may be extended if the Nomination Committee is satisfied that the relevant Director continues to make a particularly valuable contribution and remains independent.

The Nomination Committee is responsible for recommending to the Board whether an individual should be submitted for re-election. Appointments lasting beyond six years are subject to particularly rigorous annual review, reflecting the need for progressive refreshment of the Board.

The Chairman has now served on the Board for more than 9 years. Whilst this is within the Board's policy, as noted above, it is not in line with the principle in the Code that the tenure of non-executive directors should not exceed 9 years. This has been considered by the other Board members and they were satisfied that the Chairman continues to be independent and that it was in the best interests of the Society's members to retain the services of the Chairman beyond 9 years and plans have been made for his succession.

The Nomination Committee which comprises the Chairman, the Senior Independent Director and the Chief Executive undertakes the assessment of the balance of skills, experience, independence and knowledge on the Board against the requirements of the business, with a view to determining whether any shortages exist. Having completed the assessment, the Committee makes recommendations to the Board accordingly. Appointments to the Board are made on merit, with due regard to the benefits of diversity, including age, experience, gender and cognitive diversity. Candidates for Non-executive Directorship are identified in a variety of ways as determined by the Nomination Committee, including the use of recruitment specialists, notification in the Society's periodic newsletters to customers and through press advertisements. All new Directors also normally require approval by the Prudential Regulation Authority and the Financial Conduct Authority, and their appointment is subject to such approval. Directors who do not hold specific Senior Management Functions may only be subject to notification to the PRA and the FCA in which case their appointment is subject to such notification.

The Society's Secretary and Executive Director, Chris Croft, left the Society in November. The Deputy Secretary, Kathy Mendoza, has been promoted to Secretary and Chris's other duties as an Executive Director have been taken on by other members of the executive team.

Following the retirement of Fiona Crisp at last year's AGM, Peter Navin was appointed to the Board in November. The Society appointed a specialist search firm, Redgrave Partners, to facilitate the independent external search process. Redgrave Partners have no connection with the Society or individual Directors of the Society.

All new Directors undergo formal induction with any training or development needs being identified during this process and in the course of the annual performance evaluations referred to below. Directors continue to attend external and internal seminars and presentations to maintain and update their knowledge and skills and the Society has introduced e-Learning programmes for Directors. Directors are required to complete certain modules which the Society considers appropriate and necessary to the requirements of the Society business and regulatory regime.

A formal internal process exists to evaluate, on an annual basis, the performance and effectiveness of individual Directors and of the Board and its Committees. The Non-executive Directors are evaluated by the Chairman, taking into account the views of other Directors, and the Chairman is evaluated by the Vice Chairman, as Senior Independent Director, also having regard for the views of the other Directors. The Chief Executive's appraisal is conducted by the Chairman, after taking into account the views of other Directors and his immediate subordinates and the Chief Executive appraises the other Executive Directors again taking into account other Directors' views.

In accordance with the Code provisions applicable to larger companies, an external evaluation of the Board, its Committees and the Directors should be carried out every three years. The Board had an external evaluation carried out by BP&E Global which was presented to the Board in 2020. The Board is currently undertaking an evaluation being carried out by Thorburn McAlister. Thorburn McAlister have no connection with the Society or individual Directors of the Society.

“Probably the least complicated online savings account to set up and move money into. And very competitive interest rate.”

CUSTOMER COMMENT

AUDIT, RISK AND INTERNAL CONTROL

CODE PRINCIPLES

- M:** THE BOARD SHOULD ESTABLISH FORMAL AND TRANSPARENT POLICIES AND PROCEDURES TO ENSURE THE INDEPENDENCE AND EFFECTIVENESS OF INTERNAL AND EXTERNAL AUDIT FUNCTIONS AND SATISFY ITSELF ON THE INTEGRITY OF FINANCIAL AND NARRATIVE STATEMENTS.
- N:** THE BOARD SHOULD PRESENT A FAIR, BALANCED AND UNDERSTANDABLE ASSESSMENT OF THE COMPANY'S POSITION AND PROSPECTS.
- O:** THE BOARD SHOULD ESTABLISH PROCEDURES TO MANAGE RISK, OVERSEE THE INTERNAL CONTROL FRAMEWORK, AND DETERMINE THE NATURE AND THE EXTENT OF THE PRINCIPAL RISKS THE COMPANY IS WILLING TO TAKE IN ORDER TO ACHIEVE ITS LONG-TERM STRATEGIC OBJECTIVES.

The Board confirms that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for Members to assess the Society's performance, business model and strategy. The responsibilities of the Directors in relation to the preparation of the Society's accounts are set out on pages 56 to 57. The Chief Executive's Review, Strategic Report and the Directors' Report on pages 8 to 39 provide a detailed review of the Society's business activities and future prospects and include the statement that the Directors consider that the business is a going concern.

The Board is responsible for determining a framework for risk management and control, to include the Group's risk appetite and tolerance. Senior management are responsible for designing, operating and monitoring risk management and internal control processes in line with the risk appetite and tolerance while the Group Audit and Board Risk Committees, on behalf of the Board, are responsible for reviewing the adequacy and effective operation of these processes. The role of the Group Audit Committee is described below, while that of the Board Risk Committee is to provide the Board with independent assurance that the Group is operating specifically in accordance with the risk appetite parameters determined and

approved by the Board and to ensure that the outcomes for the Group's various activities are in line with those parameters. The system of internal control overall is designed to enable the Group to achieve its corporate objectives within the Board's pre-determined risk appetite, not to eliminate risk. The internal audit function, now undertaken by Deloitte LLP, provides independent and objective assurance that these processes are appropriate and effectively applied.

At the end of the year the Group Audit Committee comprised three Non-executive Directors. The Chairman of the Board is not a member of the Committee but may attend by invitation. The Board is satisfied that the Committee is comprised of members with recent relevant financial experience who are capable of discharging its duties and responsibilities. The role of the Committee is to review the integrity of the financial statements and the balance of information disclosed in the accompanying Directors' Report, Audit Committee Report and Strategic Report and to review the effectiveness of internal controls and risk management systems, to monitor and review the effectiveness of the internal audit function and to consider and recommend to the Board (for approval by the Members) the appointment or re-appointment of the external auditor. The Committee reviews and monitors the external auditor's objectivity, competence, effectiveness and independence, ensuring that if they or their associates are invited to undertake non-audit work it will not compromise auditor objectivity and independence. An annual assessment of the external audit is carried out. The Society has a policy on the provision of non-audit services by the external auditor which is overseen by the Audit Committee. No material non-audit services are provided by the external auditor.

The activities of the Group's internal audit function, which is undertaken by Deloitte LLP, are overseen by the Chief Risk Officer but the firm has direct access to the Committee Chairman.

The Report on Remuneration, prepared by the Chairman of the Society's Remuneration Committee, is to be found on pages 52 to 55 and explains how the Society complies with the Code Principles relating to remuneration. Details of Directors' Emoluments during 2022 can be found in Note 9 to the Accounts.

Rodger Hughes
Chairman
6 March 2023



Report on Remuneration

Patrick Muir

THIS REPORT ILLUSTRATES HOW THE SOCIETY HAS REGARDED TO THE PRINCIPLES SET OUT IN THE UK CORPORATE GOVERNANCE CODE 2018 RELATING TO REMUNERATION.

The Society has adopted a Remuneration Policy, which describes how the Society complies with the relevant sections of both the Prudential Regulation Authority's and the Financial Conduct Authority's Remuneration Code. This Policy is reviewed periodically by the Remuneration Committee. The Policy Statement is published on the Society's website.

The remuneration details of individual Directors are set out in Note 9 to the Accounts, which should be read in conjunction with this report.

REMUNERATION POLICIES

CODE PRINCIPLE P:

REMUNERATION POLICIES AND PRACTICES SHOULD BE DESIGNED TO SUPPORT STRATEGY AND PROMOTE LONG TERM SUSTAINABLE SUCCESS. EXECUTIVE REMUNERATION SHOULD BE ALIGNED TO COMPANY PURPOSE AND VALUES, AND BE CLEARLY LINKED TO THE SUCCESSFUL DELIVERY OF THE COMPANY'S LONG-TERM STRATEGY.

SOCIETY'S APPROACH

The Board has established a Remuneration Committee, which comprises three Non-executive Directors, Patrick Muir, Rodger Hughes and Simon Wainwright and is chaired by Patrick Muir. All of the Non-executive Directors are considered to be independent. Patrick Muir has been Chairman of the Remuneration Committee since 2016. The Remuneration Committee is responsible for setting the remuneration of the Executive Directors. The Committee also sets the additional payments for the Chairman of the Board, the Chairmen of the Group Audit, Remuneration and Board Risk Committees and the Senior Independent Director, with Committee members not taking part in discussions concerning their own remuneration. The basic Non-executive Director fee is set by the Executive Directors. Minutes of the Committee's meetings are distributed to all Board members, and the Chairman of the Committee reports at the Board meeting following a Committee meeting.

The Remuneration Committee is also responsible for oversight of the remuneration and reward structure for the Society as a whole. The Committee's Terms of Reference are published on the Society's website.

The Board believes that all employees should be fairly rewarded for their efforts. The aim of the Society's Remuneration Policy is therefore to achieve a fair level of financial reward for the Society's staff whilst avoiding incentives to take inappropriate levels of risk. Against this background the objectives of the Remuneration Policy include the following:

- To attract and retain staff with the appropriate skills, behaviour and motivation.
- To reward staff fairly, paying due regard to the statutory duties of equality and non-discrimination.
- To benchmark salaries and benefits against prevailing industry/sector/role norms.
- To take account of prevailing economic and employment trends.
- To prevent inappropriate risk-taking with the potential to damage the interests of the Society's stakeholders and the viability of the business.
- To ensure that remuneration is aligned with the Society's strategy, purpose and values and is linked to successful delivery of that strategy.

"You always feel that you are being treated as an individual and their responses are so prompt and personal. Great service!"

CUSTOMER COMMENT

In line with the Board's approach, the Society's remuneration policy provides for the reward of Executive Directors through salaries and other benefits. The current overall package includes performance related pay which is linked both to individual performance and to delivery of the Society's strategy, further details of which are set out below.

PROCEDURES FOR DEVELOPING REMUNERATION POLICY

CODE PRINCIPLE Q:

A FORMAL AND TRANSPARENT PROCEDURE FOR DEVELOPING POLICY ON EXECUTIVE REMUNERATION AND DETERMINING DIRECTOR AND SENIOR MANAGEMENT REMUNERATION SHOULD BE ESTABLISHED. NO DIRECTOR SHOULD BE INVOLVED IN DECIDING THEIR OWN REMUNERATION OUTCOME.

SOCIETY'S APPROACH

In order to determine the policy for Executive Director remuneration and remuneration of senior management, the Remuneration Committee undertakes a review of the overall remuneration and incentive packages for the workforce of the Society as a whole. It takes into account salaries and benefits in the sector and the nature of the commitments and responsibilities associated with individual roles. Basic salaries payable to Executive Directors are reviewed periodically with reference to jobs carrying similar responsibilities in comparable financial organisations, market conditions generally and local employment competition in view of the Society's geographical position. In 2022, a benchmarking review was undertaken and it was decided that no significant adjustments were needed. The basic salaries of the Executive Directors were increased by 4% from 1 May 2022 in line with the award made to other staff in the Society.

The previous Medium Term Incentive Plan (MTIP) arrangement expired in 2021. A new 3-year MTIP scheme was put in place in 2022 which will end in 2024. The scheme is based on Key Performance Indicators (KPI's) which are aligned to the achievement of the corporate plan. A sum will be accrued each year based on performance in that year, and the resulting bonus will be paid in two instalments, 50% in 2025 and 50% in 2026.

Executive Directors are eligible to receive other taxable benefits including a car or car allowance and healthcare provision for themselves and their immediate family, standard professional body subscriptions. Travel and subsistence expenses are also met when the Executives undertake travel for business purposes.

In keeping with current recommended practice, the standard terms for any new Executive Director appointment include a contractual notice period of no more than 6 months by the Society and 6 months by the Executive Director. Andrew Barnard has a contract on this basis issued in 2018. Mark Bogard has a contract issued in 2012 on the basis previously adopted by the Society which requires 12 months' notice to be given by the Society and 6 months to be given by the Executive Director.

In the light of the continuing exceptional performance of the Society's staff during 2022, the Remuneration Committee has decided that a variable pay award should be awarded to the Executive Directors and nearly all staff. Variable pay awards are made on the basis of individual performance and payable in cash. Details of the awards to Executive Directors are set out in note 9 to the accounts.

No Executive Director has any involvement in determining their own pay.

NON-EXECUTIVE DIRECTORS' REMUNERATION

Non-executive Directors do not receive any benefits other than their fees and travelling and training expenses for which they may be reimbursed. The level of fees payable to Non-executive Directors is assessed using benchmarks from a group of comparable financial organisations. In recognition of the increased responsibility associated with the roles, additional fees are paid to the Chair of the Board Sub-Committees and the Senior Independent Director. A benchmarking exercise was completed in 2022 and it was decided that no significant changes to the fees were required. Non-executive Directors' fees were increased by 4% from 1st May 2022 in line with increases awarded to Society staff. This increase was recommended by the Executive Directors in accordance with the Society's Remuneration Policy as noted below.

No Non-executive Director has any involvement in determining their own pay.

INDEPENDENT JUDGEMENT

CODE PRINCIPAL R:

DIRECTORS SHOULD EXERCISE INDEPENDENT JUDGEMENT AND DISCRETION WHEN AUTHORISING REMUNERATION OUTCOMES, TAKING ACCOUNT OF COMPANY AND INDIVIDUAL PERFORMANCE, AND WIDER CIRCUMSTANCES.

SOCIETY'S APPROACH

All members of the Remuneration Committee are independent Non-executive Directors. They rely on both performance assessment and independently verifiable information about the Society's performance and market information to make determinations of remuneration policy and outcomes. The Committee may consult external advisers on pay and rewards and a benchmarking exercise was conducted in 2022. No significant adjustments to Executive pay were required as a result of this exercise.

The operation of remuneration policy within the work force as a whole is based upon criteria set out by the Board or the Remuneration Committee. Annual pay reviews for individuals within the work force are based on market data and are determined by the Executive Directors. Performance related pay (variable pay) is awarded from a pool allocated by the Remuneration Committee based upon the performance of the Society and allocated to individual staff members in accordance with a defined scheme. The initial allocations are made by the management of the Society and the operation and application of the scheme is independently reviewed by the Executive Directors. Awards for certain staff are reviewed by the Remuneration Committee.

In the face of the cost of living strain, and the limited pay awards across previous years, an ex-gratia, flat, one off payment was agreed for all staff below ExCo level. This was paid in two instalments in November and December.

It is the view of the Committee that Directors' remuneration for the year has been in accordance with the Society's stated Remuneration Policy. It is also the Committee's view that the Society's policy and practice has taken account of the principles of the UK Corporate Governance Code. On behalf of the Committee, I recommend that you endorse this report.

Patrick Muir
Chairman, Remuneration Committee
6 March 2023



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 laws 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 EACH OF 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 CONTROL

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.

DIRECTORS' RESPONSIBILITIES IN RELATION TO THE COUNTRY- BY-COUNTRY REPORTING (CBCR) INFORMATION

The CBCR Information comprises the information disclosed below.

The Directors of the Society are responsible for preparing the CBCR Information for the year ended 31 December 2022 in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013. In preparing the CBCR Information, the Directors are responsible for:

- *interpreting the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013;*
- *determining the acceptability of the basis of preparation of the CBCR information set out in Note 32;*
- *making judgements and estimates that are reasonable and prudent; and*
- *establishing such internal control as the Directors determine is necessary to enable the preparation of CBCR Information that is free from material misstatement, whether due to fraud or error.*

"We chose to apply with FBS because they use a very friendly, chatty approach, not the usual scripted call-centre 'I only do this for the money' approach."

CUSTOMER COMMENT



Independent auditor's report

to the members of National Counties Building Society

1. Our opinion is unmodified

We have audited the Group and Society annual accounts of National Counties Building Society ("the Society") for the year ended 31 December 2022 which comprise the Income Statements, Statements of Comprehensive Income, Statements of Financial Position, Statements of Changes in Members' Interests, Group Statement of Cash Flows, and the related notes, including the accounting policies in note 1.

In our opinion the annual accounts:

- give a true and fair view of the state of affairs of the Group and of the Society as at 31 December 2022 and of the income and expenditure of the Group and of the Society for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit Committee.

