ANNUAL REPORT & ACCOUNTS 2024

THE FAMILY BUILDING SOCIETY

ncbs national counties building society

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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 PUBLICATIONS AND WEBSITES HAVE RECOGNISED OUR EFFORTS ACROSS 2024.

WHAT MORTGAGE AWARDS 2024

Nominated and voted for by the public, we were selected as the winner for **Best Remortgage Lender**. Our Family Mortgage also helped us to be selected as the winner in the **Best Guarantor / Family Support Mortgage Lender** category.

MONEY AGE AWARDS 2024

We were voted as highly commended by the public for the **Building Society of the Year** category.

MORTGAGE INTRODUCER AWARDS 2024

We were voted by a judges panel as the winner in the **Mortgage Lender of the Year** category.

PERSONAL FINANCE AWARDS 2024/2025

We were selected as the winner in the **Best First Time Buyer Mortgage Provider** category as well as highly commended in the **Best Building Society Customer Service** category, again as voted for by the public.

FINANCIAL REPORTER BROKER'S CHOICE AWARDS 2024

Voted for by the broker community, we were selected the winner for the **Best Later Life Lender** category.

2024 Highlights...

Key Performance Indicators

STATUTORY GROUP PROFIT BEFORE TAX	UNDERLYING GROUP PROFIT BEFORE TAX*	RESERVES	TOTAL ASSETS
£7.5m	£6.1m	£171.3m	£2,651m
2023: £17.0M	2023: £20.0m	2023: £169.4m	2023: £2,480m

*See page 23 for the definition of underlying group profit before tax

THE GROUP'S PROGRESS IS MONITORED BY THE BOARD USING A SET OF STRATEGIC KEY PERFORMANCE INDICATORS (KPIs) WHICH ARE DESCRIBED BELOW AND ON THE NEXT PAGE. GIVEN THE DIFFICULT BACKGROUND ENVIRONMENT, THE BOARD IS SATISFIED WITH THE OUTCOME OF THE KPIs FOR 2024.

KPI	Description	2024	2023
1. GROUP PROFIT	Group profit after tax to average assets ratio	0.18%	0.50%
2. NET INTEREST	Society net interest margin	1.49%	2.01%
3. COST / INCOME	Society cost/income ratio	80.6%	51.9%
4. COMMON EQUITY	Common Equity Tier 1 capital ratio	19.1%	20.3%
5. LOAN MOVEMENT	Movement in Group loan balances†	+8.2%	+7.5%
6. MORTGAGE ARREARS	Group residential mortgages in arrears by more than three months as a percentage of all Group residential mortgage accounts	0.53%	0.36%
7. COMPLAINTS	Number of complaints upheld in the year as a percentage of average number of Society members	0.18%	0.18%
8. SERVICE	Percentage of members reporting good or better service in the annual customer survey	92.9%	91.9%

†Excludes fair value adjustments

1 GROUP PROFIT AFTER TAX TO AVERAGE 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 decreased in 2024 to 0.18% (2023: 0.50%) reflecting a reduction in the net interest margin and an increase in the cost base, but remains at an acceptable level.

2 SOCIETY NET INTEREST MARGIN:

This is the difference between the average interest rate the Society receives on its loans less the average interest rate it pays on its deposits and other borrowings. This needs to be large enough to allow a level of profit but not too high, in order to give Members fair rates. In 2024, this reduced to 1.49% (2023: 2.01%) as a result of the challenge of balancing reductions in mortgage and savings rates as UK interest rates started to fall from their peak in 2023.

3 SOCIETY COST / INCOME RATIO:

This ratio measures how efficient the Society is in terms of generating income from its cost base. It is calculated by dividing the Society's administrative, depreciation, software and goodwill amortiation costs by its total net income (excluding net gains/(losses) from financial instruments). For 2024, this increased significantly to 80.6% (2023: 51.9%) due to a reduction in the net interest margin and an increase in the cost base from the continued 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 decreased slightly in 2024 to 19.1% (2023: 20.3%) following the growth in the mortgage book in the year.

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

During 2024 the Group increased its loan balances by 8.2% which was slightly above the increase for 2023 of 7.5%, and was in line with our target growth rate.

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 2024, despite the impact of the cost of living crisis and the continued disruption to economic activity, the incidence of our borrowers incurring payment difficulties at the level of three months' payment, although increasing, still remains very low at 0.53% (2023: 0.36%).

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

This KPI tracks our service levels. In 2024 it was 0.18% (2023: 0.18%). 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 92.9% (2023: 91.9%) this shows that the Society is regarded by most Members as giving consistently good service.

Chair's Statement

SIMON WAINWRIGHT

YOUR SOCIETY PERFORMED SATISFACTORILY IN 2024 DESPITE A DIFFICULT BACKGROUND ENVIRONMENT. THE LOAN PORTFOLIO GREW AGAIN, AND LOAN LOSSES REMAIN NEGLIGIBLE. PROFITS DID REDUCE FROM THE UNUSUALLY HIGH LEVELS OF RECENT YEARS, AS INTEREST RATES STARTED TO FALL, COMPETITION IN THE MORTGAGE MARKETS REMAINS INTENSE AND BECAUSE RATES PAID TO SAVERS REMAIN ATTRACTIVE. INDEED, RATES AVAILABLE TO SAVERS ENDED THE YEAR ABOVE INFLATION AGAIN.

We continue to invest in the future with our Digital Transformation Programme, to further improve the Society's customer service and experience, making us even easier to do business with and even more resilient and secure, whilst retaining our traditional values. Our aim remains to treat each of our Members as an individual, with real people answering the phone and underwriting each mortgage case manually as we serve those people that the bigger providers and their credit scored models do not.

While 2025 will not be easy to negotiate, given the geopolitical and financial backdrop, your Society moves forward in a strong position.

RESULTS

Group total assets increased by 7% to £2,651 million (2023: increased by 3% to £2,480 million). Statutory profit before tax for the year was £7.5 million (2023: £17.0 million) and underlying profit before tax was £6.1million (2023: £20.0 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.

Our capital base has grown again to £171.3m. We remain strongly capitalised, meaning that we are well placed to withstand economic shocks and surprises and meet our obligations. Indeed, we hold a material excess of capital over that which both the Board and our regulators believe that we require to operate prudently day to day.

FUTURE

I note with interest the Labour Party manifesto commitment to double the size of the mutual and co-operative sector. How this will be achieved, indeed how it will even be measured and over what time period, remains the subject of debate, but it is a welcome endorsement of the importance of a diverse and competitive financial market and the positive differences that the mutual model brings for Members.

Our own plan is for continued controlled growth over the next few years, supported by further investment in technology and with an eye out for any further potential sources of income or value to further strengthen the resilience of the Society.

We continue to invest in Smart Money People, a website that allows customers to review their experience of financial services products and organisations. People have now left 2.2 million reviews. This information is valuable both to other potential customers of those firms and provides insight to those companies about their product and service. So, it provides a platform to improve the overall market which we feel a strong sense of purpose in doing. We are ambitious for its future and its value, whilst conscious of the cost of the ongoing investment and the risk in any such venture.

We are also conscious that we should aim to achieve a reasonable return on the excess capital that we hold that is not required in the medium term for our day-to-day activities. The Board will most carefully assess the risk and reward of any investment we look at; meanwhile it remains securely held in UK Government bonds (Gilts).

BOARD

Board succession is a key responsibility of mine as Chair; maintaining the strength of the Board, balancing continuity with the injection of new blood and maintaining a good spread of skills.

I am pleased to say that we have recruited two new Non-executive Directors to join the Board. They each have different but highly useful experience from successful executive careers. I believe that it is a testament to the Society that we have recruited individuals of this calibre. We appoint on merit, and these are the best two candidates that we saw. In the first round of our selection process, we did not see any candidates of the quality we required, so we halted the process and came back to it after some time had passed.

Robin Churchouse joined the Board in October 2024; he is a qualified chartered accountant, who was previously Chief Financial Officer, among other roles, at the Yorkshire Building Society, and he holds, or has held, other relevant non-executive positions.

Louise Colley will join the Board in March 2025. She is currently Head of Retail Protection at Zurich Life UK having previously held several senior positions at Aviva plc. She brings a wealth of product and distribution experience, interestingly having started as a compliance manager.

CULTURE

Most organisations claim to have a great culture and the right values. But few probably really live those values.

Our people do a terrific job, treating Members as they would wish to be treated themselves, and the feedback we receive continually evidences this.

I would like to take this opportunity to thank them on behalf of Members generally for the excellent service they provide.

The Board is always interested in the compliments that we receive – especially as these days many people seem more ready to complain than compliment. Such compliments are without exception aimed at a particular individual and I wanted to highlight just a few recently received:

> *"Thank you so much for calling me back, I have been so stressed out with this process, but you alleviated all my concerns. It's so nice to be able to speak to someone who understands and is willing to help, thank you!"*
>
> **FOR SARAH EVERINGHAM**

> *"If all financial institutions treated their customers as Family Building Society do, the world would be a better place."*
>
> **FOR STEPH MCGRATH**

> *"You have the customer service that everyone should have. You have been a delight!"*
>
> **FOR PARIS PULLINGER**

MEMBERSHIP

The Board never forgets that it is here to provide oversight on behalf of current and prospective Members of the Society.

To saving Members, I can assure you that we will do our best to continue to offer some of the most competitive rates and innovative products in the market. Thank you for saving with us – your ongoing trust in us matters.

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 make contact 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 feedback from Members and it is always properly considered.

Simon Wainwright
Chair
6 March 2025

> *"We rang Family Building Society and received excellent service today. The important information we needed was quickly given. We were very pleased at the quick action that followed."*
>
> **CUSTOMER COMMENT**

Chief Executive's Review

MARK BOGARD

2024 WAS ANOTHER PRETTY TRICKY YEAR. IN THE UK THE NEW GOVERNMENT HAS HAD A TOUGH START WITH A WEAKENING ECONOMY, INFLATION STILL ABOVE TARGET AND SLOW INTEREST RATE REDUCTIONS. THE WAR IN UKRAINE CONTINUES; THERE HAS BEEN ONGOING TURMOIL IN THE MIDDLE EAST; AN AGGRESSIVE NEW ADMINISTRATION IN THE US ADDS TO THIS COCKTAIL OF UNCERTAINTY FOR THE FUTURE. FOR YOUR SOCIETY, IT WAS A SATISFACTORY YEAR, WITH FURTHER MEASURED GROWTH AND REASONABLE PROFITABILITY. WE MAINTAIN A STRONG CAPITAL BASE.

BACKGROUND

The new government in the UK has found it tough going. Whilst economic growth has been a key objective, the October tax raising budget has had a negative impact on business sentiment. The changes in employers' national insurance contribution, which will come in from April 2025, will cost the Society about £300,000. Even as a mutual organisation, we cannot just swallow such an amount and will have to reduce other costs to recoup this. High levels of Government borrowing associated with the ongoing imbalance between tax and spending can trouble the markets leading to volatile and rising interest rates. Ongoing conflict in Ukraine and turmoil in the Middle East together with the swearing in of a new, very active US administration in January 2025 adds to future uncertainty.

Interest rates are inevitably key for the Society and our Members. With inflation still running above the Bank of England's 2% target, the Monetary Policy Committee has had to be cautious in lowering its Bank Rate, even in the face of a weak or stagnant economy. Rates were cut only twice in 2024, on 1st August to 5% and then on 7th November to 4.75%.

Despite this, instant access deposit rates are still available that are higher than inflation which had last occurred prior to this recent period in 1948. In other words, savers can get a real return on their money.

Interest rates are currently forecast by the market to continue to fall slowly across 2025. The Bank of England is still trying to squeeze embedded inflation out of the economy. Given concerns about the economy, as a result of ever changing UK and international factors, the price of future interest rate swaps, which are an important component in pricing fixed rate mortgages, has been fairly volatile and rose across the last third of 2024. Rising and volatile rates continued to make mortgage pricing difficult and meant a great deal of ongoing work for our product team. So we are pleased to be reporting mortgage growth and a satisfactory margin, although this has reduced somewhat given our cost of funds.

A volatile and uncertain future path of interest rates continues to mean difficult decisions for borrowers taking a new mortgage or at the end of a product term on an existing mortgage – 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 and stayed there for an extended period, there is a generation of borrowers who had not seen rates at these higher levels. Higher rates are supposed to make things tougher for borrowers, and they have. However, the majority of mortgages are taken out at a fixed rate for 2, 3 or 5 years, so rate rises do not impact immediately or equally. As peoples' fixed rate term comes to an end, they are likely to find that they have to re-mortgage at higher rates. Some will be lucky on their timing and may not suffer the highest rates. Previously, when mortgages were mostly variable rate, borrowers suffered quickly and equally at the end of the month following a base rate rise. This isn't the case now, and so higher rates have still not worked through the system as they only started rising at the end of 2021.

Volatile rates also mean extra work for mortgage brokers, who introduce most of our mortgage business to us. If rates fall, they have to keep tracking rates for their clients up to the last moment. If rates are rising, they have to lock in rates as early as possible. Mortgage brokers provide a valuable service and we look to support them in what they do for their clients.

We continue to see a good level of resilience in both mortgage books and the housing market despite everything that has been thrown at them – first COVID, then the cost of living rises, accompanied by rate rises. Reported levels of arrears and forbearance remain low. Certainly below what people might have been expecting in all the circumstances. It looks like the stress testing of borrowers' ability to afford their mortgage if rates rose has worked. And worked well. This has been a real policy success – good for borrowers, good for lenders and good for the Government and regulatory authorities. During 2023 the Government and Financial Conduct Authority introduced the new Mortgage Charter to give those who are struggling with their payments certain options. The Society was pleased to sign up to this. Pleasingly, take up continues to be very limited.

The housing market remained steady across 2024. We see this founded on the ongoing imbalance between supply and demand. The Government has aggressive new build targets but even these fall short of addressing this imbalance which has built up now over many years. The Nationwide house price index rose 4.7% in 2024, though prices in December were still just below the all-time high recorded in summer 2022. Forthcoming changes to stamp duty in April are likely to generate volatility, as buyers bring forward their purchases to avoid the additional tax. This will likely lead to a jump in transactions to March 2025 and a corresponding period of weakness in the following three to six months, as occurred in the wake of previous stamp duty changes. This will make it more difficult to forecast the underlying strength of the market. But, providing we don't see any real economic shocks, the underlying pace of housing market activity should continue and affordability constraints may ease a little with the modestly lower interest rates currently expected.

Rents have been strong, but landlords feel that they have had a lot of additional burdens and restrictions placed upon them, with more to come with the Renters Rights Bill going through Parliament. Those with mortgages have also been impacted by rising interest rates. Some landlords have chosen to sell up. This further increases the imbalance between supply and demand. The increase in HMOs, homes in multiple occupation, unconnected people sharing a single dwelling, is an inevitable market trend. We continue to believe that the rental sector is an important part of the housing market as a whole and about a third of our lending is to landlords. We are watching the developments in the buy to let market closely and expect to see an increasing proportion of demand met by professional rather than amateur landlords – those with larger portfolios of properties, managed by a team, rather than someone with one or two properties.

More than anything this country really needs a coherent, integrated, long term housing policy formulated and delivered. Housing really matters to people every night when they go to bed. Housing Minister should be one of the great offices of state, like the Chancellor or the Home Secretary. Instead, we have had 26 Housing Ministers in the last 27 years. We also believe that this is an area that requires statutory oversight, like the Office of Budget Responsibly or the Climate Committee – there should be an independent Office of Housing Delivery.