We were first appointed as auditor by the members in 2005. The period of total uninterrupted engagement is for the 18 financial years ended 31 December 2022. We have fulfilled our ethical responsibilities under, and we remain independent of the Group and Society in

accordance with, UK ethical requirements including the FRC Ethical Standard applicable to public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality:	£907k (2021:£740k)	
Group financial statements as a whole	0.6% (2021: 0.6%)	of net assets
Coverage	99.6% (2021:99.8%)	of Group net assets
Key audit matters vs 2021		
Recurring risks	Lifetime Mortgages	▲
	Impairment losses on loans and advances to customers	▲
	Valuation of gross defined benefit obligation and purchased annuity contracts	◀▶

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the annual accounts and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, 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. We summarise below the key audit matters (unchanged from 2021), in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. Each of these relate to the Group and Society. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the annual accounts as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

The risk	Our response
Lifetime mortgages	Our procedures included:
Valuation of the No Negative Equity Guarantee (NNEG)	— Historical comparisons: We assessed and challenged assumptions applied in the models against the Group's and Society's historical experience for voluntary prepayment. As part of this we analysed both current year and historical data sets to assess for trends. We compared assumptions against historical market data for house price growth and volatility. We considered whether the historical market data was reflective of future market trends and assessed the reasonableness of the consideration of the economic uncertainty relating to evolving macroeconomic risks;
£5.7m (2021: £13.5m)	— Benchmarking assumptions: We compared the house price growth and house price volatility assumptions to third party market data and industry comparable assumptions;
<i>Refer to page 75 (principal accounting policies), pages 77-78 (critical accounting estimates and judgements in applying accounting policies) and notes 14 of the financial disclosures.</i>	— Our expertise: We used our own economists and actuarial specialists to assess the house price growth and house price volatility assumptions and the mortality assumptions;
Included within loans and advances to customers are lifetime mortgage loans which carry a no negative equity guarantee ('NNEG'). This guarantee limits the Group's and Society's maximum return to the value of the relevant customer's property on redemption. This guarantee is accounted for as a separable embedded derivative, with fair value movements recorded in the Income Statement.	— Independent reperformance: We estimated the valuation of the derivative and fair value hedge adjustment using our internal valuation specialists. We independently recalculated the Group's and Society's forecast balance and NNEG embedded derivative and compared the output to the Group's and Society's models;
The Group's and Society's approach to determining a valuation of the NNEG uses the forecast balance model and then applies a Black Scholes stochastic model to determine the valuation. The Directors assess the fair value of the guarantee by considering key input assumptions to the NNEG valuation model including house price growth, house price volatility, mortality and early voluntary redemption rates.	— Sensitivity analysis: We performed sensitivity analysis on judgmental assumptions, including early voluntary redemption rates, house price growth and volatility, to determine those most significant to the valuation and critically assessed the impact on the NNEG valuation for a range of alternative assumptions; and
The Black-Scholes model is most sensitive to movements in the house price growth and volatility assumptions.	— Assessing transparency: We assessed the adequacy of the Group's and Society's disclosures in respect of the degree of estimation involved in arriving at the valuations and assessed the hedge accounting disclosures for compliance with IAS 39.
Valuation of the derivative and hedging adjustment applied to the portfolio	Our results
£19.5m (2021: £90.2m) and £51.7m (2021:£124.6m)	— The results of our testing were acceptable (2021 result: acceptable).
<i>Refer to page 75 (principal accounting policies), pages 77-78 (critical accounting estimates and judgements in applying accounting policies) and notes 5 and 14 of the financial disclosures.</i>	
The Group and Society holds a balance guarantee swap against its interest rate exposure to lifetime mortgages, the notional principal of which is adjusted each quarter in response to the balance of the mortgage portfolio between pre-agreed upper and lower boundaries.	
The Group and Society determines the value of both the derivative and the fair value hedge adjustment to apply to the loan book using a forecast balance model. This model forecasts the mortgage balances over the remainder of the term of the loans using assumptions in respect of voluntary prepayment, redemption in the event of death or admittance to a care home and additional drawdown.	
Significant judgement is required to determine each of these key factors, which then influence the balances posted in the annual accounts.	
Whilst the Covid-19 macroeconomic outlook has improved, the emergence of new macroeconomic risks during 2022 have introduced heightened uncertainty in estimating the assumptions underlying both the forecast balance and NNEG models, in particular the early voluntary redemption rate and long-term house price forecasts.	
The effect of these matters is that, as part of our risk assessment, we determined that the valuation of the derivative and hedging adjustments and the valuation of the NNEG have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the annual accounts as a whole, and possibly many times that amount. The annual accounts (note 2.2 and note 2.3) disclose the sensitivities estimated by the Group and Society.	



2. Key audit matters: our assessment of risks of material misstatement (continued)

The risk	Our response
<p>Impairment losses on loans and advances to customers</p> <p>Income statement credit: £14k (2021: £619k)</p> <p>Balance sheet: £423k (2021: £565k)</p> <p><i>Refer to page 75 (principal accounting policies), pages 78 (critical accounting estimates and judgements in applying accounting policies) and notes 10 and 29 of the financial disclosures.</i></p> <p>Individual impairment allowances cover loans specifically identified as impaired and a collective impairment allowance is held for all other loans where impairments are incurred but not yet specifically identified.</p> <p>The Directors assess individual impairments by reference to loans that have suffered significant financial difficulty of the borrower or the restructuring of a loan or advance by the Group and Society on terms that the Group and Society would not consider otherwise.</p> <p>The individual and collective impairment allowances are derived from a model that uses a combination of the Group's and Society's historical experience and external data, adjusted for current conditions.</p> <p>The impairment provision requires the Directors to make significant judgements and estimates. In particular, judgement is required on the key assumptions of probability of default and forced sale discount against collateral.</p> <p>Whilst the Covid-19 macroeconomic outlook has improved, the emergence of new macroeconomic risks, such as inflation has introduced heightened estimation uncertainty, making assumptions such as probabilities of default difficult to determine.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the impairment losses on loans and advances to customers has a high degree of estimation uncertainty. The annual accounts (note 2.4) disclose the sensitivity estimated by the Group and Society.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> — Control operation: In response to specific weaknesses identified in the control environment, we expanded the extent of our detailed testing; — Benchmarking assumptions: We compared the key assumptions used in the impairment model with external sources or with those applied at peer organisations; — Historical comparison: We assessed the key assumptions used in the impairment model, against the Group's and Society's historical experience. We also assessed the reasonableness of the consideration of the economic uncertainty relating to evolving macroeconomic risks; — Test of detail: We profiled the loan book based on risk characteristics of current or historical arrears, forbearance flagging and high LTVs. We tested a sample of loans meeting these criteria by reference to relevant supporting information, such as valuation reports, to challenge the completeness and accuracy of the Group's and Society's specific impairment provision estimate. We also inspected correspondence between the Society and the borrower for evidence of customer distress, in order to challenge the completeness and accuracy of the specific impairment provision; — Independent reperformance: We independently recalculated the individual and collective impairment allowance; — Sensitivity analysis: We assessed the model for its sensitivity to changes in the key assumptions by performing stress testing to help us assess the reasonableness of the assumptions and identify areas of potential additional focus; and — Assessing transparency: We assessed the adequacy of the Group's and Society's disclosures in respect of the degree of estimation involved in arriving at the provision balance. <p>Our results</p> <ul style="list-style-type: none"> — The results of our testing were acceptable (2021 result: acceptable).

2. Key audit matters: our assessment of risks of material misstatement (continued)

The risk	Our response
<p>Valuation of gross defined benefit obligation</p> <p>£21.4m (2021: £35.7m)</p> <p>Valuation of purchased annuity contracts</p> <p>£3.3m (2021: £7.3m)</p> <p><i>Refer to page 76 (principal accounting policies), pages 78-79 (critical accounting estimates and judgements in applying accounting policies) and note 24 of the financial disclosures.</i></p> <p>The Group and Society operates a defined benefit pension scheme, 'The Pensions Trust 2016 – National Counties Building Society Pension and Life Assurance Scheme' (Scheme) which has been closed to new members for several years.</p> <p>At 31 December 2022 the Group and Society holds a net defined benefit pension scheme deficit of £0.6m, (2021: surplus, £0.1m) on the balance sheet, which includes gross pension obligations. Small changes in the key assumptions being discount rate, inflation and mortality, used to value the Group's and Society's pension obligation (before deducting scheme assets) would have a significant effect on the Group's and Society's defined benefit obligation.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the defined benefit obligation has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the annual accounts as a whole. The annual accounts (note 2.8) disclose the sensitivity estimated by the Group and Society.</p> <p>Included within the scheme's assets are purchased annuity contracts whose value depend on actuarial assumptions considerations, as noted above. These annuity contracts match the insurance obligation and are separately disclosed.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> — Evaluation of actuary: We evaluated the competence, independence and objectivity of the Group's and Society's actuary in assessing management's reliance upon their expert valuation services; — Benchmarking assumptions: We challenged, with the support of our own actuarial specialists, the key assumptions applied, being the discount rate, inflation rate and mortality/life expectancy against externally derived data; — Membership data: We have assessed the reasonableness of membership data with support of our own actuarial specialist; — Plan assets: We obtained a year end confirmation from the custodian of the fair value of the plan assets for the Pensions Trust 2016 and assessed the valuation estimation and unitisation method applied; and — Assessing transparency: We considered the adequacy of the Group's and Society's disclosures in respect of the sensitivity of the obligation to these assumptions. <p>Our results</p> <ul style="list-style-type: none"> — The results of our testing were acceptable (2021 result: acceptable).

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

Materiality for the Group financial statements as a whole was set at £907,000 (2021: £740,000), determined with reference to a benchmark of Group net assets of which it represents 0.6% (2021: 0.6%).

Materiality for the Society annual accounts as a whole was set at £834,000 (2021: £703,000), determined with reference to a benchmark of net assets, of which it represents 0.6% (2021: 0.6%). This was capped at a percentage of Group materiality.

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the annual accounts as a whole.

Performance materiality was set at 65% (2021: 65%) of materiality for the financial statements as a whole, which equates to £589,000 (2021: £480,000) for the Group and £542,000 (2021: £457,000) for the Society. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £45,000 (2021: £37,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 4 (2021: 4) reporting components, we subjected 3 (2021: 3) to full scope audits for Group purposes.

The components within the scope of our work accounted for the percentages illustrated opposite. For the residual component, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement.

Group net assets (forecasted)
£151m (2021: £123m)



■ Net assets
■ Group materiality

Group materiality
£907,000 (2021: £740,000)

£907,000

Whole financial statements materiality (2021: £740,000)

£589,000

Whole financial statements performance materiality (2021: £480,000)

£834,000

Range of materiality at 3 components (£99,000-£834,000) (2021: £90,000 to £730,000)

£45,000

Misstatements reported to the audit committee (2021: £37,000)

4. Going concern

The Directors have prepared the annual accounts on the going concern basis as they do not intend to liquidate the Group or the Society or to cease their operations, and as they have concluded that the Group's and the Society's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the annual accounts ("the going concern period").

We used our knowledge of the Group and the Society, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's and Society's financial resources or ability to continue operations over the going concern period.

The risk that we considered most likely to adversely affect the Group's and Society's available financial resources over this period related to the valuations associated with the lifetime mortgage portfolio, due to the current uncertainty in the economic environment.

Our procedures also included:

- We assessed the Group's and Society's forecast profitability and capital models to identify key inputs for further analysis. These included the assumptions underlying the valuation of the no negative equity guarantee, funding availability, house price inflation and interest rates;
- We critically assessed the Directors' going concern assessment, including the reasonableness of the key dependency assumptions (identified above) and the level of downside sensitivities applied based on our understanding of the sector in which the Group and Society operates (using our knowledge of macroeconomic assumptions and stress testing scenarios recently applied in this industry);
- We evaluated the Group's and Society's liquidity position through consideration of reasonably plausible downside scenarios. This involved modelling stressed levels of retail and wholesale funding outflows and assessing the impact on the Group's and Society's regulatory liquidity ratios;
- We engaged with the Prudential Regulation Authority to understand their assessment of the Group's and Society's capital and liquidity position; and
- We critically assessed the completeness and accuracy of the matters covered in the going concern disclosure within the annual accounts using our knowledge of the relevant facts and circumstances developed during our audit work, considering economic outlook, key areas of uncertainty and mitigating actions available to the Group and Society to respond to these risks.

Our conclusions based on this work:

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the annual accounts is appropriate;
- we have not identified, and concur with the Directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Society's ability to continue as a going concern for the going concern period; and
- we have nothing material to add or draw attention to in relation to the Directors' statement in note 1.1 to the annual accounts on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group's and Society's use of that basis for the going concern period, and we found the going concern disclosure in note 1.1 to be acceptable.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Society will continue in operation.

5. Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of Directors and other management, and inspection of policy documentation as to the Group's and Society's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's and Society's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board, Audit Committee and Risk Committee minutes.
- Considering remuneration incentive schemes and performance targets for management and Directors.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that Group management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements. On this audit we do not believe there is a fraud risk related to revenue recognition, with the exception of the Effective Interest Rate (EIR) adjustment. The revenue streams are considered non-complex and require limited judgement. However, we have recognised a fraud risk in respect of the EIR adjustment to interest income given the subjectivity involved in estimating the future redemption profiles of the loans.

We also identified fraud risks in relation to: lifetime mortgages; impairment losses on loans and advances to customers; and valuation of gross defined benefit obligation and purchased annuity contracts. Further detail is set out in the key audit matter disclosures in section 2 of this report.

We performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included journals posted outside the normal course of business and those posted to unusual accounts.
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.
- We discussed with those charged with governance matters related to actual or suspected fraud, for which disclosure is not necessary, and considered any implications for our audit.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified 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, through discussion with the Directors and other management (as required by auditing standards), from inspection of the Group's and Society's regulatory and legal correspondence and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Group and Society is regulated, our assessment of risks involved gaining an understanding of the control environment including the Group's and Society's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the annual accounts varies considerably.

Firstly, the Group and Society is subject to laws and regulations that directly affect the annual accounts including financial reporting legislation (including related building Society legislation) and taxation legislation, and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the annual accounts, for instance through the imposition of fines or litigation or the loss of the Group's license to operate. We identified the following areas as those most likely to have such an effect: specific areas of regulatory capital and liquidity, conduct, money laundering and financial crime and certain aspects of the building Society legislation recognising the financial and regulated nature of the Group's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

We discussed with the Audit Committee matters related to actual or suspected breaches of laws or regulations, for which disclosure is not necessary, and considered any implications for our audit.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the annual accounts, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in annual accounts, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6. We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the annual accounts. Our opinion on the annual accounts does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our annual accounts audit work, the information therein is materially misstated or inconsistent with the annual accounts or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Annual Business Statement and Directors' Report

In our opinion:

- the Annual Business Statement and the Directors' Report have each been prepared in accordance with the applicable requirements of the Building Societies Act 1986 and regulations thereunder;
- the information given 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 upon which we are not required to report) gives a true representation of the matters in respect of which it is given.

7. We have nothing to report on the other matters on which we are required to report by exception

Under the Building Societies Act 1986 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Society; or
- the 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.

We have nothing to report in these respects.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on pages 56-57, the Directors are responsible for: the preparation annual accounts which give a true and fair view; 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; assessing the Group's and the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Society or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the annual accounts.

A fuller description of our responsibilities is provided on the FRC's website at

www.frc.org.uk/auditorsresponsibilities.

9. The purpose of our audit work and to whom we owe our responsibilities

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.

Richard Faulkner (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
 15 Canada Square
 London
 E14 5GL
 6 March 2023

INCOME STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	GROUP		SOCIETY	
		2022 £'000	2021 £'000	2022 £'000	2021 £'000
Interest receivable and similar income	3	66,528	47,845	65,702	47,060
Interest payable and similar charges	4	(27,270)	(14,134)	(27,297)	(14,161)
Net interest income		39,258	33,711	38,405	32,899
Fees and commissions receivable		190	126	122	116
Net gains from financial instruments	5	15,916	7,239	12,589	4,722
Income from investments in subsidiaries	6a	–	–	533	298
Write-down/provision against subsidiary investment/loan	6c	–	–	(1,935)	–
Gain on investment properties	18	666	302	–	–
Other income	6b	867	654	42	67
Total net income		56,897	42,032	49,756	38,102
Administrative expenses	7	(22,899)	(18,907)	(21,935)	(18,466)
Depreciation and amortisation of software and goodwill	17	(1,728)	(1,122)	(801)	(857)
Pension scheme finance charge	24	(1)	(73)	(1)	(73)
Operating profit before impairment losses and provisions		32,269	21,930	27,019	18,706
Provisions for impairment losses on loans and advances	10	14	619	73	586
Profit before tax		32,283	22,549	27,092	19,292
Tax charge	11	(6,778)	(4,001)	(6,000)	(3,387)
Profit for the financial year	25	25,505	18,548	21,092	15,905
Profit for the financial year attributable to:					
Members of National Counties Building Society		24,972	18,250	21,092	15,905
Non-controlling interests		533	298	–	–
		25,505	18,548	21,092	15,905

The Notes on pages 72 to 118 form part of these Accounts.
 The above results are all derived from continuing operations.

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	GROUP		SOCIETY	
		2022 £'000	2021 £'000	2022 £'000	2021 £'000
Profit for the financial year	25	25,505	18,548	21,092	15,905
Other comprehensive loss					
Items that will not be re-classified to the income statement					
Remeasurement of retirement benefit obligation	24	(1,394)	868	(1,394)	868
Tax credit/(charge)	11	349	(165)	349	(165)
		(1,045)	703	(1,045)	703
Items that may subsequently be re-classified to the income statement					
Available-for-sale investments:					
Fair value movements taken to reserves		(5,250)	(2,190)	(5,250)	(2,190)
Amount transferred to income statement		3,031	(7)	3,031	(7)
Tax credit	11	556	331	556	331
Net loss from changes in fair value	26	(1,663)	(1,866)	(1,663)	(1,866)
		(2,708)	(1,163)	(2,708)	(1,163)
Other comprehensive loss for the year net of tax		(2,708)	(1,163)	(2,708)	(1,163)
Total comprehensive income for the year		22,797	17,385	18,384	14,742
Total comprehensive income attributable to:					
Members of National Counties Building Society		22,264	17,087	18,384	14,742
Non-controlling interests		533	298	-	-
		22,797	17,385	18,384	14,742

The Notes on pages 72 to 118 form part of these Accounts.

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2022

	Note	GROUP		SOCIETY	
		2022 £'000	2021 £'000	2022 £'000	2021 £'000
Assets					
Liquid assets					
Cash in hand and balances with the Bank of England	13a	364,078	315,975	364,078	315,975
Loans and advances to credit institutions	13b	384	500	100	100
Debt securities	13c	131,756	124,772	131,756	124,772
Total liquid assets		496,218	441,247	495,934	440,847
Derivative financial instruments	14	72,564	9,754	72,564	9,754
Loans and advances to customers	15	1,812,757	1,866,274	1,747,209	1,776,406
Investments in subsidiary undertakings	16	-	-	69,716	96,275
Property, plant and equipment	17a	6,619	6,433	6,589	6,425
Intangible assets	17b	543	1,591	543	671
Investment property	18	11,540	10,585	-	-
Other assets	19	1,151	1,181	1,131	1,146
Retirement benefit asset	24	-	115	-	115
Deferred tax	12	429	455	381	383
Total assets		2,401,821	2,337,635	2,394,067	2,332,022
Liabilities					
Shares	20	1,743,108	1,661,255	1,743,108	1,661,255
Other borrowings					
Amounts owed to credit institutions	21	257,217	283,406	257,217	283,406
Amounts owed to other customers	22	143,540	137,585	143,540	137,585
Total other borrowings		400,757	420,991	400,757	420,991
Total shares and borrowings		2,143,865	2,082,246	2,143,865	2,082,246
Derivative financial instruments	14	25,985	108,195	23,297	102,181
Other liabilities	23	74,944	13,463	74,599	14,247
Retirement benefit obligation	24	574	-	574	-
Total liabilities		2,245,368	2,203,904	2,242,335	2,198,674
Reserves					
General reserves	25	157,034	132,649	152,313	132,266
Available-for-sale reserve	26	(581)	1,082	(581)	1,082
		156,453	133,731	151,732	133,348
Total reserves and liabilities		2,401,821	2,337,635	2,394,067	2,332,022
Reserves attributable to:					
Members of National Counties Building Society		155,517	133,253	151,732	133,348
Non-controlling interests		936	478	-	-
		156,453	133,731	151,732	133,348

The Notes on pages 72 to 118 form part of these Accounts.

These Accounts were approved by the Board of Directors on 6 March 2023 and were signed on its behalf by:

Rodger Hughes
Chairman

Mark Bogard
Chief Executive

Andrew Barnard
Finance Director

STATEMENT OF CHANGES IN MEMBERS' INTERESTS

FOR THE YEAR ENDED 31 DECEMBER 2022

	GROUP 2022				
	General reserves £'000	Available-for-sale reserve £'000	Sub total £'000	Non-controlling interests £'000	Members' interests £'000
Balance as at 1 January 2022	132,649	1,082	133,731	(478)	133,253
Profit for the financial year	25,505	-	25,505	(533)	24,972
Other comprehensive loss for the year	(1,045)	(1,663)	(2,708)	-	(2,708)
Distribution to non-controlling interest	(75)	-	(75)	75	-
Balance as at 31 December 2022	157,034	(581)	156,453	(936)	155,517

	GROUP 2021				
	General reserves £'000	Available-for-sale reserve £'000	Sub total £'000	Non-controlling interests £'000	Members' interests £'000
Balance as at 1 January 2021	113,598	2,948	116,546	(380)	116,166
Profit for the financial year	18,548	-	18,548	(298)	18,250
Other comprehensive (loss)/income for the year	703	(1,866)	(1,163)	-	(1,163)
Distribution to non-controlling interest	(200)	-	(200)	200	-
Balance as at 31 December 2021	132,649	1,082	133,731	(478)	133,253

	SOCIETY 2022				
	General reserves £'000	Available-for-sale reserve £'000	Sub total £'000	Non-controlling interests £'000	Members' interests £'000
Balance as at 1 January 2022	132,266	1,082	133,348	-	133,348
Profit for the financial year	21,092	-	21,092	-	21,092
Other comprehensive loss for the year	(1,045)	(1,663)	(2,708)	-	(2,708)
Balance as at 31 December 2022	152,313	(581)	151,732	-	151,732

	SOCIETY 2021				
	General reserves £'000	Available-for-sale reserve £'000	Sub total £'000	Non-controlling interests £'000	Members' interests £'000
Balance as at 1 January 2021	115,658	2,948	118,606	-	118,606
Profit for the financial year	15,905	-	15,905	-	15,905
Other comprehensive (loss)/income for the year	703	(1,866)	(1,163)	-	(1,163)
Balance as at 31 December 2021	132,266	1,082	133,348	-	133,348

STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 31 DECEMBER 2022

	GROUP	
	2022 £'000	2021 £'000
Cash flows from operating activities		
Profit before tax	32,283	22,549
Adjustments for:		
Depreciation and amortisation of software and goodwill	1,728	1,122
Loss on sale of investment properties	-	29
Amortisation of debt securities	1,310	1,785
Gain on investment properties	(666)	(331)
Provision for impairment losses on loans and advances	(14)	(619)
Loans and advances written off	(128)	-
Pension scheme charge	752	855
	35,265	25,390
Changes in operating assets and liabilities:		
(Increase)/decrease in prepayments, accrued income and other assets	(110)	539
Increase in accruals, deferred income and other liabilities	72,902	4,282
Net increase in loans and advances to customers	(67,959)	(48,404)
Net increase/(decrease) in shares	75,262	(100,792)
Net (decrease)/increase in amounts owed to other credit institutions and other customers	(22,954)	38,700
Net decrease in derivatives and fair value adjustments	(17,334)	(13,100)
Contributions to the pension scheme	(1,457)	(4,948)
Taxation paid	(7,957)	(1,192)
Net cash flows from operating activities	30,393	(124,915)
Cash flows from investing activities		
Purchase of debt securities	(72,157)	(20,447)
Disposal of debt securities	55,716	17,987
Purchase of property, plant and equipment	(676)	(609)
Disposal of property, plant and equipment	-	-
Purchase and refurbishment of investment property	(289)	(1,063)
Disposal of investment property	-	620
Purchase of intangible assets	(190)	(178)
Net cash flows from investing activities	(17,596)	(3,690)
Distribution to non-controlling interest	(75)	(200)
Net cash flows from financing activities	(75)	(200)
Net increase/(decrease) in cash and cash equivalents	47,987	(103,415)
Cash and cash equivalents at 1 January	316,475	419,890
Cash and cash equivalents at 31 December	364,462	316,475

NOTES TO THE ACCOUNTS

1. PRINCIPAL ACCOUNTING POLICIES

THE PRINCIPAL ACCOUNTING POLICIES ADOPTED AND APPLIED CONSISTENTLY IN THE PREPARATION OF THE ANNUAL ACCOUNTS OF THE GROUP AND SOCIETY ARE SET OUT BELOW:

1.1 BASIS OF PREPARATION

The Annual Accounts have been prepared in accordance with applicable United Kingdom Accounting Standards issued by the Financial Reporting Council – Financial Reporting Standard 102 (FRS 102) including the recognition and measurement provisions of IAS 39 *Financial Instruments: Recognition and Measurement*, and where relevant and material, the Building Societies (Accounts and Related Provisions) Regulations 1998 and the Building Societies Act 1986. The Annual Accounts have been prepared under the historical cost convention as modified by the fair value revaluation of available-for-sale assets, derivatives, hedged items and investment property.

The preparation of the accounts in accordance with FRS 102 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates. Details of the critical accounting estimates and judgements in applying the accounting policies are set out in Note 2.

The Society's and Group's business activities and objectives, together with the factors likely to affect its future development, performance and position, are set out in the Chief Executive's Review on pages 8 to 15 and the Strategic Report on pages 16 to 35. The financial and capital position of the Society and principal risks and uncertainties are described earlier within the Directors' Report and in the Strategic Report. The Society's position in respect of liquidity risk and other financial risks is shown in Note 29 to the Accounts.

The Group and Society meet their day-to-day liquidity requirements through managing both their retail and wholesale funding sources and are comfortably in excess of their regulatory capital requirements. The Board has made an assessment of going concern covering a period of at least 12 months from the date of approval of these financial statements. This assessment was based on forecasts prepared by the Group, which incorporated severe but plausible downside scenarios to stress test impacts on capital requirements and liquidity taking into account the PRA published stress test scenario for building societies not participating in the annual concurrent stress test, which includes the Society, published in February 2021. The Society's additional stress tests include stresses to longer term interest rates, margin, and house prices. Even after combining these stresses the Society continued to exceed its all-in regulatory capital requirement which is derived from stress tests considered to be at least as severe as the relevant Bank of England scenario. Based on the above, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for a period of at least 12 months from the date of approval of these financial statements. Therefore, they continue to adopt the going concern basis of accounting in preparing the Annual Accounts.

The parent Society is included in the consolidated annual accounts, and is considered to be a qualifying entity under FRS 102 paragraphs 1.8 to 1.12. The following exemptions available under FRS 102 in respect of certain disclosures for the parent Society Annual Accounts have been applied:

- No separate parent Society Cash Flow Statement with related notes is included; and
- The disclosure of the Directors' Emoluments has not been repeated.

The Country by Country information for the year ended 31 December 2022 has been prepared on the following basis:

- The number of employees has been calculated as the average number of full and part-time employees, on a monthly basis, as disclosed in Note 8.
- Turnover comprises net interest income, fees and commissions receivable and payable and other income as reported in the Group Income Statement.
- Pre-tax profit or loss represents the Group profit or loss before tax, as reported in the Group Income Statement.
- Corporation tax paid represents the cash amount of corporation tax paid during the year, as disclosed in the Group Statement of Cash Flow.

1.2 BASIS OF CONSOLIDATION

The Group Accounts consolidate the assets, liabilities, income and expenditure and cash flows of the Society and all its subsidiary undertakings, all of which are made up to 31 December. Where the Society owns less than 100% of the subsidiary, the Income Statement and Statement of Financial Position disclose the non-controlling interest share not available to Members. Where the Society has acquired, started or disposed of a subsidiary in the year, then the results of that subsidiary are included in the Group Income Statement from the date of acquisition or business commencement or up to the date of disposal.

The Society's investments are treated as subsidiaries in the Group accounts where the Society is deemed to control the entity in accordance with the requirements of FRS 102. Generally, this is where the Society owns more than 50% of the share capital of the business. In those subsidiaries where the Society owns less than 100% of the share capital of the subsidiary, the minority's share of the (loss)/profit for the period of the subsidiary and its share of reserves are included as Non-Controlling Interests.

The Society's investment in a business which it does not control, but over which it has significant influence will be treated as an associate in the Group accounts. Generally, in accordance with FRS 102, this is where the Society owns more than 20%, but less than 50%, of the share capital of the business.

Where the Group has investments in associates, these are accounted for using the equity method. The Group's initial cost of investment is adjusted to reflect the Group's share of the profit or loss of the associate from the date of investment.

Where an associate becomes a subsidiary during an accounting period, then the Society will fully consolidate the results of the entity acquired from the date it became a subsidiary with the previous accounting as an associate retained.

In the Society's Accounts, loans to subsidiary undertakings and associates are initially recognised at fair value which is at cost, as adjusted where appropriate for fair value hedge accounting. Shares in subsidiary undertakings and associates are stated at cost less provisions for impairment.

The Society is taxed on the profits of the Family & Arden Homes LLP as they arise and therefore the Society's share of the profits and losses of this partnership are included within the Society's Income Statement.

1.3 INTEREST RECEIVABLE AND PAYABLE

Interest income and interest expense for all interest bearing financial assets and liabilities that are measured at amortised cost, are recognised in interest receivable and interest payable in the Income Statement using the effective interest rate method.

The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial asset or liability or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. Upfront fees charged to customers and direct external costs incurred in relation to originating mortgage loans such as broker and packager fees and the cost of other incentives are included in the calculation of the effective interest rate. The calculation of the effective interest rate also includes an estimate of the early redemption fees expected to be charged to customers who choose to exit their mortgage contracts within the period an early redemption fee applies. The inclusion of these fees and costs has the effect of spreading them over the expected life of the loan. Expected lives are estimated using historic data and management judgement and the calculation is adjusted when actual experience differs from estimates, with the impact of these changes in estimates on the net carrying amount of the asset or liability being recognised immediately in the Income Statement.

Interest on impaired financial assets is recognised at the effective interest rate for the relevant loan. To the extent that interest is not expected to be recovered an allowance for this is included in the provisions for impairment losses.

Premiums paid on the acquisition of mortgage books are included in the effective interest rate of the mortgages acquired and are therefore spread over the expected lives of those mortgages. The amortisation of the premiums paid is adjusted monthly based on actual experience of loans redeeming, with the impact of this being recognised immediately in the Income Statement.

1.4 FEES AND COMMISSIONS RECEIVABLE AND PAYABLE AND OTHER INCOME

Fees and commissions receivable and payable that are not part of the effective interest rate are recognised in the period during which they are earned or incurred.

Rental income from investment properties and freehold land and buildings is recognised on an accrued basis as the income is earned and included in the Income Statement as other income.

1.5 PROPERTY, PLANT AND EQUIPMENT

The cost of additions and major alterations to land and buildings, and additions to equipment, fixtures, fittings and vehicles, are capitalised. Depreciation is provided at rates calculated to write down the assets to their estimated residual values over the course of their anticipated useful lives. The principal rates and bases of depreciation applied are as follows:

Office equipment, fixtures, fittings and motor vehicles: 25% per annum on a reducing balance basis.

Computer equipment:

25% per annum on a straight line basis commencing from operational deployment within the business.

Computer equipment leased:

Computer equipment that is the subject of a finance lease is depreciated over the period of the lease.

Freehold buildings:

The freehold head office building in Epsom is a listed building and is properly maintained in a good state of repair and is considered to have a useful life of at least fifty years. The Directors believe that the recoverable amount exceeds the book value and consequently no depreciation has been provided. In accordance with FRS 102, non-depreciated assets are reviewed annually for impairment. Any such impairment would be immediately charged to the Income Statement.

The other buildings are being depreciated on a straight line basis over 50 years commencing from the start of 2014 when the Group transitioned to FRS 102. The land value is assumed to be 50% and is not depreciated.

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since the last annual reporting date in the pattern by which the Society expects to consume an asset's future economic benefits.

1.6 INVESTMENT PROPERTY

Residential property acquired by the Group for capital appreciation and rental to residential tenants are treated as investment properties. The costs capitalised include the initial cost of acquiring the property and any costs incurred in the refurbishment of the property to prepare it for rent.

Investment property is carried at fair value which is determined annually using open market valuations provided by a suitably qualified RICS surveyor. Changes in fair value are recognised in the Income Statement.

1.7 INTANGIBLE ASSETS

Software

Purchased software and external costs directly associated with the internal development of computer software are capitalised as intangible assets where the software is an identifiable asset controlled by the Group which will generate future economic benefits and where costs can be reliably measured.

Intangible assets are stated at cost less cumulative amortisation.

Amortisation begins when the asset becomes available for operational use and is charged to the Income Statement on a straight line basis over the estimated useful life of the software, which is generally four years. The assets and amortisation periods used are reviewed annually for impairment with any impairment being charged immediately to the Income Statement.

Goodwill

Goodwill may arise on the acquisition of an entity from comparing the fair value of assets and liabilities acquired with the fair value of consideration paid including costs. In accordance with FRS 102, goodwill is considered to have a finite useful life and therefore should be amortised on a systematic basis over this life. Based on the available data and stage of development of the business, an initial assessment of this useful life will be made, and unless there is strong evidence to support it, this period will not exceed 5 years. An annual impairment test will be performed to support the unamortised goodwill balance.

1.8 LEASES

Assets acquired by the Group under finance leases are capitalised and depreciated over the term of the lease and the future payment obligations are shown in other liabilities.

If the Group enters into an operating lease, the rental charges are charged to the Income Statement on a straight line basis over the life of the lease.

1.9 FINANCIAL ASSETS

Under the requirements of IAS 39, the Group classifies financial assets in the Statement of Financial Position as either loans and receivables, assets available-for-sale or assets at fair value through profit or loss.

ASSETS CLASSIFIED AS LOANS AND RECEIVABLES

The Group's loans and advances to customers are classified as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Group values its loans and receivables at amortised cost less any provision for impairment. Any upfront fees paid by customers and costs paid to third parties directly related to the origination of the loans, including premiums paid on loans acquired, will be added to the initial value of the loan and then recognised over the expected life of the loan as part of the effective interest rate. Any short-term discount interest rate or fixed interest rate will be included within the initial effective interest rate calculation and spread over the expected life of the loan. Throughout the year and at each year end, the assumptions made around the expected life of the loans are reviewed for appropriateness. The impact of any change to these assumptions on the value of the loans carried in the Statement of Financial Position will be recognised immediately through interest receivable and similar income and reflected in the carrying value of those assets.

The value of loans and advances to customers that are included in designated hedging relationships, which includes the Lifetime Mortgages, is adjusted for changes in the fair value of the risk being hedged.

Loans and advances to credit institutions, which are included in liquid assets, are classified as loans and receivables.

ASSETS CLASSIFIED AS AVAILABLE-FOR-SALE

Available-for-sale assets are non-derivative financial assets that are intended to be held for a non defined period of time. These assets may be sold to meet the regulatory requirements to test market conditions for liquidity, to alter the liquidity portfolio or

in response to changes in interest rates. The Group's debt securities are classified as available-for-sale assets and these assets are valued in the Statement of Financial Position at fair value with subsequent changes in this value being recognised through Other Comprehensive Income except for any impairment losses which are recognised in the Income Statement. Upon sale or maturity of the asset, the cumulative gains and losses that have been recognised in Other Comprehensive Income are transferred from the available-for-sale reserve and recognised in the Income Statement.

The fair values of available-for-sale assets are based on quoted market prices.

Debt securities held by the Society may be sold subject to a commitment to repurchase them (repo). Where substantially all the risks and rewards of ownership are retained by the Society, the securities remain on the Statement of Financial Position and the counterparty liability is included separately in the Statement of Financial Position. Where the Society purchases debt securities with a commitment to resell them (reverse repo) it does not retain the risks and rewards of the securities and therefore treats them as secured loans.

The difference between the sale and repurchase price is accrued as income or expenditure over the life of the agreements.

ASSETS CLASSIFIED AS FAIR VALUE THROUGH PROFIT OR LOSS

Derivatives are used by the Group as a means of hedging market risk, primarily interest rate fluctuations, and are not used for trading purposes. Derivatives are included within the Statement of Financial Position at fair value. These fair values are based on external counterparty valuations and are included within assets when the fair value is positive and as liabilities when the fair value is negative.

The Group designates certain of its derivatives as hedging instruments in qualifying hedging relationships. These designated Fair Value Hedges hedge the Group's exposure to variability in the fair value of hedged financial assets and liabilities.

On initial designation of the fair value hedge relationship, the Group formally documents the relationship between the hedging instrument and the asset or liability that is being hedged, 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 the inception of the hedge relationship as well as on an ongoing basis as to whether the hedging instrument is expected to be highly effective in offsetting the change in the fair value of the respective hedged item during the period for which the hedge is designated, and whether the actual results of each hedge effectiveness test are within a range of 80-125 per cent.

Changes in the fair value of hedging derivatives are recognised immediately in the Income Statement together with changes in the fair value of the item being hedged with respect to the hedged risk. Whilst the intention of the designated hedge relationship is for the change in value of the hedging instrument and the hedged asset or liability to be exactly matched this is unlikely to be the case. The difference between these values is termed hedge ineffectiveness and will result in a net income or charge to the Income Statement in the period.

If at any point the hedging relationship no longer meets the criteria for fair value hedge accounting then hedge accounting is discontinued prospectively. Any hedging adjustment up to the point of the hedging relationship being discontinued is amortised to the Income Statement over the remaining life of the hedged asset or liability.

Certain derivatives do not qualify for hedge accounting as they are not in designated hedging relationships. For example, as part of the Group's risk management practices a number of fixed interest rate swaps are entered into to hedge future fixed rate mortgage completions. This hedging relationship can only be formally designated after the loans have completed. Changes in the fair value of these derivatives are recognised immediately in the Income Statement, with no offsetting fair value adjustment to the hedged items.

Virtually all of the Society's and Group's Lifetime Mortgages include a No Negative Equity Guarantee which is valued as an embedded derivative in the Statement of Financial Position. Any change in the value of this derivative is recognised immediately in the Income Statement. The liability included within the Statement of Financial Position is calculated using a Black-Scholes valuation model. The key inputs to the model are morbidity/mortality actuarial tables, long-term average annual HPI, HPI volatility, prepayment assumptions and a discount rate curve. Those assumptions deemed by management to be the most sensitive to the calculation of the liability are included in note 2.2.

One of the derivatives hedging the Society's Lifetime Mortgages and inter-company loan to fund a subsidiary's Lifetime Mortgages includes a contractual upper and lower boundary on the principal amount of the derivative. Changes in the fair value of this derivative therefore are affected by, amongst other variables, the principal amounts of the loans being hedged. Changes in the overall fair value of the derivative contract are included in the Statement of Financial Position however the relevant offsetting hedging adjustment in the value of the Lifetime Mortgages will differ if the principal value of the mortgages is above or below the derivative boundaries. More details are given in Note 2.3.