WHO WE ARE?

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 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 and service in 2024. For example, we won:

- Mortgage Introducer – Mortgage Lender of the Year
- Personal Finance – Best First Time Buyer Mortgage Provider
- What Mortgage – Best Remortgage Lender and also Best Guarantor / Family Support Mortgage Lender
- Financial Reporter – Best Later Life Lender.

We were especially proud of the first award given the size of some of the competition, but the combination of these awards really evidences what 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 1.49% in 2024 which is satisfactory but a fall from 2.01% in 2023. Both the deposit market and the mortgage market are very competitive and between them dictate the pricing parameters within which we have to operate. We are seeing continuing pressure on margin and expect this to continue. We suspect that this is what lies behind some of the corporate transactions that we have seen in the market with the Nationwide buying Virgin Money and the Coventry buying Co-op Bank. We seek only to make a fair, sensible return through the economic cycles to enable us to sustain our capital position 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 for our underwriting process. We do not get computers to take judgements, 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 to a computer. We like the difficult cases that require judgement.

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 and/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. They face many potential challenges. 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, death of a partner, abuse or mental health issues.

I'm pleased to report that our annual overall customer satisfaction survey result was again strong and improved over the 2023 result. This is a testament to our staff who serve Members although, unfortunately, we find that they have to deal with a tiny minority of unreasonable people, which they do with considerable patience and skill.

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. The Chair has pulled out three of these in his statement.

I would now like to turn to our financial performance in 2024.

OVERALL GROUP FINANCIAL PERFORMANCE

Our statutory result was a profit before tax of £7.5 million, down from £17.0 million in 2023. We knew that as interest rates rose the level of profit we generated over the last three years was not sustainable in the short term. The underlying Group profit before tax in 2024 was £6.1 million down from £20.0 million the previous year. This is still a satisfactory underlying result.

We focus on the 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 adjustments associated with the assumptions around the accounting for the Society's legacy book of Lifetime Mortgages (LMs) and associated interest rate swap. These continue to reduce gradually and represent an increasingly smaller proportion of the Society's mortgage book. In some previous years this had resulted in significant negative or positive swings. This year the net impact overall from financial instruments is a gain of £1.4 million.

Our net interest income fell versus 2023 as interest rates fell and because of the relative movement of mortgage and savings rates.

It is pleasing that credit losses and provisions for bad or doubtful lending remain low. They may rise in future if more individuals start to struggle more with their mortgage payments.

The Society's cost income ratio increased materially to 80.6% in 2024 from 51.9% in 2023 a function of both the fall in net interest income and our ongoing investment in the business. We forecast that this would be the case in last year's report.

BALANCE SHEET

The Group's balance sheet was £2,651 million, up 7% from last year. This is a comfortable level of growth in a competitive market and a positive achievement. 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 19.1%, remaining strong although with a slight decrease on the figure for 2023 of 20.3%.

RETAIL SAVINGS

First and foremost, we want to and must be a safe and attractive home for your savings. In 2024, we took in £561 million of new savings balances and customers withdrew £501 million. A huge effort by staff sits behind what is only a net inflow of £60 million but a gross flow of over £1 billion. With added interest our total savings balances actually increased by £184 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 interest plus the chance of winning cash prizes and we believe, offers a better chance of winning than Premium Bonds, plus the added benefit of the interest. 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 £732 million in 2024, an increase of 69% over the £432 million in 2023, made advances of £410 million, an increase of 22% on the previous year and we received £250 million of repayments, giving net new lending of £160 million. This was a strong net lending performance and we went into 2025 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 need segments, 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 £2.1 billion, a record.

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.

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 the Consumer Duty. Reaching good outcomes 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 four residential properties mortgaged to the Group had to be repossessed during 2024, two of which were lifetime mortgages where one of the borrowers had gone into long-term care and the other was deceased, and the property needs to be sold or the mortgage redeemed in some other way. We have only 116 accounts in arrears, only 14 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 2024 resulted in provisions in the Group of £0.7 million up slightly from £0.6 million the previous year.

TREASURY OPERATIONS

As well as taking in retail deposits, we were active in the wholesale money market to help provide a diversity of funding. 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's overall wholesale funding last year remained strong.

In 2024, we drew down some of the £250 million bilateral funding facility to help repay the Bank of England's Term Funding Scheme with additional incentives for small and medium sized enterprises (TFSME). The scheme was introduced in March 2020 to provide banks and building societies with access to additional liquidity to help maintain lending, especially to SMEs. This scheme has now come to an end and the loans need to be repaid in tranches.

Although the Society has not experienced any difficulties in raising funds throughout the various 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.

CUSTOMER SERVICES

Cognisant of our duty to customers, our guiding principle remains to provide consistently attractive, innovative, fair 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 or, sometimes, working from home. 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 or fails. 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 accelerating. We each of us see it every day now. Sometimes our security protocols frustrate some Members – but we are only trying to protect your money.

Our goal is always to answer the telephone quickly. Members value this – we all hate hanging on. Our target is normally three minutes or less – we all have experience of hanging on with some providers for much longer than this. If you are hanging on for ages, that firm has made a choice as to how it staffs up its call centre. Your call may be "valuable" to them, just not that valuable. On those occasions where we cannot answer, we call people back promptly if that is what they ask us to do. Sometimes it will take us longer to answer the phone than we aim for and for that we are sorry when it does happen.

Consistent with the principles of the new Consumer Duty, which has been the subject of a significant implementation exercise, we take care in the design of our products to ensure they will meet the needs of the customers for whom they are designed, provide good outcomes and fair value and 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 and we devote significant resource to contacting every Member personally as this time approaches. Our websites are updated promptly and provide full details of our product range. In addition, there are a number of newsletter 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 2024, a total of six FOS decisions were received. Two of our decisions on the original complaint were overturned, and in one other case, the compensation that we had offered for the customer's distress was increased.

"The thing I really like about Family Building Society is the way they keep me well informed. I feel I can trust them to advise me."

CUSTOMER COMMENT

SUBSIDIARY OPERATIONS

The Society continues to invest in *smartmoneypeople.com*, a growing website that allows people to review their experience of financial services products and providers. Like Tripadvisor but for financial services. It has now garnered over 2.2 million reviews. 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, but we closely monitor its future plans and the ongoing investment.

Our Family & Arden Homes joint venture continues to manage the property portfolio held returning the Society to the original roots of building societies, providing homes. The annual revaluation of the properties acquired showed a £168,000 gain in 2024.

Counties Home Loan Management Limited (CHLM) historically acquired books of mortgages, though it has not done so for many years. Its small 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.

Ebbisham No.1 is the vehicle through which we manage our bilateral funding facility.

PERSONNEL

Our staff should be proud of what they have done in 2024.

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.

Many of our staff now work flexibly between the office and home. They 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. If people need to be in the office, they come in, but we have chosen not to mandate a certain level of attendance – people need to do what they need to do, to do their job for you.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

The Society has always recognised its community, marketplace, employer and environmental responsibilities and targets. 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 Board-approved CSR and Environmental, Social and Governance Policy statements that encompasses all facets and provide a steer for the ongoing development of this important issue which is driven by staff-led Committees and the Board.

Our activities in the community include support for selected charities, schools, clubs and voluntary organisations based locally to the Society's head office; this includes in particular our local Citizens Advice Bureau which we believe provides an invaluable service to those who seeks its help.

THE FUTURE

We hope to continue to grow in a measured, sensible and cautious way, if the background 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 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 2025

"I was pleasantly surprised with the excellent service I received. My call was answered within minutes by the representative. Their product knowledge was excellent and they were able to clearly explain the option that best suited my circumstances. They were prompt with sending me further information on the product and came back to me with a positive outcome on the same day."