The Society enters into credit support agreements, which protect against counterparty default in respect of hedging instruments by means of collateral transactions which reflect movements in the market values of the instruments involved. Interest on cash collateral is included within interest receivable and similar income or interest payable and similar charges, as appropriate. Collateral is included in the Statement of Financial Position within liquid assets, other assets or other liabilities, as appropriate.

1.10 IMPAIRMENT OF FINANCIAL ASSETS

IMPAIRMENT LOSSES ON LOANS AND ADVANCES

Provisions are made to reduce the value of loans and advances to customers to the amount which the Directors consider to be recoverable.

The Group assesses during the year and at each year end date whether there is objective evidence that a loan is impaired. Objective evidence of impairment can be defined as one or more events occurring after the initial recognition of the loan that have an impact on the estimated future cash flows of the loan that can be reliably estimated.

The Group first assesses whether objective evidence of impairment exists for loans using the following criteria:

- whether those properties are in possession, or,
- when monthly repayments on the loans have not been maintained, or,
- when forbearance has been exercised in the conduct of the account due to actual or apparent financial stress of the borrower, whether in arrears or not, or,
- when loans have no monthly repayment requirement and eventual cash flows may be insufficient to fully repay those loans, or,
- when there is other objective evidence of loan impairment.

If there is objective evidence of impairment of an individual loan, the amount of the loss is measured as the difference between the outstanding loan balance and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the loan's original effective interest rate. This calculation takes into account the Group's experience of default rates, collection periods, the effect of regional movements in house prices based upon a recognised index, adjustments to allow for a forced sale valuation and costs of the property sale. If this calculation shows a potential loss against the loan's carrying value then this is recognised in the Income Statement and included in the Statement of Financial Position.

Where a loan has been taken into possession, the loss provision is adjusted to take account of the updated property value based on a surveyors valuation.

For the remainder of the loans where no objective evidence of impairment has been identified at the reporting date, the loans are grouped together based on those with similar credit risk characteristics and they are collectively assessed for impairment.

A collective provision is made against a group of loans and advances where there is objective evidence based on the Group's experience that credit losses have been incurred, but not yet identified at the reporting date. The calculation of this provision is similar to that of the individual impairment provision, but takes into account an emergence period and lower expected default rates.

Where certain emerging impairment characteristics are considered significant but have not been included as part of the impairment calculation, management may elect to apply an overlay to the calculated impairment provision to ensure the Group has sufficient impairment provisions at the Statement of Financial Position date.

The amount charged in the Income Statement represents the net change in the individual and collective provisions, after allowing for impairment losses written off in the year and impairment recoveries.

Provisions for impairment losses on loans and advances are deducted from loans and advances to customers in the Statement of Financial Position. Interest on impaired loans is recognised at the effective interest rate for the relevant loan. To the extent that interest is not expected to be recovered an allowance for this is included in the provisions for impairment losses.

IMPAIRMENT LOSSES ON AVAILABLE-FOR-SALE ASSETS

At each reporting date the Group assesses whether or not there is objective evidence that individual debt securities are impaired due to for example default of a counterparty or disappearance of an active market.

Where the Group determines that there is objective evidence of impairment the cumulative gain or loss that had been recognised directly in the available-for-sale reserve is removed from reserves and recognised in the Income Statement.

If, in a subsequent period, the fair value of a debt security classified as available-for-sale increases and the increase can be related to an event occurring after the impairment loss was recognised through the Income Statement, the impairment loss will be reversed, with the amount of the reversal recognised through the Income Statement.

1.11 FINANCIAL LIABILITIES

All non derivative financial liabilities of the Group, which include shares and amounts owed to credit institutions and other customers are included in the Statement of Financial Position at amortised cost.

Costs incurred in raising wholesale funds are amortised over the period to maturity using the effective interest rate method.

1.12 RETIREMENT BENEFITS

The Society operates a defined benefits pension scheme, 'The Pensions Trust 2016 – National Counties Building Society Pension and Life Assurance Scheme' (Scheme) providing benefits for Society employees.

The Pension Benefit section of the NCBS Scheme was closed to new members with effect from the renewal on 1 May 2007 and future service accrual ceased on 30 April 2013. From 1 May 2007, a Cash Benefit section was introduced and all Pension Benefit section members became eligible for the Cash Benefit section from 1 May 2013. The Cash Benefit section is now closed to new entrants.

Employees who joined the Society after 1 January 2015 are enrolled into a defined contribution scheme – Group Personal Pension Plan.

All pension schemes are held in separate funds, managed and administered by third parties. The schemes are funded by contributions from the Society and its employees.

The costs of benefits accruing during the year are charged to the Income Statement as administrative expenses to the extent that they are not covered by employee contributions.

The extent to which the interest cost of scheme liabilities exceeds the expected return on scheme assets, or vice versa, is charged/credited to the Income Statement as a pension finance charge/credit.

Liabilities relating to past service cost, including those relating to Guaranteed Minimum Pension equalisation, are charged to the Income Statement as administrative expenses.

At the Statement of Financial Position date, the assets of the Scheme, excluding purchased annuity contracts, are measured at market value. The liabilities and the purchased annuity contracts are measured using the projected unit valuation method. The resulting pension scheme surplus or deficit is recognised immediately in the Statement of Financial Position with the corresponding deferred taxation asset or liability. Any resulting actuarial gains and losses are recognised immediately in the Statement of Comprehensive Income, along with the resultant change in the deferred taxation asset or liability.

1.13 PROVISIONS AND CONTINGENT LIABILITIES

The Group recognises a provision when there is a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. The Group discloses a contingent liability where an outflow of resources is not probable, but is not remote.

1.14 TAXATION

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred taxation is recognised in full, without discounting, in respect of all such timing differences which have arisen but not reversed by the Statement of Financial Position date, except as otherwise required by FRS 102.

The Society is taxed on the profits of the Family & Arden Homes LLP as they arise and therefore the Society's share of the profits and losses of this partnership are included within the Society's Income Statement. Any gains/losses on the revaluation of the investment properties is only taxed when this is crystallised on the sale of the property and therefore deferred tax is provided on this timing difference in the Society and the Group.

1.15 CASH AND CASH EQUIVALENTS

For the purposes of the Statement of Cash Flow, cash comprises cash in hand and balances with the Bank of England and unrestricted loans and advances to credit institutions repayable on demand. Cash equivalents comprise highly liquid unrestricted investments that are readily convertible into cash with an insignificant risk of changes in value with original maturities of less than three months.

The Statement of Cash Flow has been prepared using the indirect method.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

THE GROUP MAKES ESTIMATES AND ASSUMPTIONS THAT AFFECT THE REPORTED AMOUNTS OF ASSETS AND LIABILITIES. ESTIMATES AND JUDGEMENTS ARE CONTINUALLY EVALUATED AND ARE BASED ON HISTORICAL EXPERIENCE AND OTHER FACTORS, INCLUDING EXPECTATIONS OF FUTURE EVENTS THAT ARE BELIEVED TO BE REASONABLE UNDER THE CIRCUMSTANCES. THESE ARE DESCRIBED BELOW:

2.1 EFFECTIVE INTEREST RATE – EXPECTED MORTGAGE LIVES

The calculation of an effective interest rate requires the Group and Society to make assumptions around the average expected lives of mortgage loans. In determining these expected lives the Group and Society uses historical redemption data as well as management judgement. These assumptions are regularly reviewed for reasonableness taking into account changes in actual experience. If the Directors consider that a change in assumption is needed the impact of the change on the carrying value of the loans would be reflected immediately in the Income Statement.

If the historical redemption experience used in the calculation of average lives of the Society non-lifetime mortgage loans was on average 10% higher, the carrying value of mortgages would decrease by £1m with a corresponding charge to the Income Statement. If the historical redemption experience used in the calculation of average lives of the Society non-lifetime mortgage loans was on average 10% lower, the carrying value of mortgages would increase by £1.3m with a corresponding credit to the Income Statement.

2.2 LIFETIME MORTGAGES – NNEG

The Group's mortgage portfolio includes a pool of Lifetime Mortgages. All the loans were advanced at low Loan to Value ratios and the rates of interest charged are fixed for the duration of the mortgage. Borrowers do not make monthly repayments and instead, under their contractual terms, interest is capitalised within the balance and becomes repayable on redemption of the loan.

The mortgage contract for most of these loans contains a clause where in certain circumstances if the amount received on the sale of the property on redemption of the loan is less than the contractual loan balance due to the Society, the Society cannot pursue the borrower or the estate for the shortfall – a No Negative Equity Guarantee (NNEG). This exposes the Society to the risk that the redemption balance may not be fully recovered. This exposure is represented in the Statements of Financial Position as a derivative liability and any change in value of this derivative is immediately recognised in the Income Statement. A description of how this liability is calculated is included within Note 1.9.

As redemptions can be many years in the future, dependent on the morbidity/mortality of the borrowers, the value of this derivative is most sensitive to the value of the property at redemption. A small change in the expected future house price inflation assumptions can have a notable impact on the estimated redemption proceeds from the property sale.

If the average long-term annual house price rise included in the calculation of 3.75% was 0.5% per annum lower than forecast the Group's NNEG derivative value would increase, resulting in a charge to the Income Statement of £1.6m in the Group and £1.0m in the Society. If the average long-term annual house

price rise was 1% per annum lower than forecast the charge to the Income Statement in the Group would be £3.6m and in the Society would be £2.2m.

If the average long-term annual house price rise included in the calculation of 3.75% was 0.5% per annum higher than forecast the Group's NNEG derivative value would decrease, resulting in a credit to the Income Statement of £1.3m in the Group and £0.8m in the Society. If the average long-term annual house price rise was 1% per annum higher than forecast the credit to the Income Statement in the Group would be £2.4m and in the Society would be £1.4m.

If the house price volatility assumption included in the calculation of 10% was to increase by 1%, the Group's NNEG derivative value would increase resulting in a charge to the Income Statement of £1.2m in the Group and £0.7m in the Society. If the house price volatility assumption was to decrease by 1%, the Group's NNEG derivative value would decrease resulting in a credit to the Income Statement of £1.0m in the Group and £0.7m in the Society.

If the house price volatility assumption included in the calculation of 10% was to increase by 2%, the Group's NNEG derivative value would increase resulting in a charge to the Income Statement of £2.4m in the Group and £1.6m in the Society. If the house price volatility assumption was to decrease by 2%, the Group's NNEG derivative value would decrease resulting in a credit to the Income Statement of £2.0m in the Group and £1.2m in the Society.

If the time included within the model between the death of a borrower or the borrower going into long-term care was to increase by 1 month, then the Group's NNEG derivative value would increase resulting in a charge to the Income Statement of £0.1m in the Group and less than £0.1m in the Society.

If the voluntary prepayment rate of the lifetime loans experienced during the year, was to continue at the same rate for the next three years, then the Group's NNEG derivative value would decrease resulting in a credit to the Income Statement of £0.3m in the Group and £0.1m in the Society.

2.3 LIFETIME MORTGAGES – HEDGING DERIVATIVE FINANCIAL INSTRUMENT

The Group has entered into a fixed interest rate swap to hedge its exposure to the fixed interest rate Lifetime Mortgage book. This swap includes an upper and lower contractual boundary around the expected future value of the mortgage book over time. The Society has adopted fair value hedge accounting and so changes in the fair value of the swap are offset in the Income Statement by changes in the fair value of the Lifetime Mortgage book with respect to hedge interest rate risk, but with net ineffectiveness being recognised. The Group's expectations of the future performance of the Lifetime Mortgage book have changed such that the swap notional is expected to be higher than the lifetime mortgage portfolio balance and therefore it is below the lower boundary within the swap. This has resulted in

increased ineffectiveness being recognised in the Income Statement. The voluntary prepayment rate of the lifetime loans by customers has the biggest impact on whether the lifetime mortgage balance falls below the lower boundary and if the voluntary prepayment rate experienced during the year, was to continue at the same rate for the next three years, then this would result in an additional charge to the Income Statement of £0.8m both in the Group and the Society.

2.4 IMPAIRMENT LOSSES ON LOANS AND ADVANCES

The creation of impairment provisions for a portfolio of mortgage loans is inherently uncertain and requires the exercise of a significant degree of judgment.

Provisions are calculated using historic default and loss experience, but require judgment to be exercised in predicting future economic conditions (e.g. interest rates and house prices), customer behaviour (e.g. default rates), the length of time before impairments are identified (emergence period) and the length of time before a security is taken into possession and sold (collection period). The accuracy of the provision would therefore be affected by unexpected changes to these assumptions.

The most critical estimate is of the level of house prices where a further property value reduction, in addition to that already included in the provisioning methodology, of 10%, would increase the loss provision in the Society by £0.3m and in the Group by £0.4m. Another sensitivity is the assessment of the probability of default of particular segments of borrowers. If the default rates used were to increase by 10% this would result in an additional provision in the Group of £37,000 and £29,000 in the Society. If the rates used were to decrease by 10% this would result in a reduction in the provision in the Group of £37,000 and £29,000 in the Society. The emergence period is also a sensitivity, which is the time elapsed between a default event occurring and the Group being made aware of it, where an increase of six months would result in an additional provision of £0.1m in the Group and the Society.

2.5 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The Group's derivatives are valued at fair value using counterparty valuations. We replicate these values using market yield curves to ensure these valuations are reasonable.

A change in the market yield curves of plus 1% would change the total net fair value of derivative financial instruments included in the Statement of Financial Position of the Group by £41.4m. A change in the market yield curves of minus 1% would change the net fair value of derivative financial instruments included in the Statement of Financial Position of the Group by £45.8m. The change in yield curves would also impact the fair value of the items being hedged by the derivatives, offsetting the impact to the extent that the hedging relationship was effective. The impact on the Society would not be materially different from the Group.

2.6 FAIR VALUE OF INVESTMENT PROPERTY

The Group's portfolio of investment properties is included in the Statement of Financial Position at fair value. The fair value is on the basis of market value provided by a suitably qualified RICS surveyor taking into account the condition of the property at the time of the valuation including any on-going refurbishment work. Residential property prices fluctuate based on local market conditions and a 10% reduction in the value of the investment

properties included in the Statement of Financial Position would result in a £1,154,000 charge to the Group Income Statement.

2.7 DEFERRED TAX ASSETS

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. The recognition of the deferred tax asset is dependent upon the projection of future taxable profits and future reversals of existing taxable temporary differences and it is necessary for management to evaluate whether the deferred tax asset has arisen due to temporary factors or is instead indicative of a permanent decline in earnings.

Management has made detailed forecasts of future taxable income in order to determine that profits will be available to offset the deferred tax asset. These projections are based on business plans, future capital requirements and current and future economic conditions.

The assumptions surrounding new business volumes and changes in market interest rates represent the most subjective areas of judgment in management's projections of future taxable profits. Management's forecasts support the assumption that it is probable that the results of future operations will generate sufficient taxable income to utilise the deferred tax assets and it is on this basis that the deferred tax assets have been recognised. Deferred tax has been recognised at the rate expected to be prevailing when the timing differences reverse.

If management's forecasts were 10% lower than predicted, there would be no impact on the Society's ability to utilise the deferred tax asset.

2.8 EMPLOYEE PENSION BENEFITS

The Group operates a defined benefit pension scheme. Significant judgments (on areas such as future interest and inflation rates and mortality rates) have to be exercised in estimating the value of the assets and liabilities of the Scheme.

These judgments, which are based upon the Board receiving external advice from the scheme actuaries, are outlined in Note 24 to the Accounts.

The main sensitivities that affect the valuation of the liability in the Group and Society are the discount rate, the inflation rate and the life expectancy of the members of the scheme. On a stand-alone basis, each sensitivity will impact the liability and the net balance sheet position by a different amount taking into account that the purchased annuity contract asset is matched to the liability that is insured. A 0.25% increase in the discount rate will decrease the liability by £0.7m and increase the net balance sheet position by £0.6m and a 0.25% decrease in the rate will increase the liability by £0.7m and decrease the net balance sheet position by £0.7m. A 0.25% increase in the inflation rate will increase the liability by £0.4m and decrease the net balance sheet position by £0.4m and a 0.25% decrease in the inflation rate will decrease the liability by £0.4m and increase the net balance sheet position by £0.4m. A 1 year increase in the average life expectancy of the members of the scheme will increase the liability by £0.5m and decrease the net balance sheet position by £0.3m and a 1 year decrease in the average life expectancy of the members of the scheme will decrease the liability by £0.4m and increase the net balance sheet position by £0.3m. The figures above exclude the impact of deferred tax.

2.9 INVESTMENT IN SMART MONEY PEOPLE

The Society performs an annual discounted cashflow impairment test over a five-year period on the carrying value of its investment in Smart Money People Limited. At the 31 December 2022, this resulted in a write-down of the investment cost to £56,000. A key assumption in the valuation is the forecast cashflow used in the year of a projected sale to which the earnings multiple is applied to derive a forecast sales value. If this was 10% higher,

the write-down of the investment cost in 2022 would reduce by £0.2m. If it was 10% lower, the investment cost would be written off in full. Another key assumption is the discount rate. If the discount rate used was reduced by deducting 10%, then the write-down would reduce by £0.8m. If the discount rate used was increased by adding 10%, then the investment cost would be written off in full.

3. INTEREST RECEIVABLE AND SIMILAR INCOME

	GROUP		SOCIETY	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
On loans fully secured on residential property	63,766	59,748	60,487	56,538
On other loans:				
Connected undertakings	16	10	2,469	2,435
Other	251	387	251	387
On debt securities:				
Interest and other income from fixed income securities	1,933	1,627	1,933	1,627
Net (loss)/gains arising on realisation	(3,031)	7	(3,031)	7
On other liquid assets:				
Interest and other income	4,142	288	4,142	288
Net expense on financial instruments	(549)	(14,222)	(549)	(14,222)
	66,528	47,845	65,702	47,060

4. INTEREST PAYABLE AND SIMILAR CHARGES

	GROUP		SOCIETY	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
On shares held by individuals	21,127	13,341	21,127	13,341
On deposits and other borrowings	6,143	793	6,143	793
Other interest payable:				
Connected undertakings	-	-	27	27
	27,270	14,134	27,297	14,161

5. NET GAINS FROM FINANCIAL INSTRUMENTS

	GROUP		SOCIETY	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Gain on derivatives in designated fair value hedge relationships	134,618	57,497	134,618	57,497
Adjustments to hedged items in fair value hedge relationships	(133,653)	(56,785)	(133,653)	(56,785)
Gain on other derivatives not in designated fair value hedging relationships	14,951	6,527	11,624	4,010
	15,916	7,239	12,589	4,722

For both the Group and the Society, the net gains from financial instruments includes a loss of £1,131,000 (2021: £2,339,000 loss) that relates to the hedged derivatives associated with the lifetime mortgages.