CUSTOMER COMMENT

Strategic Report

Making sense of it all

ANDREW BARNARD

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 CHAIR'S STATEMENT AND CHIEF EXECUTIVE'S REVIEW

WHAT WE DO

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 Societies 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).

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.

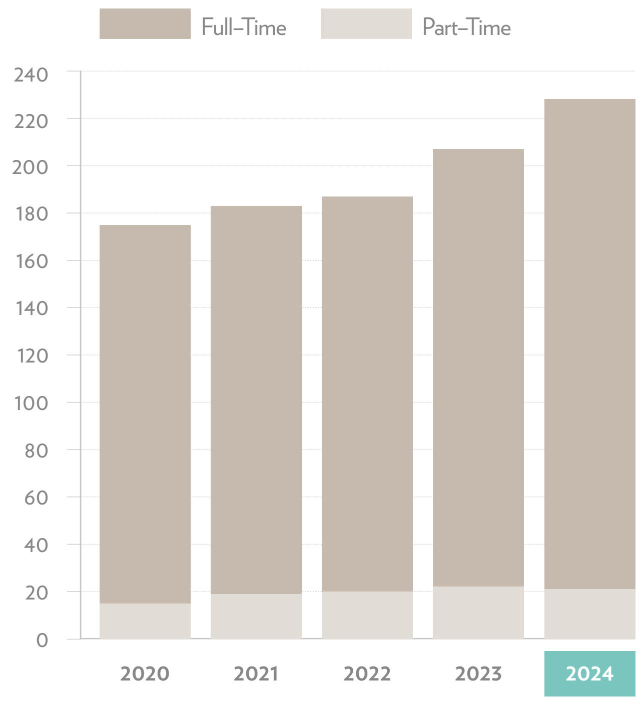
We first achieved Cyber Essentials accreditation, a UK Government backed scheme, in July 2017 and have continued to improve our ability to protect from, detect, respond to and recover from any malicious attempt to breach our defences. In 2018, we achieved the higher accreditation level of Cyber Essentials 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 2025.

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 within the impact tolerances agreed with the Board.

The Society's IT Strategy is reviewed every year to ensure that our technology investments continue to deliver a secure, resilient and scalable platform. Investing in our digital platforms is essential in order to continue to meet the technology expectations of our Members. It is also essential for the Society to ensure operational efficiency as we grow as a business. The IT Strategy defines how we will deliver these changes over a number of years as part of our Digital Transformation Programme.

Investment in our staff is on-going with the average number employed increasing from 160 full time and 15 part time in 2020 to an average of 207 full time and 21 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 2025 and beyond. The Board's view is that this investment is essential to the future of the Society and to maintain and improve our high service standards.

SOCIETY AVERAGE STAFF NUMBERS



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 Family Building Society in July 2014 – the first new building society brand in over 30 years. A number of successful new products have been launched through Family Building Society including the Windfall Bond and the Market Tracker Saver.

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 Family Building Society resulted in the decision to make Family Building Society 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 Family Building Society brand; it is just that the branding has now been re-focussed on Family Building Society. The Board has considered asking Members to agree to change the Society's name to Family Building Society but this would be a significant expense.

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 2002 to 2010 which are slowly running off and no further assets have been purchased since 2010. During 2024 its non-lifetime mortgage book was transferred to the Society leaving just its lifetime mortgage book.

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 currently envisaged that we will expand this further.

The Society continues to believe that further selective direct investment in the UK property market may provide attractive returns to Members and support the provision of housing. We continue to evaluate options.

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. SMP aim to grow the business rapidly with investments in marketing and product development to drive awareness of the brand and the SMP offering. They are investing in the data analytics capability which enhances the offer they are able to make to SMP customers and the Events part of the business will continue to showcase SMP. In 2023 they further augmented the growth plan with the acquisition of an established digital channel 'Be Clever With Your Cash' (BCWYC) which brings high quality content to the platform and expands the range of options for future growth.

Their projections foresee rapid growth ahead and we think this will create a valuable asset for the Society. 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.

Ebbisham No.1 Limited

As advised last year we have entered into a £250 million Bilateral Funding Facility and Ebbisham No.1 has been created as a Group quasi-subsidiary company to ring fence the facility. Completing this transaction provides the Society with certainty in the repayment of the Bank of England TFSME loans but also enhances the Society's capability to further diversify and grow its funding base into the future.

National Counties Financial Services Ltd

is now dormant.

ECONOMIC ENVIRONMENT

Last year in this report we noted that the Bank of England had been slow to raise interest rates and may be slow to cut them too.

The Consumer Prices Index (CPI) rose by 2.5% in the 12 months to December 2024. This is down from 2.6% in November, and well below its recent peak of 11.1% in October 2022. This represents a significant reduction towards the Bank's target albeit there are persistent signs that the final yards will be the hardest. The persistence in the headline rate led to fewer reductions in the Bank base rate than forecast at the start of 2024 and for many borrowers this will have meant having to renew their mortgages at higher rates than they hoped. At the time of writing, the markets appear to be anticipating three rate reductions in 2025 with rates closing the year at or around the 4% level. There remain many uncertainties though and the continuing war in Ukraine, the prospect of trade tariffs from the new US President and the ability of the UK government to fund its spending plans via higher taxation without stalling the economy will all play out over the months ahead. It is possible to make the case that rates may need to rise to counter the inflationary impacts of some of these contingencies as well as the case that they may need to fall to cushion their effects if lack of growth were to decay into recession.

We remain vigilant for signs that the increased strain from higher rates may show itself in the form of increased forbearance or arrears for our mortgage customers. There was little sign of this in 2024 and at the time of writing there remains little sign that our book is exposed in this regard. Our policy of lending at low Loan to Values and underwriting each case on its merits stands us in good stead. Despite all of this, we continue to think there is sensible lending to be done at sensible margins, and in order to succeed, the Society will continue to offer very high levels of service and innovative products to 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.

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 FRS102. 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 a healthy trading year. The Group's statutory result before tax for the year ended 31 December 2024, was a profit of £7.5 million compared with a profit of £17.0 million in 2023. The reduction in profitability of £9.5 million was driven in a large part by a reduction in net margin as the economic cycle turned from the increases in Bank base rates in 2024 to the start of rate cutting. Group Net Interest Income dropped by £9.2 million from £47.8 million in 2023 to £38.6 million in 2024. At the same time the investment in the Society's Digital Transformation Programme, selective investment in headcount to support the growing balance sheet, wage inflation and the continued investment in the growth of the Smart Money People business increased Group administrative expenses by £5.4 million. These were partly offset by an increase in other income of £0.6 million and a £4.4m positive swing in net gains and losses from financial instruments versus 2023.

Group underlying profit was £6.1 million compared to £20.0 million in 2023. In the Society, there was a profit before tax of £8.4 million compared with a profit before tax in 2023 of £21.5 million.

STATUTORY PROFIT BEFORE TAX	GROUP		
	2024 £m	2023 £m	Change £m
Net interest income	**38.6**	47.8	(9.2)
Other income	**1.5**	0.9	0.6
Net gains/(losses) from financial instruments	**1.4**	(3.0)	4.4
Administrative expenses (including pension scheme finance charge)	**(32.6)**	(27.2)	(5.4)
Depreciation and amortisation of software and goodwill	**(1.2)**	(1.1)	(0.1)
Impairment losses and provisions	**(0.2)**	(0.4)	0.2
Profit before tax	**7.5**	17.0	(9.5)

A reconciliation of the statutory profit above to underlying profit is shown on the next page.