6a. INCOME FROM INVESTMENTS IN SUBSIDIARIES

	GROUP		SOCIETY	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Share of profit from Family & Arden Homes LLP	-	-	533	298

6b. OTHER INCOME

	GROUP		SOCIETY	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Rents receivable	455	432	-	15
Management fees from subsidiary	-	-	42	42
Income from Smart Money People	412	212	-	-
Other	-	10	-	10
	867	654	42	67

6c. WRITE-DOWN/PROVISION AGAINST SUBSIDIARY INVESTMENT/LOAN

	GROUP		SOCIETY	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Write-down of investment in Smart Money People	-	-	1,112	-
Provision against loan to Smart Money People	-	-	823	-
	-	-	1,935	-

7. ADMINISTRATIVE EXPENSES

	GROUP		SOCIETY	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Staff costs	14,851	12,463	14,374	12,463
Other administrative expenses	8,048	6,444	7,561	6,003
	22,899	18,907	21,935	18,466
Other administrative expenses include:				
Remuneration of Auditor and its associates (excluding Value Added Tax):				
Group and Society statutory audit	618	423	618	423
Subsidiary statutory audit	35	32	35	32
Prior year	-	50	-	50
	653	505	653	505
For other services:				
Other services pursuant to legislation	22	20	22	20
Services relating to funding transactions	-	25	-	25
Total Auditor remuneration	675	550	675	550

There were no other payments made to the Auditor or their associates during 2022 (2021: No other payments made).

8. EMPLOYEES

	GROUP		SOCIETY	
	2022 Number	2021 Number	2022 Number	2021 Number
The average number of persons employed (including Executive Directors) during the year was as follows:				
Full-time	176	164	167	164
Part-time	20	19	20	19
	£'000	£'000	£'000	£'000
The aggregate staff costs were as follows:				
Wages and salaries	11,851	9,881	11,427	9,881
Social security costs	1,454	1,115	1,410	1,115
Other pension costs	1,546	1,467	1,537	1,467
	14,851	12,463	14,374	12,463

9. DIRECTORS' EMOLUMENTS

Emoluments of the Directors of the Society totalling £1,384,000 (2021: £1,357,000) are detailed as follows:

a) Executive Directors	2022					
	Salary	Performance bonus	Medium-term incentive plan	Benefits	Pension	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Mark Bogard	281	71	64	22	63	501
Andrew Barnard	197	51	37	18	44	347
Chris Croft (until 4 November 2022)	159	28	22	32	39	280
	637	150	123	72	146	1,128

In addition to the amounts included above, Chris Croft received £259,441 as compensation for loss of office. Mr Croft has indicated his intention to make a claim, which we will vigorously defend.

A three year medium term incentive plan payment was agreed by the Remuneration Committee for the three years ending 31 December 2024 and the amounts accrued by Director will be paid in two equal amounts in 2025 and 2026.

Mark Bogard and Chris Croft are no longer active members of the Group's Pension Scheme and Andrew Barnard has never been a member of the Scheme. Their pension emoluments in 2022 represent monthly cash payments in lieu of contributions to the Scheme.

	2021					
	Salary	Performance bonus	Medium-term incentive plan	Benefits	Pension	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Mark Bogard	272	68	47	21	61	469
Andrew Barnard	190	48	26	14	43	321
Chris Croft	182	37	19	20	41	299
	644	153	92	55	145	1,089

b) Non-executive Directors	2022		2021
	Fee		Fee
	£'000		£'000
Rodger Hughes	63	Rodger Hughes	61
Patrick Muir	47	Patrick Muir	45
John Cole	45	John Cole	44
Fiona Crisp (until 29 April)	13	Fiona Crisp	37
Peter Navin (from 23 November)	4	Susan Sharrock Yates	37
Susan Sharrock Yates	39	Simon Wainwright	44
Simon Wainwright	45		268
	256		

During the year, a company for which Patrick Muir is a Director, was paid £42,300 (2021: £28,800) for his services as a Director to Smart Money People Limited, a subsidiary company.

Directors' loans and related party transactions

A register is maintained at the Head Office of the Society, in accordance with the requirements of Section 68 of the Building Societies Act 1986, which shows details of all loans, transactions and arrangements with Directors and connected persons. The register will be available for inspection at the Society's Head Office during the period of fifteen days up to and including the date of the Annual General Meeting.

There were no outstanding loans with Directors at 31 December 2022 or 31 December 2021.

In January 2023, Patrick Muir was awarded 40 B Ordinary Shares in Smart Money People Limited, a subsidiary company, under their share option scheme.

10. PROVISIONS

Provision for impairment losses on loans and advances

	GROUP							
	Loans fully secured on residential property		Loans fully secured on land		Other loans		Total	
	Individually identified	Collectively identified	Individually identified	Collectively identified	Individually identified	Collectively identified	Individually identified	Collectively identified
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2022	414	151	-	-	-	-	414	151
Provision utilised net of recoveries	(128)	-	-	-	-	-	(128)	-
(Credit)/charge for the year	(129)	115	-	-	-	-	(129)	115
At 31 December 2022	157	266	-	-	-	-	157	266

	SOCIETY							
	Loans fully secured on residential property		Loans fully secured on land		Other loans		Total	
	Individually identified	Collectively identified	Individually identified	Collectively identified	Individually identified	Collectively identified	Individually identified	Collectively identified
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2022	404	143	-	-	-	-	404	143
Provision utilised net of recoveries	(128)	-	-	-	-	-	(128)	-
(Credit)/charge for the year	(191)	118	-	-	-	-	(191)	118
At 31 December 2022	85	261	-	-	-	-	85	261

	GROUP							
	Loans fully secured on residential property		Loans fully secured on land		Other loans		Total	
	Individually identified	Collectively identified	Individually identified	Collectively identified	Individually identified	Collectively identified	Individually identified	Collectively identified
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2021	454	509	221	-	-	-	675	509
Provision utilised net of recoveries	-	-	-	-	-	-	-	-
Credit for the year	(40)	(358)	(221)	-	-	-	(261)	(358)
At 31 December 2021	414	151	-	-	-	-	414	151

	SOCIETY							
	Loans fully secured on residential property		Loans fully secured on land		Other loans		Total	
	Individually identified	Collectively identified	Individually identified	Collectively identified	Individually identified	Collectively identified	Individually identified	Collectively identified
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2021	367	476	221	-	-	-	588	476
Provision utilised net of recoveries	69	-	-	-	-	-	69	-
Credit for the year	(32)	(333)	(221)	-	-	-	(253)	(333)
At 31 December 2021	404	143	-	-	-	-	404	143

Where possible, forbearance measures are offered to assist borrowers experiencing financial difficulties. Included within provisions for impairment losses on loans and advances are provisions for £nil in relation to 27 accounts under forbearance (2021: £200; 32 accounts). Of this, £nil relates to the 14 Society customers (2021: £200; 15 customers) currently being helped by such measures (note 29).

11. TAX CHARGE

	Note	GROUP		SOCIETY	
		2022 £'000	2021 £'000	2022 £'000	2021 £'000
Current tax		(6,167)	(3,535)	(5,413)	(3,527)
Adjustment in respect of prior years		14	(7)	14	(7)
Deferred tax	12	(320)	(467)	(296)	139
Adjustment in respect of prior years	12	(305)	8	(305)	8
Total tax charge		(6,778)	(4,001)	(6,000)	(3,387)
The total tax charge for the year differs from that calculated using the UK standard rate of corporation tax. The differences are explained below:					
Tax on profit at the standard rate of corporation tax of 19% (2021: 19%)		(6,134)	(4,284)	(5,147)	(3,665)
Other items not deductible for tax		(175)	(12)	(368)	(6)
Adjustment in respect of prior years		(291)	1	(291)	1
Corporation and deferred tax rate differences		(21)	27	(21)	16
Tax charge associated with items recognised in other comprehensive income		306	267	306	267
Other timing differences		(357)	-	(373)	-
Bank levy		(106)	-	(106)	-
Tax charge for the year		(6,778)	(4,001)	(6,000)	(3,387)
Tax recognised directly in other comprehensive income					
Tax on available-for-sale assets					
Corporation tax		-	-	-	-
Deferred tax	12	556	331	556	331
		556	331	556	331
Tax on retirement benefit obligations					
Corporation tax		306	267	306	267
Deferred tax	12	43	(432)	43	(432)
		349	(165)	349	(165)
		905	166	905	166

An increase in the UK corporation tax rate from 19% to 25% (effective from 1 April 2023) has been substantively enacted. This will increase the Society's future current tax charge accordingly. The deferred tax asset at 31 December 2022 has been calculated taking into account this future change in rate.

12. DEFERRED TAX

		GROUP		SOCIETY	
		2022	2021	2022	2021
	Note	£'000	£'000	£'000	£'000
Movement on deferred tax					
At 1 January		455	1,015	383	337
Income statement charge	11	(625)	(459)	(601)	147
Recognised directly in other comprehensive income	11	599	(101)	599	(101)
At 31 December					
The deferred tax asset is attributable to the following items:					
FRS 102 transitional adjustments		146	203	104	145
Pension and other post retirement benefits		577	576	577	576
AFS timing differences		194	(361)	194	(361)
Other timing differences		(488)	37	(494)	23
		429	455	381	383

The FRS 102 transitional adjustments reverse over the next two years and the expected reversal in 2023 is £70,000 in the Group and £50,000 in the Society.

13. LIQUID ASSETS

a) Cash in hand and balances with the Bank of England

Included within cash in hand and balances with the Bank of England of £364,078,000 (2021: £315,975,000) is £14,234,000 (2021: £63,600,000) of cash collateral pledged against derivative financial instruments and £4,027,000 (2021: £4,037,000) of cash held at the Bank of England as a mandatory cash ratio deposit.

	GROUP		SOCIETY	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
b) Loans and advances to credit institutions				
Repayable on demand	384	500	100	100
c) Debt securities				
Gilts	127,631	120,730	127,631	120,730
Multilateral Development Banks	4,125	4,042	4,125	4,042
	131,756	124,772	131,756	124,772
Debt securities have remaining maturities as follows:				
Accrued interest	967	827	967	827
In not more than one year	15,883	13,122	15,883	13,122
In more than one year	114,906	110,823	114,906	110,823
	131,756	124,772	131,756	124,772
Debt securities analysed, excluding accrued interest				
Transferable securities:				
Listed on a recognised investment exchange	130,789	123,945	130,789	123,945

Included within the debt securities analysis are debt securities that are pledged as collateral for derivative and other financial transactions. As at 31 December 2022, the Group and Society had pledged listed debt securities with a market value of £20,114,000 (2021: £41,000,000).

Also included within the debt securities analysis are debt securities with a market value of £nil (2021: £5,051,000) which have been sold subject to a commitment to repurchase them.

The Directors consider that all debt securities are available for sale and have therefore been treated as such in the Statement of Financial Position.

Movements in the year on debt securities are analysed as follows:				
At 1 January	123,945	128,464	123,945	128,464
Additions	72,157	20,447	72,157	20,447
Disposals and maturities	(55,716)	(17,987)	(55,716)	(17,987)
Amortisation of premium	(1,310)	(1,785)	(1,310)	(1,785)
Change in fair value adjustment for hedged risk	(6,068)	(2,997)	(6,068)	(2,997)
Net loss from changes in fair value recognised in other comprehensive income	(2,219)	(2,197)	(2,219)	(2,197)
At 31 December	130,789	123,945	130,789	123,945

14. DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of derivative financial instruments held at 31 December 2022 are set out below.

	GROUP			SOCIETY		
	Notional principal amount £'000	Fair value – Assets £'000	Fair value – Liabilities £'000	Notional principal amount £'000	Fair value – Assets £'000	Fair value – Liabilities £'000
At 31 December 2022						
Derivatives designated as fair value hedges						
Interest rate swaps	1,144,066	72,365	(20,235)	1,144,066	72,365	(20,235)
	1,144,066	72,365	(20,235)	1,144,066	72,365	(20,235)
Unhedged derivatives						
Interest rate swaps	189,279	199	(84)	189,279	199	(84)
Embedded derivatives	–	–	(5,666)	–	–	(2,978)
	189,279	199	(5,750)	189,279	199	(3,062)
Total derivative assets/(liabilities)	1,333,345	72,564	(25,985)	1,333,345	72,564	(23,297)

	GROUP			SOCIETY		
	Notional principal amount £'000	Fair value – Assets £'000	Fair value – Liabilities £'000	Notional principal amount £'000	Fair value – Assets £'000	Fair value – Liabilities £'000
At 31 December 2021						
Derivatives designated as fair value hedges						
Interest rate swaps	967,878	9,501	(94,560)	967,878	9,501	(94,560)
	967,878	9,501	(94,560)	967,878	9,501	(94,560)
Unhedged derivatives						
Interest rate swaps	90,600	243	(134)	90,600	243	(134)
Basis swaps	64,000	10	(10)	64,000	10	(10)
Embedded derivatives	–	–	(13,491)	–	–	(7,477)
	154,600	253	(13,635)	154,600	253	(7,621)
Total derivative assets/(liabilities)	1,122,478	9,754	(108,195)	1,122,478	9,754	(102,181)

Included in the Group's hedged interest rate swaps is a balance guarantee swap to hedge the interest rate exposure on the lifetime mortgages. The valuation of the swap at 31 December 2022 was a liability of £19,465,000 (2021: £89,766,000).

As at 31 December 2022, £34,350,000 (2021: £104,175,000) of cash and securities was pledged as collateral against derivative financial instruments.

15. LOANS AND ADVANCES TO CUSTOMERS

	Note	GROUP		SOCIETY	
		2022 £'000	2021 £'000	2022 £'000	2021 £'000
Loans and advances to customers net of provisions are analysed as follows:					
Loans fully secured on residential property		1,813,408	1,742,538	1,751,627	1,673,739
Loans fully secured on land		4,418	6,021	4,418	6,021
		1,817,826	1,748,559	1,756,045	1,679,760
Fair value adjustment for hedged risk		(5,069)	117,715	(8,836)	96,646
		1,812,757	1,866,274	1,747,209	1,776,406
Loans and advances to customers have remaining maturities from the Statement of Financial Position date as follows:					
Repayable on call and at short notice		11,254	1,270	8,200	-
In not more than three months		6,481	3,377	6,481	3,376
In more than three months but not more than one year		10,280	23,245	9,803	21,812
In more than one year but not more than five years		278,166	223,146	267,529	217,000
In more than five years		1,507,301	1,494,485	1,460,253	1,435,295
Effective interest rate adjustment		4,767	3,601	4,125	2,824
Fair value adjustment for hedged risk		(5,069)	117,715	(8,836)	96,646
Provision for impairment losses on loans and advances	10a	(423)	(565)	(346)	(547)
		1,812,757	1,866,274	1,747,209	1,776,406

Included within the fair value adjustment for hedged risk is an amount relating to the hedged lifetime mortgage portfolio. For the Group this is £51,761,000 (2021: £124,637,000) and for the Society this is £47,994,000 (2021: £103,569,000).

This maturity analysis assumes that loans and advances run for their full agreed term or, in the case of lifetime loans, for the actuarial life expectancy of the borrower. In practice, loans seldom continue to the maturity date and, therefore, the actual repayment profile of loans is likely to be significantly different from that disclosed above.

16. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

a) Movements in the year

	SOCIETY		
	Shares and reserves of subsidiary undertakings £'000	Loans to subsidiary undertakings £'000	Total £'000
At 1 January 2022	1,672	94,603	96,275
Movement in fair value hedge adjustment	-	(17,301)	(17,301)
Interest on loan	-	25	25
Share of profit of subsidiary LLP	533	-	533
Distribution from subsidiary LLP	(75)	-	(75)
Write-down of investment	(1,112)	-	(1,112)
Provision against loan	-	(823)	(823)
Net repayment	-	(7,806)	(7,806)
At 31 December 2022	1,018	68,698	69,716

The loan made by the Society to a subsidiary to fund the subsidiary's lifetime mortgage portfolio is included in the lifetime mortgages hedge relationship and consequently changes in the fair value hedge adjustment that relate to the loan are recognised as changes in the value of the loan.

b) Subsidiary activities

	Country of registration	Major activities	Class of share held	Society interest
The Society's subsidiary undertakings (which operate in the United Kingdom) are:				
National Counties Financial Services Ltd	England	Dormant	Ordinary	100%
Counties Home Loan Management Ltd	England	Mortgage lending	Ordinary	100%
Family & Arden Homes LLP	England	Property investment	Ordinary	50.01%
Smart Money People Limited	England	Financial services review and research website	Ordinary	100%

The registered office of the subsidiary undertakings is Ebbisham House, 30 Church Street, Epsom, Surrey, KT17 4NL.

17a. PROPERTY, PLANT AND EQUIPMENT

	GROUP			SOCIETY		
	Freehold land and buildings	Equipment, fixtures & fittings and vehicles	Total	Freehold land and buildings	Equipment, fixtures & fittings and vehicles	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost						
At 1 January 2022	5,374	7,766	13,140	5,374	7,703	13,077
Additions	-	676	676	-	647	647
Disposals	-	-	-	-	-	-
At 31 December 2022	5,374	8,442	13,816	5,374	8,350	13,724
Depreciation						
At 1 January 2022	55	6,652	6,707	55	6,597	6,652
Charge for year	7	483	490	7	476	483
Eliminated on disposals	-	-	-	-	-	-
At 31 December 2022	62	7,135	7,197	62	7,073	7,135
Net book value						
At 31 December 2021	5,319	1,114	6,433	5,319	1,106	6,425
At 31 December 2022	5,312	1,307	6,619	5,312	1,277	6,589

The net book value of freehold land and buildings occupied for own activities at 31 December 2022 was for the Group and Society £5,312,000 (2021: £5,319,000).

17b. INTANGIBLE ASSETS

	GROUP			SOCIETY		
	Software	Goodwill	Total	Software	Goodwill	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost						
At 1 January 2022	4,160	1,269	5,429	4,160	-	4,160
Additions	190	-	190	190	-	190
At 31 December 2022	4,350	1,269	5,619	4,350	-	4,350
Amortisation						
At 1 January 2022	3,489	349	3,838	3,489	-	3,489
Charge for year	318	920	1,238	318	-	318
At 31 December 2022	3,807	1,269	5,076	3,807	-	3,807
Net book value						
At 31 December 2021	671	920	1,591	671	-	671
At 31 December 2022	543	-	543	543	-	543

18. INVESTMENT PROPERTY

	GROUP	
	Investment property	
	£'000	
Cost		
At 1 January 2022	10,585	
Refurbishment costs	289	
Gain on revaluation of investment properties	666	
At 31 December 2022	11,540	
	2022	2021
	£'000	£'000
Gain on investment properties		
Loss on sale of investment properties	-	(29)
Gain on revaluation of investment properties	666	331
	666	302

The investment property is a portfolio of residential properties that have been acquired by a subsidiary, Family & Arden Homes LLP, for the purpose of rental to residential tenants.

All the property is held at the balance sheet date at fair value, which has been determined using open market valuations provided by a suitably qualified RICS surveyor.

Any contractual obligations to purchase investment property or commitments to refurbish investment property at 31 December 2022 are included in accruals.

19. OTHER ASSETS

	GROUP		SOCIETY	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Sundry debtors	189	47	16	12
Corporation tax receivable	-	-	153	-
Prepayments and accrued income	962	1,134	962	1,134
	1,151	1,181	1,131	1,146

20. SHARES

	GROUP		SOCIETY	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Held by individuals				
Repayable from the date of the Statement of Financial Position in the ordinary course of business:				
Accrued interest	11,118	4,527	11,118	4,527
On demand	599,878	678,401	599,878	678,401
In not more than three months	571,581	635,028	571,581	635,028
In more than three months but not more than one year	299,867	204,409	299,867	204,409
In more than one year but not more than five years	260,664	138,890	260,664	138,890
	1,743,108	1,661,255	1,743,108	1,661,255

This maturity analysis assumes that balances are repayable at the earliest possible date of withdrawal without penalty. Some fixed rate products provide the facility for early access on payment of an interest penalty but, in practice, this facility is seldom utilised.

21. AMOUNTS OWED TO CREDIT INSTITUTIONS

	GROUP		SOCIETY	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Repayable from the date of the Statement of Financial Position in the ordinary course of business:				
Accrued interest	1,730	109	1,730	109
In not more than three months	12,987	43,720	12,987	43,720
In more than three months but not more than one year	22,500	19,577	22,500	19,577
In more than one year but not more than five years	220,000	220,000	220,000	220,000
	257,217	283,406	257,217	283,406

22. AMOUNTS OWED TO OTHER CUSTOMERS

	GROUP		SOCIETY	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Repayable from the date of the Statement of Financial Position in the ordinary course of business:				
Accrued interest	1,291	192	1,291	192
On demand	2,630	3,460	2,630	3,460
In not more than three months	74,469	60,509	74,469	60,509
In more than three months but not more than one year	65,150	73,424	65,150	73,424
	143,540	137,585	143,540	137,585

23. OTHER LIABILITIES

	GROUP		SOCIETY	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Loans from subsidiary undertakings	-	-	-	1,000
Corporation tax payable	58	2,166	-	2,157
Other creditors	71,724	8,734	71,688	8,689
Accruals and deferred income	3,162	2,563	2,911	2,401
	74,944	13,463	74,599	14,247

Group and Society other creditors includes £71,020,000 (2021: £8,171,000) owed to derivative counterparties under credit swap agreements.

Group other creditors includes a Government loan of £50,000 received on 4 June 2020 by a subsidiary company, Smart Money People Limited, under the Bounce Back loan scheme. The loan was arranged by Smart Money People Limited before the Society gained full control of the business. The loan has a duration of 6 years, with no repayments due during the first 12 months of the loan. Repayments commenced in June 2021 and the balance outstanding on the loan at 31 December 2022 was £35,631. The loan is interest free for 12 months and after that interest accrues at a rate of 2.5%.

The bounce back loan is repayable from the Statement of Financial Position date as follows:

	GROUP		SOCIETY	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
In not more than one year	10	10	-	-
In two to five years	26	35	-	-
	36	45	-	-

24. RETIREMENT BENEFIT OBLIGATION

The Group operates 'The Pensions Trust 2016 – National Counties Building Society Pension and Life Assurance Scheme' (Scheme), a separate trustee-administered defined benefit pension scheme for staff. The Pension Benefit section of the Scheme was closed to new entrants with effect from 1 May 2007. A replacement Cash Benefit section was introduced from the same date. The Pension Benefit section provides a defined pension to the member, while the Cash Benefit section provides a cash amount which is utilised to provide a pension.

Further service accruals were ceased within the Pension Benefit section from 1 May 2013. At that point all Pension Benefit section members became eligible for the Cash Benefit section. The Cash Benefit section is now closed to new entrants. Employees who have joined the Society after 1 January 2015 are enrolled into a defined contribution scheme – Group Personal Pension Plan.

Under FRS 102, the Group is required to include the assets of any defined benefit scheme within the Statement of Financial Position together with the related liabilities. For the purposes of FRS 102, the Scheme is considered to be a defined benefit scheme and these disclosures therefore relate to this Scheme.

A full actuarial valuation is carried out by a qualified independent actuary every three years. The latest actuarial valuation was carried out as at 30 September 2020. These accounting disclosures are based on the results of that actuarial valuation rolled forward to the reporting date to take account of the passage of time, the accrual of new benefits for active members, membership movements, actual revaluation of deferred benefits, expected benefits paid out of the Scheme and changes in actuarial assumptions between 30 September 2020 and 31 December 2022.

The service cost has been calculated using the Projected Unit method.

	GROUP	
	2022	2021
The principal assumptions used by the actuary were as follows:		
Pension commitments discount rate	4.98%	1.81%
Pensionable salaries increase	5.00%	3.00%
Pensions in payment increasing in line with RPI or to a maximum increase of 5%	3.01%	3.15%
Pensions in payment increasing in line with RPI or to a maximum increase of 2.5%	2.08%	2.15%
Retail Price Index increase	3.13%	3.27%
Consumer Price Index increase	2.65%	2.72%

The longevity assumptions for 31 December 2022 are based on 101% of the S3PA year of birth tables adjusted in line with the Continuous Mortality Investigation's 2021 model with a 1.5% long-term rate of improvement in mortality for males and 1.25% for females.

No weighting has been placed on the exceptional mortality experience of 2020 and 2021 due to the impact of COVID 19.

	GROUP	
	2022	2021
The number of years' life expectancy from age 65 is as follows:		
Male retiring in 2022	22.2	22.1
Female retiring in 2022	24.6	24.5
Male retiring in 2042	23.9	23.7
Female retiring in 2042	26.1	26.0

The pension commitments discount rate used by the Society is derived from the single equivalent discount rate ("SEDR") using the UK Mercer Yield Curve Model which is derived from Corporate bonds with a AA rating as at 31 December 2022.

The Society made contributions to the Scheme at a rate of 14% during the year (2021: 14%). The latest actuarial valuation at 30 September 2020, increased the future contribution rate to 29.6% with effect from 1 December 2021. The Society made a payment of £376,000 in February 2023, being the difference between the contribution rate of 29.6% and the actual contributions paid since 1 December 2021 of 14%, in line with the recommendation of the valuation. Based on the contribution rate of 29.6% and the membership at 31 December 2022, the Society's estimated contributions in 2023 are £789,000.

The volatility within the UK economy and financial markets during 2022, which included significant changes in bond yields, increased inflation and higher interest rates, and the resultant changes to the principal assumptions used in the year end valuations, has had a significant impact on the year end value of the Society's pension scheme assets and obligation. The asset value has fallen by 42% compared to 2021 and the obligation value by 40%. As a consequence, the net financial position of the scheme has changed from an asset of £115,000 at 31 December 2021 to a deficit of £574,000 at 31 December 2022.

	GROUP	
	2022	2021
	£'000	£'000
The amounts recognised in the Statement of Financial Position are determined as follows:		
Present value of defined benefit obligation	(21,355)	(35,689)
Fair value of scheme assets	20,781	35,804
Defined benefit (liability)/asset in the Statement of Financial Position	(574)	115
Reconciliation of opening and closing balances of the defined benefit obligation:		
Defined benefit obligation at 1 January	35,689	36,842
Current service cost	594	635
Interest expense	643	531
Contributions by scheme participants	124	124
Actuarial gain	(14,631)	(1,228)
Benefits paid	(1,064)	(1,215)
Defined benefit obligation at 31 December	21,355	35,689
Reconciliation of opening and closing balances of the fair value of scheme assets:		
Fair value of scheme assets at 1 January	35,804	31,996
Interest income	642	458
Return on assets, excluding interest income	(16,025)	(360)
Contributions by the employer	1,457	4,948
Contributions by scheme participants	124	124
Benefits paid	(1,064)	(1,215)
Scheme administrative cost	(157)	(147)
Fair value of scheme assets at 31 December	20,781	35,804

The actual return on the Scheme assets over the period ending 31 December 2022 was a loss of £15,383,000 (2021: gain of £98,000).

	GROUP	
	2022	2021
	£'000	£'000
Analysis of amount charged in the Income Statement		
Current and past service cost and expenses	751	782
Total operating charge (included within administrative expenses)	751	782
Analysis of net return on scheme		
Net interest cost	1	73
Net interest cost being the pension scheme finance charge	1	73
Analysis of amount recognised in the Statements of Comprehensive Income		
Return on assets, excluding interest income	(16,025)	(360)
Actuarial gain arising on the scheme liabilities	14,631	1,228
Actuarial (loss)/gain recognised in other comprehensive income	(1,394)	868
Assets		
The fair values of the assets in the scheme at 31 December were as follows:		
Equity	2	3,867
Bonds	15	1,522
Property	138	156
Cash	412	5,232
Other	8,926	8,724
LDI	8,028	8,967
Insured pensioners	3,260	7,336
Total scheme assets	20,781	35,804

Purchased annuity contracts are included at the same value in both the assets and liabilities of the Scheme. These contracts are therefore neutral to the Scheme accounting position.

The last full actuarial valuation carried out as at 30 September 2020 identified a funding shortfall in the Scheme which was to be met by additional contributions from the Society of a minimum of £1,000,000 per annum for the period from 1 December 2021 to 30 June 2027 (pro-rata for part years). In addition, the Society agreed to pay £163,000 each year towards expenses of the Scheme. As part of the shortfall funding plan, the Society made a contribution to the Scheme of £4,500,000 in December 2021 and £1,000,000 in December 2022.

On 26 October 2018 a court ruling confirmed that UK pension schemes with Guaranteed Minimum Pensions (GMPs) accrued from 17 May 1990 must equalise for the different effects of these GMPs between men and women. An allowance of 0.6% is included in the liabilities to allow for the expected impact of this element of GMP equalisation. Following on from the original ruling in 2018, a further High Court ruling on 20 November 2020 provided clarification on the obligations of pension plan trustees to equalise past transfer values allowing for GMP equalisation. The allowance only considered current members who had GMP liabilities within the scheme (not members who have died without a spouse or members who have transferred out for example). The approximate impact of equalising past transfers from the Scheme has been estimated as being very unlikely to be over £20,000 and as such no allowance has been made for this in the year end valuation.

25. RESERVES – GENERAL RESERVES

	GROUP		SOCIETY	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
At 1 January	132,649	113,598	132,266	115,658
Profit for the financial year	25,505	18,548	21,092	15,905
Other comprehensive (loss)/gain for the year	(1,045)	703	(1,045)	703
Distribution to non-controlling interest	(75)	(200)	–	–
At 31 December	157,034	132,649	152,313	132,266

26. RESERVES – AVAILABLE-FOR-SALE RESERVE

	GROUP		SOCIETY	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
At 1 January	1,082	2,948	1,082	2,948
Net loss from changes in fair value	(1,663)	(1,866)	(1,663)	(1,866)
At 31 December	(581)	1,082	(581)	1,082

27. CASH AND CASH EQUIVALENTS

	Note	GROUP		SOCIETY	
		2022 £'000	2021 £'000	2022 £'000	2021 £'000
Cash in hand and balances with the Bank of England	13a	364,078	315,975	364,078	315,975
Loans and advances to credit institutions	13b	384	500	100	100
		364,462	316,475	364,178	316,075

28. FINANCIAL COMMITMENTS

(a) Financial Services Compensation Scheme ("FSCS")

As a regulated UK deposit-taker, the Society, in common with all regulated UK deposit-takers, pays levies based on its share of deposits protected by the FSCS to enable the scheme to meet claims against it. There are two FSCS levies – a management expenses levy ("MEL") and a compensation costs levy ("CCL"). The MEL covers the running costs of the scheme and the CCL covers the amount of compensation the scheme pays, net of any recoveries it makes using the rights that have been assigned to it.

In May 2013, the International Accounting Standards Board issued an interpretation to clarify the accounting treatment for levies in the financial statements of an entity subject to such levies. The interpretation explains that there is no obligation to recognise the liability for a levy until the activity that triggers payment occurs. Applying the interpretation to the FSCS levies, the liability should only be recognised after the trigger date of 1 April. As at the Statement of Financial Position date, the CCL liability accrued relates to the 12 month period to 31 March 2023 triggered at 1 April 2022. No liability for the levies is recognised for scheme years beyond March 2023.

The Society has not paid any FSCS invoices for the CCL levy's during the year or prior year and has no liability to a CCL levy at the year end or prior year end.

b) It is the intention of the Society to continue to support fully its subsidiary undertakings.

c) Capital commitments at 31 December, for which no provision has been made in the Accounts, were as follows:

Capital expenditure contracted but not provided for:

	GROUP		SOCIETY	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Capital expenditure contracted but not provided for:	56	–	56	–

d) Commitments

Irrevocable undrawn loan facilities to borrowers at year end
Commitment to repurchase assets sold under repo agreements

	GROUP		SOCIETY	
	2022	2021	2022	2021
Irrevocable undrawn loan facilities to borrowers at year end	4,501	5,350	4,501	5,350
Commitment to repurchase assets sold under repo agreements	–	5,051	–	5,051
	4,501	10,401	4,501	10,401

29. 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 mortgage and savings products and uses wholesale financial instruments to invest in liquid asset balances, raise wholesale funding and manage risks arising from its operations. As a result of these operations, the Group is exposed to a variety of risks, the most significant being credit risk, liquidity risk and market risk which are described later in this note.

The Group has an established formal structure for managing risk, including setting risk appetite, risk limits, reporting lines, mandates, policies and other relevant control procedures. This structure is reviewed regularly by the Asset and Liability Committee ("ALCO"), which is charged with the responsibility for managing and controlling the Statement of Financial Position and the use of financial instruments for risk management purposes.

DERIVATIVES

Instruments used for risk management purposes include derivative financial instruments ("derivatives"), which are contracts or agreements whose current value at the reporting date is related to the change in the underlying price, rate or index inherent in the contract or agreement, such as interest rates.

Derivatives are only used by the Group to reduce the risk of loss arising from changes in interest rates or other market related factors and are not used in trading activity or for speculative purposes.

The table below describes the significant activities undertaken by the Group, the related risks associated with such activities and the type of derivatives which are typically used in managing such risks.

Activity	Risk	Managed by
Fixed rate mortgage lending	Increase in interest rates	Fixed to floating interest rate swaps
Fixed rate savings products	Decrease in interest rates	Fixed to floating interest rate swaps
Managing basis risk	Non-parallel interest rate shifts	Basis swaps
Fixed rate liquidity	Increase in interest rates	Fixed interest rate swaps

The most significant derivatives used by the Group in managing its risks are interest rate swaps which protect the Group from exposures to fixed rate mortgage lending and fixed rate savings products. An interest rate swap contract which is based on a notional principal amount, exchanges one set of interest rate cashflows for another for a set duration agreed between the parties at the commencement of the contract. Entering into these contracts allows the Group to manage the interest rate risk.

The most significant derivative contract that the Group has entered into is a fixed interest rate swap to hedge its exposure to the fixed interest rate Lifetime Mortgage book. This swap includes an upper and lower contractual boundary around the expected future value of the mortgage book over time.

Classification of financial assets and liabilities

Financial assets and liabilities are measured on an on-going basis at either fair value or amortised cost. The following tables show the classification of the Group's and Society's financial assets and liabilities:

	GROUP						
Carrying values as at 31 December 2022	Held at amortised cost		Held at fair value				
	Loans and receivables	Other financial assets and liabilities at amortised cost	Available for sale	Investment property	Derivatives designated as fair value hedges	Unhedged derivatives	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Assets							
Cash in hand and balances with the Bank of England	-	364,078	-	-	-	-	364,078
Loans and advances to credit institutions	384	-	-	-	-	-	384
Debt securities	-	-	131,756	-	-	-	131,756
Derivative financial instruments	-	-	-	-	72,365	199	72,564
Loans and advances to customers	1,812,757	-	-	-	-	-	1,812,757
Total financial assets	1,813,141	364,078	131,756	-	72,365	199	2,381,539
Non financial assets	-	8,742	-	11,540	-	-	20,282
Total Assets	1,813,141	372,820	131,756	11,540	72,365	199	2,401,821
Liabilities							
Shares	-	1,743,108	-	-	-	-	1,743,108
Amounts due to credit institutions	-	257,217	-	-	-	-	257,217
Amounts owed to other customers	-	143,540	-	-	-	-	143,540
Derivative financial instruments	-	-	-	-	20,235	5,750	25,985
Total financial liabilities	-	2,143,865	-	-	20,235	5,750	2,169,850
Non financial liabilities	-	75,518	-	-	-	-	75,518
Total Liabilities	-	2,219,383	-	-	20,235	5,750	2,245,368

Carrying values as at 31 December 2021	GROUP						
	Held at amortised cost		Held at fair value				Total £'000
	Loans and receivables	Other financial assets and liabilities at amortised cost	Available for sale	Investment property	Derivatives designated as fair value hedges	Unhedged derivatives	
	£'000	£'000	£'000	£'000	£'000	£'000	
Assets							
Cash in hand and balances with the Bank of England	-	315,975	-	-	-	-	315,975
Loans and advances to credit institutions	500	-	-	-	-	-	500
Debt securities	-	-	124,772	-	-	-	124,772
Derivative financial instruments	-	-	-	-	9,501	253	9,754
Loans and advances to customers	1,866,274	-	-	-	-	-	1,866,274
Total financial assets	1,866,774	315,975	124,772	-	9,501	253	2,317,275
Non financial assets	-	9,775	-	10,585	-	-	20,360
Total Assets	1,866,774	325,750	124,772	10,585	9,501	253	2,337,635
Liabilities							
Shares	-	1,661,255	-	-	-	-	1,661,255
Amounts due to credit institutions	-	283,406	-	-	-	-	283,406
Amounts owed to other customers	-	137,585	-	-	-	-	137,585
Derivative financial instruments	-	-	-	-	94,560	13,635	108,195
Total financial liabilities	-	2,082,246	-	-	94,560	13,635	2,190,441
Non financial liabilities	-	13,463	-	-	-	-	13,463
Total Liabilities	-	2,095,709	-	-	94,560	13,635	2,203,904