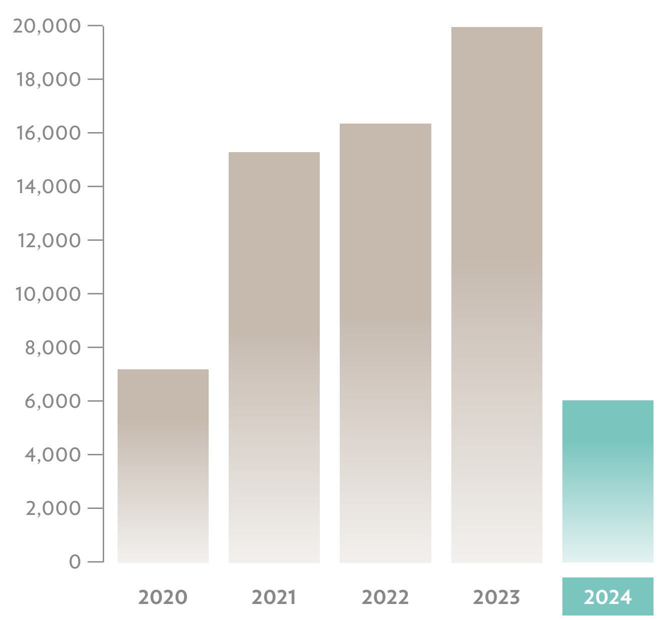
UNDERLYING PROFIT

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		
	2024 £m	2023 £m	Change £m
Profit before tax per statutory accounts	**7.5**	17.0	(9.5)
Add back net (gains)/losses from financial instruments	**(1.4)**	3.0	(4.4)
Underlying profit before tax	**6.1**	20.0	(13.9)

UNDERLYING PROFIT BEFORE TAX (£MILLION)



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 decreased by £9.2 million in 2024 reflecting a narrowing of the gap between the average rate receivable on our mortgage loans and the average rate payable on our savings accounts and wholesale funding. Our underlying retail net interest margin was 1.49% in the year compared with 2.01% in 2023.

OTHER INCOME

Other income of £1.5 million (2023: £0.9 million) in the summary table includes fees and commissions receivable of £0.1 million (2023: £0.1 million), other income of £1.2 million (2023: £1.1 million) and the net gain on investment properties of £0.2 million (2023: net loss of £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 2024 were £0.1 million (2023: £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 £1.2 million (2023: £1.1 million) mainly relates to the rental income from the investment properties and the income from SMP.

The gain on investment properties arises from a £0.2 million gain on the annual revaluation of the investment properties (2023: £0.3 million loss).

NET GAINS AND LOSSES FROM FINANCIAL INSTRUMENTS

Included in net gains and losses from financial instruments are:

a) the movements in the fair value of derivatives that are not being accounted for as hedging underlying assets or liabilities.

b) the ineffectiveness under IAS 39 of any accounting hedges.

Items under a) above 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 are not included in a hedge relationship.
- the movement in the valuation of the No Negative Equity Guarantee (NNEG) relating to the Lifetime Mortgages (both described in more detail below) which is treated as an embedded derivative.

Items under b) above include:

- 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. 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.
- The effectiveness of hedging for the main residential mortgage book and gilt asset swaps which also causes some volatility.

Before 2011, the Society originated and its subsidiary 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 an individual 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.

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. During 2024 the Directors have seen no evidence that the structural drivers of HPI have changed. They don't therefore expect that any short term volatility from the current economic conditions 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 largely unchanged at the 2024 year end.

Although the main NNEG liability assumptions remain largely unchanged in 2024, the NNEG liability has decreased by £0.9 million. This decrease is due to the following reasons. £0.9 million relates to movements in the discount curve and £0.5 million relates to a decrease in the number of loans outstanding due to actual redemptions. These impacts were offset by a £0.3m increase from a slight change to the assumption made of the length of time from death of the borrower or them going into long term care, to repayment of the loan and £0.2m from the impact of prepayment and HPI.

The value of the NNEG is £2.8 million in the Society (2023: £3.4 million) and £5.7 million in the Group (2023: £6.6 million). The Group credit for 2024 was £0.9 million (2023: charge of £1.1 million) which all arises from the decrease in the NNEG value. There were no crystallised losses from repossession sales in 2024.

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 £5.4 million in the year from £27.2 million to £32.6 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. The increase also reflects the continuing investment in the SMP business.

Depreciation of fixed and intangible software assets, and the goodwill relating to the purchase of the shares in BCWYC, increased by £0.1 million from £1.1 million to £1.2 million reflecting a full year amortisation charge from the BCWYC goodwill.

LOAN IMPAIRMENT AND PROVISIONS

	GROUP		
	2024 £'000	2023 £'000	Change £'000
Residential loan impairment and provisions	**(164)**	(431)	267
Commercial and other loan impairment and provisions	–	–	–
Total loan impairment and provisions	**(164)**	(431)	267

The table above shows an analysis of the £164,000 charge in the Income Statement in the year (2023: £431,000) from provisions for impairment losses on loans and advances.

The total Group loan impairment provisions at the year-end amounted to £0.7 million (2023: £0.6 million). This increase in provisions reflects an increase in the individual provision given the 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.

For the individual impairment provisions against residential loans without a NNEG, 2024 saw a charge of £119,000 (2023: £225,000) and the collective provision a charge of £45,000 (2023: £206,000).

LOAN FORBEARANCE AND ARREARS

At year-end 2024, the Society had 11 accounts totalling £4.0 million (2023: 13 accounts totalling £2.8 million) subject to forbearance. At the Group level, 11 accounts totalling £4.0 million (2023: 23 accounts totalling £3.6 million) had been subject to forbearance. An analysis of the types of forbearance used by the Group is shown in Note 30.

In terms of accounts in arrears by more than 12 months, the Group had 14 accounts with balances of £1.8 million at 31 December 2024 (2023: 6 accounts with balances of £0.5 million) and £0.2m arrears (2023: £46,000). It is important to note that the arrears level remains at a very low level in absolute terms.

During 2020 and 2021, the Society provided some of its Members with Covid-19 related mortgage payment holidays. At the end of 2024 one borrower was still receiving forbearance assistance after the end of their payment holiday.

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 2024.

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 29 to the Annual Accounts. The charge has been decreasing in recent years. In 2024 there was again no charge for the Society (2023: nil).

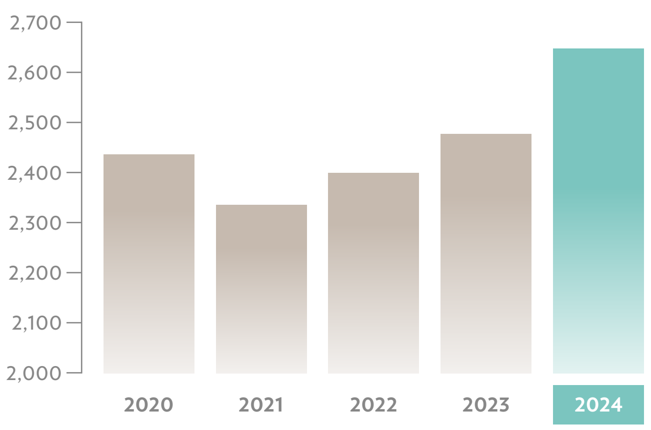
TAXATION

The Group corporation tax charge of £2.8 million (2023: £4.8 million) represents an effective rate of 37.1% (2023: 28.4%). This rate is higher than the standard corporation tax rate of 25% mainly due to the trading losses arising within the SMP business being carried forward and not being offset against the profit earned within the Society. Further detail is provided in Notes 11 and 12 to the Annual Accounts.

STATEMENT OF FINANCIAL POSITION

The Group balance sheet increased in the year by 7%, which resulted in total assets of £2,651 million (2023: £2,480 million).