Carrying values as at 31 December 2022	SOCIETY					
	Held at amortised cost		Held at fair value			
	Loans and receivables	Other financial assets and liabilities at amortised cost	Available for sale	Derivatives designated as fair value hedges	Unhedged derivatives	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Assets						
Cash in hand and balances with the Bank of England	-	364,078	-	-	-	364,078
Loans and advances to credit institutions	100	-	-	-	-	100
Debt securities	-	-	131,756	-	-	131,756
Derivative financial instruments	-	-	-	72,365	199	72,564
Loans and advances to customers	1,747,209	-	-	-	-	1,747,209
Investment in subsidiary undertakings and associates	-	69,716	-	-	-	69,716
Total financial assets	1,747,309	433,794	131,756	72,365	199	2,385,423
Non financial assets	-	8,644	-	-	-	8,644
Total Assets	1,747,309	442,438	131,756	72,365	199	2,394,067
Liabilities						
Shares	-	1,743,108	-	-	-	1,743,108
Amounts due to credit institutions	-	257,217	-	-	-	257,217
Amounts owed to other customers	-	143,540	-	-	-	143,540
Derivative financial instruments	-	-	-	20,235	3,062	23,297
Total financial liabilities	-	2,143,865	-	20,235	3,062	2,167,162
Non financial liabilities	-	75,173	-	-	-	75,173
Total Liabilities	-	2,219,038	-	20,235	3,062	2,242,335

Carrying values as at 31 December 2021	SOCIETY					
	Held at amortised cost		Held at fair value			Total
	Loans and receivables £'000	Other financial assets and liabilities at amortised cost £'000	Available for sale £'000	Derivatives designated as fair value hedges £'000	Unhedged derivatives £'000	
Assets						
Cash in hand and balances with the Bank of England	-	315,975	-	-	-	315,975
Loans and advances to credit institutions	100	-	-	-	-	100
Debt securities	-	-	124,772	-	-	124,772
Derivative financial instruments	-	-	-	9,501	253	9,754
Loans and advances to customers	1,776,406	-	-	-	-	1,776,406
Investment in subsidiary undertaking	-	96,275	-	-	-	96,275
Total financial assets	1,776,506	412,250	124,772	9,501	253	2,323,282
Non financial assets	-	8,740	-	-	-	8,740
Total Assets	1,776,506	420,990	124,772	9,501	253	2,332,022
Liabilities						
Shares	-	1,661,255	-	-	-	1,661,255
Amounts due to credit institutions	-	283,406	-	-	-	283,406
Amounts owed to other customers	-	137,585	-	-	-	137,585
Derivative financial instruments	-	-	-	94,560	7,621	102,181
Total financial liabilities	-	2,082,246	-	94,560	7,621	2,184,427
Non financial liabilities	-	14,247	-	-	-	14,247
Total Liabilities	-	2,096,493	-	94,560	7,621	2,198,674

Fair values of financial assets and liabilities

The Group holds certain financial assets and liabilities at fair value, grouped into Levels 1 to 3 of the fair value hierarchy (see 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 unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.

Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

Fair values of financial assets and liabilities carried at fair value

The tables below show the fair values of the Group's and Society's financial assets and liabilities analysed according to the fair value hierarchy.

As at 31 December 2022	GROUP				
	Carrying value £'000	Fair value Level 1 £'000	Fair value Level 2 £'000	Fair value Level 3 £'000	Fair value Total £'000
Assets					
Debt securities	131,756	131,756	-	-	131,756
Derivative financial instruments	72,564	-	72,564	-	72,564
	204,320	131,756	72,564	-	204,320
Liabilities					
Derivative financial instruments	25,985	-	741	25,244	25,985
	25,985	-	741	25,244	25,985

As at 31 December 2021	GROUP				
	Carrying value £'000	Fair value Level 1 £'000	Fair value Level 2 £'000	Fair value Level 3 £'000	Fair value Total £'000
Assets					
Debt securities	124,772	124,772	-	-	124,772
Derivative financial instruments	9,754	-	9,754	-	9,754
	134,526	124,772	9,754	-	134,526
Liabilities					
Derivative financial instruments	108,195	-	4,502	103,693	108,195
	108,195	-	4,502	103,693	108,195

As at 31 December 2022	SOCIETY				
	Carrying value	Fair value Level 1	Fair value Level 2	Fair value Level 3	Fair value Total
	£'000	£'000	£'000	£'000	£'000
Assets					
Debt securities	131,756	131,756	–	–	131,756
Derivative financial instruments	72,564	–	72,564	–	72,564
	204,320	131,756	72,564	–	204,320
Liabilities					
Derivative financial instruments	23,297	–	741	22,556	23,297
	23,297	–	741	22,556	23,297

As at 31 December 2021	SOCIETY				
	Carrying value	Fair value Level 1	Fair value Level 2	Fair value Level 3	Fair value Total
	£'000	£'000	£'000	£'000	£'000
Assets					
Debt securities	124,772	124,772	–	–	124,772
Derivative financial instruments	9,754	–	9,754	–	9,754
	134,526	124,772	9,754	–	134,526
Liabilities					
Derivative financial instruments	102,181	–	4,502	97,679	102,181
	102,181	–	4,502	97,679	102,181

The main valuation techniques employed by the Group to establish the fair values of financial assets and liabilities are set out below:

Debt securities

Level 1: Market prices have been used to determine the fair value of listed debt securities.

Derivative financial instruments

Level 2: Interest rate swaps – the valuation of interest rate swaps is based on the ‘present value’ method. Expected interest cash flows are discounted using the prevailing SONIA yield curves. The SONIA yield curves are generally observable market data which is derived from quoted interest rates in similar time bandings which match the timings of the interest cash flows and maturities of the instruments. These fair values are adjusted to align them to external counterparty valuations where these are available. All swaps are collateralised and therefore no adjustment is required for credit risk in the fair value of derivatives.

Level 3: Lifetime Mortgage swap and NNEG embedded derivative – the fair value of these derivatives is calculated using internal models to derive profile projections which include external valuations of the upper and lower boundary in the Lifetime Mortgage swap and take into account predictions of future drawings, interest rates, mortality/morbidity, early redemption, HPI growth and HPI volatility. The internal model for the NNEG utilises Black Scholes methodology.

CREDIT RISK

Credit risk can be described as the risk of customers or counterparties being unable to meet their financial obligations to the Group as they become due.

The Group is exposed to this risk through its lending to:

- Individuals – residential mortgages, including Buy to Let
- Commercial lending
- Wholesale counterparties (including other financial institutions). This occurs within the treasury portfolio assets, where credit risk arises from the investments held by the Group in order to meet liquidity requirements and for general business purposes. It also arises from the use of derivatives and repos, but here collateralisation received reduces the risk substantially.
- Non wholly owned subsidiaries
- Associate companies

Changes in the credit quality and the recoverability of loans and amounts due from counterparties influence the Group's exposure to credit risk. Adverse changes in the credit quality of counterparties, collateral values or deterioration in the wider economy, including the impact of Covid 19 lock downs and payment holidays, rising unemployment, worsening household finances and tightening in the UK property market, resulting in declining property values, could affect the recoverability and value of the Group's assets and influence its financial performance. A prolonged economic downturn and the possible continuation of falls in property values (either residential or commercial) could affect the level of impairment losses currently recognised.

The controlled management of credit risk is critical to the Group's overall strategy. The Group has therefore embedded a comprehensive and robust credit risk management framework with clear lines of accountability and oversight as part of its overall governance framework. The Group has effective policies and procedures to identify, monitor, control, mitigate and manage credit risk within the Group's risk appetite.

The Group's maximum credit risk exposure is detailed below:	GROUP		SOCIETY	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Cash in hand and balances with the Bank of England	364,064	315,965	364,064	315,965
Loans and advances to credit institutions	384	500	100	100
Debt securities	131,756	124,772	131,756	124,772
Derivative financial instruments	72,564	9,754	72,564	9,754
Loans and advances to customers	1,813,059	1,744,958	1,751,920	1,676,936
Loan to, and profit share from, Family and Arden Homes LLP*	–	–	10,762	10,361
Total Statement of Financial Position exposure	2,381,827	2,195,949	2,331,166	2,137,888
Statement of Financial Position exposure – mortgage commitments	4,501	5,350	4,501	5,350
	2,386,328	2,201,299	2,335,667	2,143,238
Loans and advances to customers				
Concentration by loan type				
Loans fully secured on residential property				
Owner Occupied and Buy to Let	1,651,728	1,576,037	1,629,154	1,547,365
Lifetime	157,336	163,465	118,694	124,097
Other loans				
Loans fully secured on land – commercial	4,418	6,021	4,418	6,021
Gross balances	1,813,482	1,745,523	1,752,266	1,677,483
Impairment provisions	(423)	(565)	(346)	(547)
Effective interest rate adjustment	4,767	3,601	4,125	2,824
Fair value adjustments	(5,069)	117,715	(8,836)	96,646
	1,812,757	1,866,274	1,747,209	1,776,406

*Non-wholly owned Subsidiary.

	GROUP		SOCIETY	
	2022	2021	2022	2021
	%	%	%	%
Geographical analysis of gross mortgage balances				
North	2	2	2	2
North East	5	5	5	5
North West	5	5	5	5
East Midlands	4	3	4	3
West Midlands	5	5	5	5
East Anglia	3	3	3	3
South East	64	65	64	65
South West	10	10	10	10
Wales	2	2	2	2
	100	100	100	100
Indexed loan to value distribution of Owner Occupied and Buy to Let gross mortgage balances				
Greater than 95%	-	-	-	-
90% – 95%	-	-	-	-
85% – 90%	-	-	-	-
75% – 85%	2	2	2	2
50% – 75%	34	34	34	34
<50%	64	64	64	64
Total	100	100	100	100
Average loan to value of Owner Occupied and Buy to Let mortgage portfolio	43	44	43	42
Indexed loan to value distribution of Lifetime gross mortgage balances				
Greater than 95%	1	1	1	1
90% – 95%	-	-	-	-
85% – 90%	-	1	-	-
75% – 85%	1	1	-	-
50% – 75%	20	20	12	9
<50%	78	77	87	90
Total	100	100	100	100
Average loan to value of Lifetime Mortgage portfolio	46	48	41	40

	GROUP		SOCIETY	
	2022	2021	2022	2021
	%	%	%	%
Indexed loan to value distribution of Commercial gross mortgage loan balances				
Greater than 95%	-	-	-	-
90% – 95%	-	-	-	-
85% – 90%	-	-	-	-
75% – 85%	-	-	-	-
50% – 75%	-	-	-	-
<50%	100	100	100	100
Total	100	100	100	100
Average loan to value of Commercial mortgage portfolio	26	27	26	27

The Group's average indexed loan to value at the year end date is 38% (2021: 40%).

The table below provides further information on the Group's residential loans and advances to customers by payment due status at the year end:

	GROUP		SOCIETY	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Loans neither past due or impaired	1,779,088	1,710,284	1,720,302	1,644,887
Past due but not impaired				
Past due to 3 months	22,304	19,540	21,418	18,328
Past due 3 to 6 months	1,616	1,157	1,616	1,126
Past due 6 to 12 months	653	2,687	574	2,339
Past due over 12 months	761	1,328	279	571
Possessions	-	-	-	-
Impaired				
Not past due	507	1,181	507	1,181
Past due to 3 months	2,760	727	2,486	655
Past due 3 to 6 months	79	-	-	-
Past due 6 to 12 months	110	2,160	-	1,937
Past due over 12 months	117	-	-	-
Possessions	1,069	438	667	438
	1,809,064	1,739,502	1,747,849	1,671,462

Loans that are past due are shown in the table above as not impaired where no impairment provision is required.

The following table indicates assets obtained by taking possession of collateral held against residential loans and advances to customers:

	GROUP		SOCIETY	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Residential property	924	438	466	438
	924	438	466	438

The table below provides further information on the Group's commercial loans and advances to customers by payment due status at the year end:

	GROUP		SOCIETY	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Loans neither past due or impaired	4,125	5,704	4,125	5,704
Past due but not impaired				
Not past due	293	317	293	317
Past due to 3 months	-	-	-	-
Past due 3 to 6 months	-	-	-	-
Past due 6 to 12 months	-	-	-	-
Past due over 12 months	-	-	-	-
Possessions	-	-	-	-
Impaired				
Not past due	-	-	-	-
Past due to 3 months	-	-	-	-
Past due 3 to 6 months	-	-	-	-
Past due 6 to 12 months	-	-	-	-
Past due over 12 months	-	-	-	-
Possessions	-	-	-	-
	4,418	6,021	4,418	6,021

Loans that are past due are shown in the table above as not impaired where no impairment provision is required.

No commercial property was held at 31 December 2022 or 31 December 2021 as a result of taking possession of collateral held against commercial loans and advances to customers.

The collateral held consists of properties included within the above categories. The use of such collateral is in line with terms that are usual and customary to standard lending activities.

Forbearance strategies and restructured loans

A range of forbearance strategies are employed in order to work with our borrowers to control arrears and, wherever it is in the borrower's best interest, avoid repossession. The agreed strategy will reflect the customer's individual circumstances and will be used in line with industry guidance.

Our approach is based on criteria which, in the judgment of senior management, indicate that repayment is likely to continue. Forbearance arrangements include extended payment terms, a reduction in interest or principal repayments, and approved external debt management plans.

Interest is recorded on loans in forbearance on the basis of new contractual terms following restructure.

In March 2020, as a consequence of the impact of Covid-19, the Government, the regulators and all mortgage lenders (including the Society) agreed to offer all borrowers the option of taking a 3 month payment holiday on their mortgage payments if they were experiencing or were reasonably expected to experience payment difficulties. Interest would still accrue on the loans, but the borrowers would not be treated as being in arrears for the missed payments during the agreed payment holiday. In June 2020, the guidance was updated to allow borrowers already on a 3 month payment holiday that was coming to an end, to request an extension of that payment holiday for up to another 3 months, giving 6 months in total. Just over a 1,000 of our Members took the option of a payment holiday and at the end of that period were offered three options to cover the impact of the payment holiday on their mortgage – increase payments over the remaining term of the mortgage; pay a lump sum and resume normal payments or extend the mortgage term for the length of the payment holiday. By 31 December 2020, less than 50 of our Members were still on a payment holiday with the majority of the others resuming payments. Less than 20 Members were offered formal forbearance after the end of the payment holiday as they were unable to resume payments. Members had until 31 March 2021 to request a payment holiday of up to 6 months in total (not necessarily con-current) to cover financial difficulties as a direct consequence of the Coronavirus pandemic. At 31 December 2021, no Members remained on a payment holiday and 2 Members were still receiving formal forbearance as a direct consequence of the Covid-19 pandemic. No significant further support has been necessary during 2022.

The tables below analyse balances of loans and advances to customers where forbearance measures have been applied as at the year end date:

	GROUP			SOCIETY		
	Number of accounts	Gross loans £'000	Provision £'000	Number of accounts	Gross loans £'000	Provision £'000
As at 31 December 2022						
Temporary arrangement – interest-only	13	2,059	-	13	2,059	-
Temporary arrangement – other	13	979	-	-	-	-
Concession	-	-	-	-	-	-
Extension of mortgage term	1	63	-	1	63	-
Interest-only conversion	-	-	-	-	-	-
	27	3,101	-	14	2,122	-

	GROUP			SOCIETY		
	Number of accounts	Gross loans £'000	Provision £'000	Number of accounts	Gross loans £'000	Provision £'000
As at 31 December 2021						
Temporary arrangement – interest-only	12	2,620	-	12	2,620	-
Temporary arrangement – other	18	1,312	-	1	25	-
Concession	-	-	-	-	-	-
Extension of mortgage term	1	66	-	1	66	-
Interest-only conversion	1	695	-	1	695	-
	32	4,693	-	15	3,406	-

Loans and advances to credit institutions and debt securities

The Group holds treasury investments in order to meet liquidity requirements and for general business purposes. The credit risk arising from these investments is monitored, managed and controlled closely by the Group.

The Group determines that a treasury asset is impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of 'significant or prolonged' requires judgment. In making this judgment, the Group evaluates, among other factors, the normal volatility in valuation, evidence of deterioration in the financial health of the investee, industry and sector performance and operational and financing cash flows. At 31 December 2022 and 31 December 2021 none of the Group's treasury investments were either past due or impaired and no impairment charges were required during the year.

The Group has no non-UK exposure in its liquidity portfolio other than to Multilateral Development Banks. The tables below show the relative concentrations of the Group's treasury investment portfolio.

The ALCO is responsible for approving treasury counterparties for both derivatives and investment purposes. Limits are placed on the amount of risk accepted in relation to one counterparty, or group of counterparties, and to industry sectors. This is monitored daily by the society's Treasury team and reviewed monthly by ALCO.

The Group's policy permits lending to UK central government (which includes the Bank of England), Multilateral Development Banks and banks and building societies approved by ALCO and the Board.

An analysis of the Group's treasury asset concentration is shown in the table below:

	GROUP		SOCIETY	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Concentration by credit grading				
AAA	4,125	4,042	4,125	4,042
AA	127,631	120,730	127,631	120,730
A	384	500	100	100
	132,140	125,272	131,856	124,872
Concentration by industry sector				
Banks	384	500	100	100
Multilateral Development Banks	4,125	4,042	4,125	4,042
UK Treasury	127,631	120,730	127,631	120,730
	132,140	125,272	131,856	124,872
Concentration by geographic region				
UK	128,015	121,230	127,731	120,830
Multilateral Development Banks	4,125	4,042	4,125	4,042
	132,140	125,272	131,856	124,872

LIQUIDITY RISK

The Society's principal purpose is to make loans secured by way of mortgage on residential property funded substantially by short-term savings from its Members.

The contractual maturity of the mortgages is typically up to 25 years although loans are often repaid early due to borrowers moving house or remortgaging.

In contrast, the majority of members' savings are available on demand or at short notice. It is this inherent mismatch between the maturity profile of mortgage lending and the easy accessibility of savings that creates liquidity risk.

The Group's liquidity policy is to maintain sufficient assets in liquid form at all times to ensure that the Group can meet all its liabilities as they fall due and also meet all regulatory liquidity requirements.

The Group manages this risk on a continuous basis through the ALCO and by ensuring compliance with the Liquidity and Financial Risk Management Policies approved by the Board. In practice this results in the Group holding a significant amount of highly liquid assets, mainly UK Gilts, Treasury bills, Multilateral Development Bank securities and deposits with the Bank of England, which are eligible to meet its required liquidity buffer set by the regulator and for use as collateral with derivative counterparties. Day-to-day operational requirements are met from deposits placed on call or overnight with the Bank of England and major banks. The Group also uses repos and reverse repos, which are effectively secured borrowing and lending, in its liquidity management operations.