GROUP TOTAL ASSETS (£MILLION)

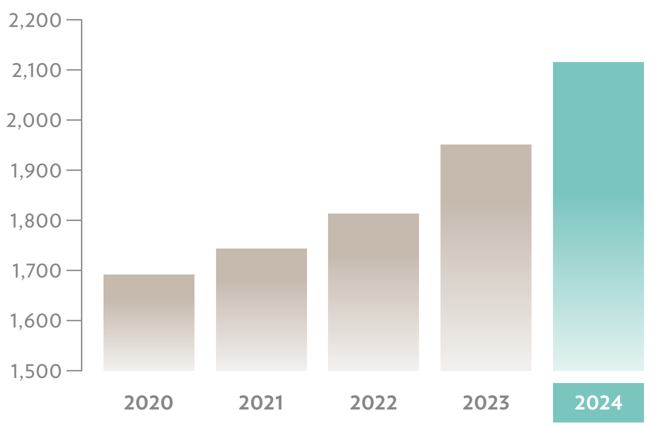


RESIDENTIAL LENDING

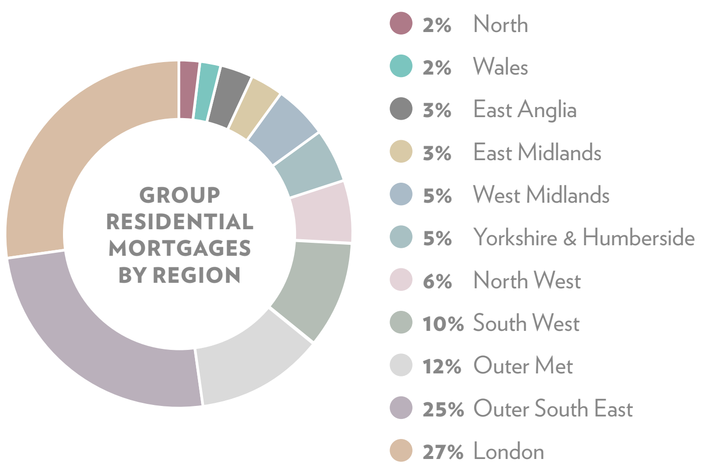
Total Group lending secured on residential property (FSRP) as at 31 December 2024 before fair value adjustments was £2,114 million (2023: £1,950 million). This represents a growth rate of 8%. Including the fair value adjustments from hedging, the figure was £2,135 million (2023: £1,983 million).

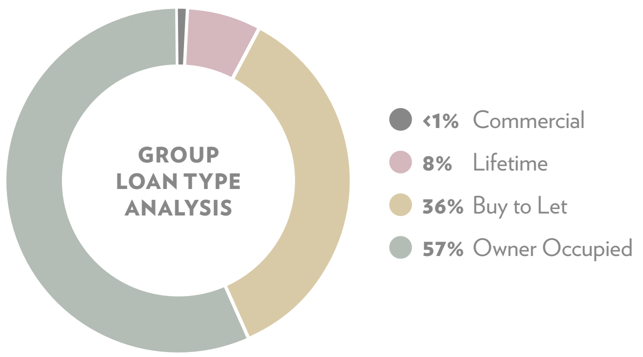
This was achieved by the continuation of the Society's strategy of individually underwriting mortgages and providing innovative products. Marketing effectively to bring in new business, combined with strong levels of retention of existing borrowers i.e. who remain with the Society when their initial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

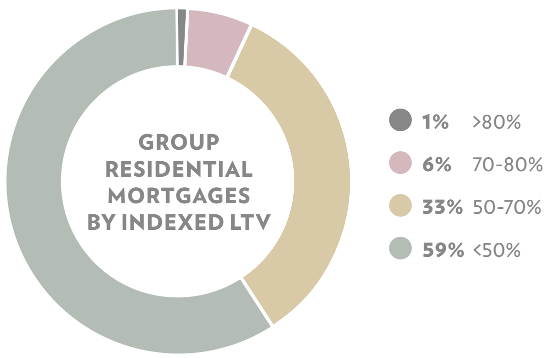
GROUP RESIDENTIAL MORTGAGES (£MILLION)



The Group's residential portfolio by geographic region is shown in the diagram below. 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. During 2024, CHLM's Owner Occupied and Buy to Let mortgages were transferred to the Society.

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 previous page shows the breakdown of LTV levels on the Group's residential mortgage book.

OTHER CUSTOMER LENDING

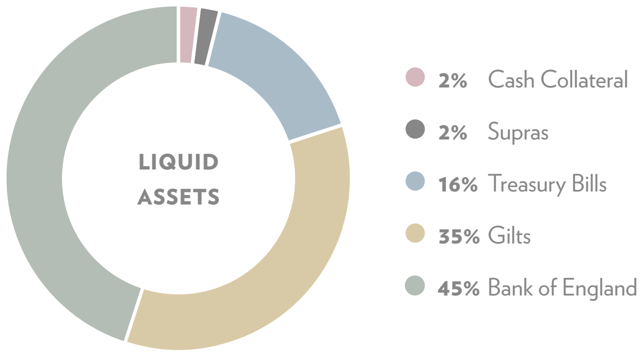
The Society does not carry out new commercial lending. It does, however, have a legacy book of loans secured on commercial property which is now in run-off. The net balance on these loans before fair value adjustments is £1.6 million (2023: £4.1 million).

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 evolved 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 2024 was 214% (2023: 184%) significantly above the regulatory minimum of 100%.

Total liquid assets at 31 December 2024 held by the Group were £441 million (2023: £418 million) and represented 17% (2023: 17%) of the Group's assets. As can be seen from the chart at the top of the page, the assets are mainly held as cash deposited at the Bank of England, UK Government debt (Gilts and Treasury Bills) and securities issued by AAA rated European multilateral development banks ('Supras') e.g. the European Investment Bank.

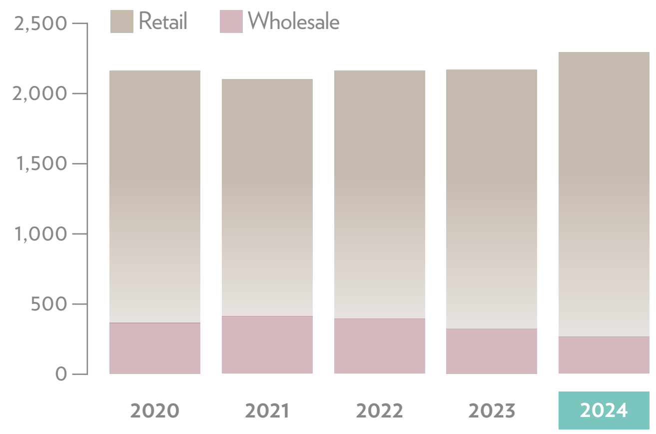


DEPOSIT BASE

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. During 2023, in anticipation of the repayment of the TFSME scheme, the Society entered into a £250 million Bilateral Funding facility with a counterparty bank in order to ensure a diversified funding base into the future.

The change in the deposit base is shown in the graph below. This illustrates the success of the Society in attempting to offer consistently competitive rates on its savings accounts, bonds and ISAs. The use of innovative products such as the Family Building Society Windfall Bond and Market Trackers also helps attract solid funding.

GROUP DEPOSITS (£MILLION)



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 2024 stood at £171.3 million up from £169.4 million in 2023 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 2024 was a charge of £1.1 million net of tax (2023: £0.5 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 19.1% (2023: 20.3%).

The Society's Individual Capital Guidance from the PRA at the year-end was to hold a minimum amount of capital of 8.45% of Risk Weighted Assets plus a static add-on of £5.6 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 binding for entities of our size. This is the ratio of regulatory capital to defined liabilities. The Group's leverage ratio at 31 December 2024 was 7.1% (2023: 6.9%).

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 30 to the Accounts.

In addition, Board members and function heads have been given individual responsibilities under the Senior Managers & Certification Regime (SM&CR) 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 Chair of the Board Risk Committee.

Further details of the Board Sub-Committees and their function are contained in the Report on Corporate Governance on pages 42 to 48.

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 as part of the process 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.