The Board undertakes a detailed review of its liquidity adequacy under the Individual Liquidity Adequacy Assessment process (ILAAP) and submits this to the PRA for supervisory review. The ILAAP specifies the daily processes that the Society will use to determine the amount of liquidity required to cover its potential cash flow needs under a range of stresses including three PRA standard scenarios 'name-specific', 'market-wide' and 'combined'.

There are many tests, limits and controls that the Group uses to monitor and manage its liquidity position. In particular these include:

- **Overall Liquidity Adequacy Requirement (OLAR)** – This includes a requirement to maintain sufficient liquid assets to survive a short term stressed outflow and a longer term survival requirement including contingent liquidity.
- **Liquidity Coverage Ratio (LCR)** – The regulatory minimum percentage of buffer assets to net outflows.
- **Future funding period outflows** – Restrictions on the maximum wholesale and retail funding that can be taken in different future time periods to avoid concentrations of potential outflows in any period.

The tables below analyse the Group's assets and liabilities across maturity periods that reflect the residual maturity from the year end date to the contractual maturity date. Loans and advances to customers that have no specific maturity date have been included in the 'More than 5 years' category. The actual repayment profile of loans and advances is likely to be significantly different to that shown in the analysis:

Residual maturity as at 31 December 2022	GROUP						Total £'000
	On demand £'000	Not more than 3 months £'000	More than 3 months but not more than 1 year £'000	More than 1 year but not more than 5 years £'000	More than 5 years £'000	Non defined maturity £'000	
Financial assets							
Cash in hand and balances with the Bank of England	364,078	-	-	-	-	-	364,078
Loans and advances to credit institutions	384	-	-	-	-	-	384
Debt securities	-	3,992	11,891	92,297	22,609	967	131,756
Derivative financial instruments	-	199	2,535	63,799	6,031	-	72,564
Loans and advances to customers	11,254	6,481	10,280	278,166	1,507,301	(725)	1,812,757
Other assets	-	-	-	-	-	20,282	20,282
	375,716	10,672	24,706	434,262	1,535,941	20,524	2,401,821
Financial liabilities and reserves							
Shares	599,878	571,581	299,867	260,664	-	11,118	1,743,108
Amounts owed to credit institutions	-	12,987	22,500	220,000	-	1,730	257,217
Amounts owed to other customers	2,630	74,469	65,150	-	-	1,291	143,540
Derivative financial instruments	-	-	7	656	25,322	-	25,985
Other liabilities	-	-	-	-	-	75,518	75,518
Reserves	-	-	-	-	-	156,453	156,453
	602,508	659,037	387,524	481,320	25,322	246,110	2,401,821

Residual maturity as at 31 December 2021	GROUP						Total £'000
	On demand £'000	Not more than 3 months £'000	More than 3 months but not more than 1 year £'000	More than 1 year but not more than 5 years £'000	More than 5 years £'000	Non defined maturity £'000	
Financial assets							
Cash in hand and balances with the Bank of England	315,975	-	-	-	-	-	315,975
Loans and advances to credit institutions	500	-	-	-	-	-	500
Debt securities	-	5,029	8,093	78,222	32,601	827	124,772
Derivative financial instruments	-	8	4	9,264	478	-	9,754
Loans and advances to customers	1,270	3,377	23,245	223,146	1,494,485	120,751	1,866,274
Other assets	-	-	-	-	-	20,360	20,360
	317,745	8,414	31,342	310,632	1,527,564	141,938	2,337,635
Financial liabilities and reserves							
Shares	678,401	635,028	204,409	138,890	-	4,527	1,661,255
Amounts owed to credit institutions	-	43,720	19,577	220,000	-	109	283,406
Amounts owed to other customers	3,460	60,509	73,424	-	-	192	137,585
Derivative financial instruments	-	140	331	2,327	105,397	-	108,195
Other liabilities	-	-	-	-	-	13,463	13,463
Reserves	-	-	-	-	-	133,731	133,731
	681,861	739,397	297,741	361,217	105,397	152,022	2,337,635

There is no material difference between the maturity profile for the Group and that for the Society.

The following is an analysis of gross contractual cash flows payable under financial liabilities.

	GROUP					
	Repayable on demand £'000	Not more than 3 months £'000	More than 3 months but not more than 1 year £'000	More than 1 year but not more than 5 years £'000	More than 5 years £'000	Total £'000
31 December 2022						
Shares	601,967	588,925	301,140	269,126	-	1,761,158
Amounts owed to credit institutions	-	9,741	17,878	201,220	44,287	273,126
Amounts owed to other customers	-	77,871	66,591	-	-	144,462
Derivative financial instruments	-	643	643	5,148	31,908	38,342
Total liabilities	601,967	677,180	386,252	475,494	76,195	2,217,088
31 December 2021						
Shares	675,921	646,055	202,107	138,689	-	1,662,772
Amounts owed to credit institutions	-	51,304	19,815	220,713	-	291,832
Amounts owed to other customers	-	64,114	73,660	-	-	137,774
Derivative financial instruments	-	2,960	8,198	31,898	94,718	137,774
Total liabilities	675,921	764,433	303,780	391,300	94,718	2,230,152

The analysis of gross contractual cash flows differs from the analysis of residual maturity due to the inclusion of accrued interest at current rates, for the average period until maturity on the amounts outstanding at the Statement of Financial Position date.

MARKET RISK

The Group is exposed to interest rate risk through a number of potential mismatches. The Group manages this exposure on a continuous basis through the ALCO, within limits set by the Board and using a combination of financial instruments. These mismatches are primarily: interest rate basis risk, where instruments with similar re-pricing characteristics reprice differently e.g. market rates increase more quickly than mortgage rates; yield curve risks, causing assets and liabilities to reprice differently; and repricing mismatches e.g. where there is a mismatch between the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates. The latter interest rate sensitivity exposure for the Group, after taking into account derivative hedge contracts entered into by the Society to manage this risk, was as follows:

	GROUP						
	Not more than 3 months £'000	More than 3 months but less than 6 months £'000	More than 6 months but less than 1 year £'000	More than 1 year but less than 5 years £'000	More than 5 years £'000	Non- interest bearing £'000	Total £'000
At 31 December 2022							
Assets							
Cash in hand and balances with the Bank of England	360,037	-	-	-	-	4,041	364,078
Loans and advances to credit institutions	384	-	-	-	-	-	384
Debt securities	3,996	-	12,090	93,709	25,140	(3,179)	131,756
Derivative financial instruments	-	-	-	-	-	72,564	72,564
Loans and advances to customers	539,462	34,629	110,307	949,139	179,945	(725)	1,812,757
Other assets	-	-	-	-	-	20,282	20,282
Total assets	903,879	34,629	122,397	1,042,848	205,085	92,983	2,401,821
Liabilities							
Shares	1,141,144	48,576	285,902	256,368	-	11,118	1,743,108
Amounts owed to credit institutions	252,987	500	2,000	-	-	1,730	257,217
Amounts owed to other customers	77,099	55,900	9,250	-	-	1,291	143,540
Derivative financial instruments	-	-	-	-	-	25,985	25,985
Other liabilities	-	-	-	-	-	75,518	75,518
Reserves	-	-	-	-	-	156,453	156,453
Total liabilities	1,471,230	104,976	297,152	256,368	-	272,095	2,401,821
Impact of derivative financial instruments	1,009,066	(16,100)	(17,000)	(794,769)	(181,197)	-	-
Interest rate sensitivity gap	441,715	(86,447)	(191,755)	(8,289)	23,888	(179,112)	-
Sensitivity to profit and reserves							
Parallel shift of 1%	(550)	320	1,394	249	(2,389)	-	(976)
Parallel shift of 2%	(1,100)	640	2,788	498	(4,778)	-	(1,952)

At 31 December 2021	GROUP						Total £'000
	Not more than 3 months £'000	More than 3 months but less than 6 months £'000	More than 6 months but less than 1 year £'000	More than 1 year but less than 5 years £'000	More than 5 years £'000	Non-interest bearing £'000	
Assets							
Cash in hand and balances with the Bank of England	311,928	-	-	-	-	4,047	315,975
Loans and advances to credit institutions	500	-	-	-	-	-	500
Debt securities	5,028	-	8,063	76,549	30,165	4,967	124,772
Derivative financial instruments	-	-	-	-	-	9,754	9,754
Loans and advances to customers	634,181	44,614	86,276	787,580	192,872	120,751	1,866,274
Other assets	-	-	-	-	-	20,360	20,360
Total assets	951,637	44,614	94,339	864,129	223,037	159,879	2,337,635
Liabilities							
Shares	1,274,815	71,473	138,194	172,246	-	4,527	1,661,255
Amounts owed to credit institutions	268,797	9,500	5,000	-	-	109	283,406
Amounts owed to other customers	58,922	53,674	24,828	-	-	161	137,585
Derivative financial instruments	-	-	-	-	-	108,195	108,195
Other liabilities	-	-	-	-	-	13,463	13,463
Reserves	-	-	-	-	-	133,731	133,731
Total liabilities	1,602,534	134,647	168,022	172,246	-	260,186	2,337,635
Impact of derivative financial instruments	982,378	(45,500)	(77,812)	(664,727)	(194,339)	-	-
Interest rate sensitivity gap	331,481	(135,533)	(151,495)	27,156	28,698	(100,307)	-
Sensitivity to profit and reserves							
Parallel shift of 1%	(414)	507	1,131	(815)	(2,870)	-	(2,461)
Parallel shift of 2%	(828)	1,014	2,262	(1,630)	(5,740)	-	(4,922)

There is no material difference between the interest rate risk profile for the Group and that for the Society.

30. SEGMENTAL ANALYSIS

The Group operates only in the United Kingdom and all its transactions are denominated in Pounds Sterling.

The Group operates as one business and therefore no segmental analysis is relevant.

31. CAPITAL MANAGEMENT

Requirements for the quality and quantity of capital to be held by the Group are set out in the Capital Requirements Directive IV, covering prudential rules for banks, building societies and investment firms. The capital requirements of the Group are monitored quarterly with the results reported to the Board. Capital is ultimately held for the protection of depositors. The internal level of capital is set with the aim of ensuring that the business has sufficient levels of capital for current and projected future activities, to withstand downturn stresses, and to ensure that the minimum regulatory requirement is always met.

The Society conducts an Internal Capital Adequacy Assessment Process (ICAAP) covering all risks. This is used to assess the Society's capital adequacy and determine the levels of capital required going forward to support the current and future risks in the business.

Throughout the year the Group complied with, and maintained surplus capital above, the externally imposed capital requirements.

The following table shows the composition of the Group's regulatory capital:

	GROUP	
	2022 £'000	2021 £'000
Common Equity Tier 1 capital		
General reserves	156,098	132,171
Available-for-sale reserve	(581)	1,082
Common Equity Tier 1 capital prior to regulatory adjustments	155,517	133,253
Adjustments to regulatory capital	(856)	(1,112)
Common Equity Tier 1 capital	154,661	132,141
Tier 2 capital		
Collective provision	266	151
Total Capital	154,927	132,292

32. COUNTRY-BY-COUNTRY REPORTING (unaudited)

Article 89 of the Capital Requirements Directive IV requires credit institutions and investments firms to disclose annually, the following information on a consolidated basis for the year: name, nature of activities, geographical location, turnover, number of employees, profit before tax, corporation tax paid and public subsidies received.

The principal activities of National Counties Building Society are the provision of residential mortgages and retail savings products.

National Counties Building Society and its subsidiaries operate mainly in the United Kingdom. Details of the Society's trading subsidiaries are disclosed in Note 16a.

Average employee numbers are disclosed in Note 8.

	GROUP	
	2022 £'000	2021 £'000
Turnover	40,315	34,491
Profit before tax	32,283	22,549
Corporation tax paid	7,957	1,192

Turnover consists of net interest income, net fees and commissions received or paid and other income.

No public subsidies were received by the Group.

33. RELATED PARTY DISCLOSURES

During the year, the Society paid Smart Money People Limited £9,360 (2021: £9,360) for customer insight information and £42,300 (2021: £28,800) to a company for which Patrick Muir is a Director for his services as a Director to Smart Money People Limited.

The Society has provided a loan facility to Smart Money People Limited. Interest is charged on the loan at a fixed rate of 1.2% per annum and the loan is repayable in full on 30 September 2024. The balance on the loan at 31 December 2022, including accrued interest, was £822,618.

At 31 December 2022, the Society had separate mortgage loans outstanding totalling £21,703,781 (2021: £16,999,000) with Eastbank Limited and other related parties. Eastbank Limited is a related party of Arden & Sons Limited which is a fellow Member of Family & Arden Homes LLP, a subsidiary partnership. Interest on the loans is charged at normal commercial rates.

The Society has made available to Family & Arden Homes LLP, a £10m loan facility which is interest free and repayable on 7 days notice. The amount drawn on the facility at 31 December 2022 was £9,825,000 (2021: £9,882,000).

The Directors held £1,493,639 of savings balances with the Society at 31 December 2022 (2021: £988,608).

During the year, the Society paid £5,250 to a company for which John Howard, a former director of the Society, is a Director for his services to the Society.

ANNUAL BUSINESS STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2022

The Annual Business Statement sets out certain information and explanations prescribed by regulations made under the Building Societies Act 1986 in respect of the Group’s business for the year.

1. STATUTORY PERCENTAGES

	%	Statutory limit %
a) Lending limit		
Proportion of business assets other than in the form of loans fully secured on residential property	0.33	25
b) Funding limit		
Proportion of shares and other borrowings other than in the form of shares held by individuals	18.69	50

The statutory percentages demonstrate that the Group complies with the principal purpose of a building society, namely the making of loans which are secured on residential property and funded substantially by its members.

The above percentages are derived directly from the Group Statement of Financial Position.

Business assets are the total assets of the Group plus provisions for impairment losses less tangible and intangible fixed assets and liquid assets.

Loans fully secured on residential property comprises the amount of those loans shown in the Group Statement of Financial Position plus provisions for impairment losses on those loans.

2. OTHER PERCENTAGES

	2022 %	2021 %
As a percentage of shares and borrowings:		
Gross capital	7.30	6.42
Free capital	6.98	6.04
Liquid assets	23.15	21.19
As a percentage of mean assets:		
Profit after taxation	1.08	0.78
Management expenses – Group	1.04	0.84
Management expenses – Society	0.96	0.81

The above percentages have been compiled directly from the Group Accounts.

Gross capital represents general reserves and available-for-sale reserves.

Free capital represents the aggregate of gross capital and collective provision for impairment losses less tangible and intangible fixed assets.

Mean total assets represents the average of the aggregate of total assets at the beginning and end of the year.

Profit after taxation is described as profit for the financial year in the Income Statement.

Management expenses are the aggregate of administrative expenses and depreciation and amortisation.

3. INFORMATION RELATING TO DIRECTORS AND OTHER OFFICERS

DIRECTORS AT 31 DECEMBER 2022

		OTHER DIRECTORSHIPS:
	Rodger Grant Hughes <i>MA, FCA</i> (Chairman) Born: August 1948 Appointed: July 2013 Business Occupation: Non-executive Director	Counties Home Loan Management Ltd*
	Patrick Harry Muir (Vice Chairman) Born: May 1965 Appointed: March 2015 Business Occupation: Marketing Consultant	Swan Marketing Services Ltd Smart Money People Limited*
	Mark Alexander Bogard <i>MA</i> Born: January 1962 Appointed: May 2012 Business Occupation: Building Society Chief Executive	Counties Home Loan Management Ltd* Alexander Hall Associates Ltd Goodeffect Ltd
	Andrew Barnard <i>BA, ACMA, CGMA</i> Born: July 1971 Appointed: April 2018 Business Occupation: Building Society Finance Director	Counties Home Loan Management Ltd*
	John Cole <i>FCA</i> Born: July 1953 Appointed: October 2019 Business Occupation: Chartered Accountant	London South Bank University Age UK – Treasurer
	Peter Edward Navin <i>BA, FCIB</i> Born: August 1962 Appointed: November 2022 Business Occupation: Non-executive Director	Ipsium Holdings Limited PEN Coaching and Consultancy Ltd
	Susan Sharrock Yates <i>BA, FCA, FCT</i> Born: October 1958 Appointed: August 2020 Business Occupation: Non-executive Director	Friends Provident Pension Scheme Trustees Limited
	Simon Wainwright <i>BSc, MBA, FCIB</i> Born: April 1963 Appointed: March 2015 Business Occupation: Managing Director	RGA UK Services Ltd Recognise Bank Limited City of London Group Plc

OFFICERS AT 31 DECEMBER 2022

Chris Agathangelou
Business Occupation: Director of Commercial Development

Keith Barber *DMS, ACIB, DipPFS*
Business Occupation: Director of Business Development

Malcolm Clays *BSocSc, ACA*
Business Occupation: Director of Finance

Andrew Deeley *MCICM*
Business Occupation: Director of Lending

Michael Feather
Business Occupation: Director of Business Change

Graeme Wolvaardt
Business Occupation: Chief Risk Officer

Rebecca Hayes
Business Occupation: Chief Information and Technology Officer

Nick Hodges *BSc, FCT, ACMA*
Business Occupation: Director of Treasury

David Horsman *LLM, FCCA*
Business Occupation: Director of Financial Planning and Analysis

Kathryn Mendoza *LLB*
Business Occupation: Secretary and Director of Legal and Compliance

Alistair Nimmo
Business Occupation: Director of Marketing

Vicki Webb *BSc, MCIPD*
Business Occupation: Director of HR and Training

DIRECTORSHIPS:

AGA Consulting & Services Ltd

National Counties Financial Services Ltd*

(None)

(None)

(None)

(None)

Smart Money People Limited*

(None)

(None)

(None)

(None)

(None)

*Companies within the National Counties Group

Details of Executive Directors' service contracts are provided in the Report on Remuneration on page 54.

Details of membership of and attendances at main Board Committees are given in the Report on Corporate Governance.

The address for service of documents for each director is National Counties Building Society, Ashley Square, Ashley Centre, Epsom, Surrey KT11 5DD.



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Ebbisham House, 30 Church Street
Epsom, Surrey KT17 4NL
ncbs.co.uk

COUNTER SERVICES

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Ashley Centre, Epsom
Surrey KT18 5DD



Ebbisham House, 30 Church Street
Epsom, Surrey KT17 4NL
familybuildingsociety.co.uk

Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Firm Reference Number 206080. www.fca.org.uk/register.
Member of the Building Societies Association.

G/008/0223/MKTG