"I found National Counties Building Society many years ago before it began Family Building Society. I have had various saving accounts with them on a continuous basis because their accounts were either as good or even better than the most competitive of building societies. In addition, the quality of their staff was always excellent in knowledge and helpfulness."

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 (including compliance with the Consumer Duty), 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 sterling AAA-rated Multilateral Development Bank bonds, Gilts, Treasury Bills 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 significantly strengthened its defences through material investment in this area. Reviews and enhancements to its operational controls to maintain their effectiveness are undertaken and, where necessary, advice is sought from, and audits undertaken by specialists. Consequently, the Society has not thus far suffered any material losses from fraud but remains vigilant.

The Society is reliant on a few material third party suppliers, notably in respect of IT. To mitigate this risk, the Society has policies and processes in place for the selection and ongoing due diligence of these suppliers and has a robust process in place to ensure the Society minimises its risk in appointing material suppliers.

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 the requirements of the Consumer Duty to ensure good outcomes for customers are 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 processes to ensure the four good outcomes set out in the Consumer Duty are implemented, 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, has 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).

The Society has also been developing its operational resilience framework over the past few years to ensure that should a major adverse event occur, it can protect both its customers and its financial stability as well as meeting PRA and FCA requirements. In addition to having a robust framework in place, regular testing is conducted.

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 loan 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.

Previous independent expert analysis of the Society's carbon footprint has indicated 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 have taken 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 were completed in 2023. We have also introduced a staff scheme to facilitate the use of EV vehicles in place of ICE (Internal Combustion Engine) vehicles.

Further steps have been taken to raise the profile of environmental, social and governance (ESG) risks in the Society through the implementation of an ESG working group that will act as a clearing house for regulatory and industry change and a primary source of recommendations for corresponding enhancement of the Society's internal ESG frameworks, processes and risk appetite.

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 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.

Further work is underway to develop additional tools for obtaining insight and information regarding the risks attaching to the 'in life' mortgage portfolio and to further develop the risk management framework in this area.

LIFETIME MORTGAGES

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. In the past 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. There is a risk this may happen again although restructuring of the swap has mitigated this to a large extent. 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 2023.

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 has in past years, paid levies to the FSCS as explained in the Directors' Report and Note 29. Levies may be required in future years in order to pay the Scheme's liabilities should they arise. 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 has applied to the PRA, and been granted inclusion in the new Small Domestic Deposit Takers regulatory regime, which was previously referred to as the "Strong & Simple" framework. This regime offers the Society simplified regulatory and reduced reporting requirements but will require time and resource to implement, exposing the Society to cost uncertainties.

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

Andrew Barnard
Group Finance Director
6 March 2025

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 2024.

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

"Family Building Society are always easy to deal with. They take time to understand the question or request you are making and always provide sensible and prompt advice."

CUSTOMER COMMENT

ASSETS & LIABILITIES

The Group total assets at 31 December 2024 were £2,651 million (2023: £2,480 million).

Total loans and advances to customers at the year end were £2,137 million (2023: £1,987 million). At 31 December 2024, a total provision of £0.7 million, comprising £0.2 million individual impairment and £0.5 million collective (2023: £0.6 million, comprising £0.1 million individual impairment and £0.5 million collective), was made in the Annual Accounts for possible credit losses. Mortgage arrears are detailed in the Strategic Report.

Liquid assets amounted to £441 million at the year-end (2023: £418 million), representing 18% (2023: 19%) of total shares and borrowings and 17% (2023: 17%) 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 £2,003 million at 31 December 2024 (2023: £1,819 million) and deposits by credit institutions and other customers and debt securities in issue amounted to £414 million at the year-end (2023: £404 million), representing 17% (2023: 18%), of total shares and borrowings.

PROFIT & CAPITAL POSITION

The Group operating profit before impairment losses and provisions was £7.6 million (2023: £17.4 million). After impairment losses and provisions, the Group profit before tax was £7.5 million (2023: £17.0 million). The Group profit for the year after tax was £4.7 million (2023: £12.2 million).

The Group's capital position is represented by general reserves and the Available for Sale (AFS) reserve. Group gross capital at 31 December 2024 amounted to £171.3 million, an increase from 2023's £169.4 million. Gross capital represented 6.5% (2023: 6.8%) of Group total assets at the year-end, or 7.1% (2023: 7.6%) of total shares and borrowings. Group free capital (i.e. capital plus collective impairment provisions, less tangible and intangible fixed assets) amounted to £163 million at the end of the year (2023: £161 million), equivalent to 6.8% (2023: 7.3%) 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 2024 this ratio stood at 19.1%, (2023: 20.3%).

PAYMENTS TO SUPPLIERS

The Society is committed to maintaining good relationships with its suppliers and its practice has been, and will continue to be, to pay invoices within 14 days of receipt. The amounts owed to trade creditors at 31 December 2024, as a proportion of the amounts invoiced by suppliers during the full year, was equivalent to four days (2023: four 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 30 to 33. 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 18 to 33.

CORPORATE GOVERNANCE

The Society's approach to corporate governance is covered in the Report on Corporate Governance on pages 42 to 48. The Directors' responsibilities are set out on pages 54 and 55. The Society's charitable work is set out in the Corporate and Social Responsibility section of the Chief Executive's Review on page 16. No political donations were made in 2024 (2023: nil).

PILLAR 3 & COUNTRY-BY-COUNTRY REPORTING

Under the newly approved Small Domestic Deposit Takers regime of which the Society is now part, the Society will no longer be publishing disclosures under Pillar 3. The requirements for Country-by-Country Reporting are disclosed in Note 33.

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 Robin Churchouse and Rodger Hughes, are seeking re-election to the Board. Robin Churchouse, having been appointed to the Board since the last Annual General Meeting, is seeking election to the Board.

In summary, the following Directors served during 2024:

– ***Rodger Hughes***	(appointed Non-executive Director 2013, resigned 24 April 2024)
– ***Simon Wainwright***	(appointed Non-executive Director 2015)
– ***Patrick Muir***	(appointed Non-executive Director 2015)
– ***Andrew Barnard***	(appointed Executive Director 2018)
– ***Mark Bogard***	(appointed Executive Director 2012)
– ***Robin Churchouse***	(appointed Non-executive Director 31 October 2024)
– ***John Cole***	(appointed Non-executive Director 2019)
– ***Peter Navin***	(appointed Non-executive Director 2022)
– ***Susan Sharrock Yates***	(appointed Non-executive Director 2020)

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

Patrick Muir holds an option over 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 10 to 16 and the Strategic Report on pages 18 to 33. 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 30 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 those building societies not participating in the annual concurrent stress test, which includes the Society, published in June 2024. 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.

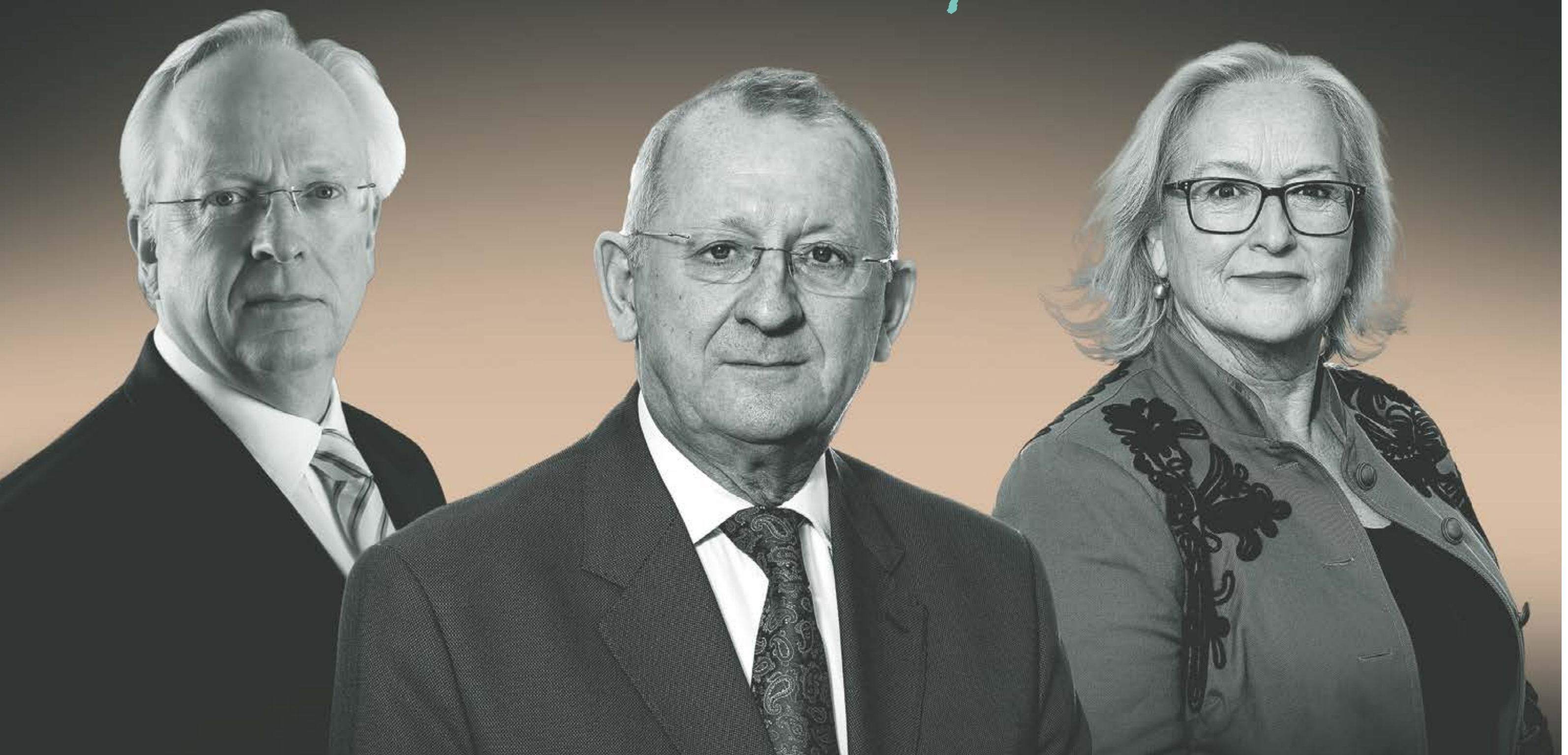
Following the retirement of KPMG LLP, it is proposed that Ernst & Young LLP be elected as the Society's auditor at the AGM in April 2025.

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.

Simon Wainwright
Chair
6 March 2025

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 AND PATRICK MUIR AND SUSAN SHARROCK YATES 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. The Committee's main purposes are to:

- Monitor the integrity of the financial statements of the Group and review significant accounting judgements contained in them.
- 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.
- Consider and review the findings arising from external audit control and systems work and review, prior to approval by the Board, the final Annual Report and Accounts, Directors' Report and Summary Financial Statement.
- Conduct the tender process and make recommendations to the Board, about the appointment, reappointment and removal of the external and internal auditors, and approving their remuneration and terms of engagement.
- Develop and implement a policy on the supply of non-audit services by the External Auditor taking into account any impact on their independence and in compliance with the relevant regulations and ethical guidance.
- Review and monitor the External Auditor's independence and objectivity, ensuring it has full access to company staff and records, inviting challenge during the annual audit process and reporting to the Board and the Members on how it has discharged its responsibilities with respect to the external audit.

The Audit Committee takes into account the work undertaken by the Society's Board and Executive Risk Committees.

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 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.

The Committee has approved a formal policy on 'The provision of non-audit services by external auditors' and in line with that policy 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 2024 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 2024 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 to be reviewed to ensure that they are still applicable and are challenged as 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 2024 Annual Report and Accounts do so and that the accounting policies are appropriate. In preparing the accounts a number of significant judgements, 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 2024 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 £151 million (2023: £156 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 (2023: £6.6 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 in the Statement of Financial Position is £22.9 million (2023: £14.9 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 2024 the Group had total impairment provisions of £0.7 million (2023: £0.6 million) – see Note 10 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. To ensure a robust approach to the monthly EIR accounting estimation process, the Society uses external software which was first introduced during 2022. At the year end, the Society had a deferred net asset of £8.7 million (2023: £7.1 million) and the Group had a deferred net asset of £9.2 million (2023: £7.6 million) which were included in the balance sheet.

The Committee reviewed the assumptions and estimates made, including the redemption profiles, and agreed the judgements 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 £11.4 million (2023: £11.1 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, which is closed to new entrants. 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 2023.

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 2023 and 31 December 2024. The figure included within the Statement of Financial Position at 31 December 2024 is a deficit of £859,000 (2023: £667,000).

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

During 2023, the Society's subsidiary, Smart Money People (SMP), purchased 100% of the equity in a similar business called Be Clever With Your Cash (BCWYC) and goodwill arose on that acquisition which is included in the Group Statement of Financial Position.

The Society is required to perform an annual impairment test using a discounted cashflow methodology to support the value of the loan made by the Society to SMP (£5,318,000 at 31 December 2024), the remaining investment cost (£57,000 at 31 December 2024) and the remaining goodwill included within the Group Statement of Financial Position, relating to the acquisition of the shares in BCWYC (£634,000 at 31 December 2024). Based on the latest forecasts of SMP, which reflect the continuing increased investment to support the accelerated growth plans, SMP is expected to continue to incur losses in the short term, but is expected to produce significant profits over the longer term. As a result of this review, no provisions or write downs are considered necessary by the Society against the SMP loan or the remaining investment cost. At a Group level, the remaining balance of goodwill has been carried forward and is being amortised over 5 years to March 2028 in line with the Group's accounting policy.

The Committee has reviewed the annual SMP impairment test and is satisfied that no provision or write down is required against the loan or investment cost held by the Society or the Group's goodwill balance relating to the BCWYC acquisition.

GOING CONCERN

The Committee has reviewed management's assessment of the Group's viability for the foreseeable future as noted in the Directors' Report on page 37 and its assessment of the current situation within the UK economy and housing market as noted in the Strategic Report on pages 18 to 33 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.

TENDERING OF EXTERNAL AND INTERNAL AUDIT APPOINTMENTS

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.

At the conclusion of the external audit of the year ended 31 December 2024, KPMG will no longer be eligible to be the statutory auditor of the Society having served for the maximum period of 20 years. As a consequence, during 2024 the Audit Committee completed a formal audit tender process to find a new statutory auditor for the year ended 31 December 2025. Ernst & Young LLP were successful in the tender process, and having completed their independence checks, will be appointed at the April 2025 Annual General Meeting.

In carrying out that tender process the Audit Committee had due regard to the FRC guidance issued in May 2023 – Audit Committees and the External Audit: Minimum standard which provides guidance on how an audit tender should be conducted by Public Interest Entities.

John Cole
Chair, Group Audit Committee
6 March 2025

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.

"Although not complete in the process yet of applying for a mortgage the service so far has been very good. Quick response times to emails, clear and concise instructions and a very friendly voice on the telephone all add up to a very good customer experience."

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 Chairs 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 Chair and the Vice Chair were appointed to the Board in March 2015 and have therefore served on the Board for more than 9 years. More detail is provided in the section on Composition, Succession and Evaluation on page 47.

BOARD LEADERSHIP AND COMPANY PURPOSE

CODE PRINCIPLES:

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.

"Quick communication and flexible criteria. Approachable for quirky cases."

CUSTOMER COMMENT

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 Officers. 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 (Chair), Patrick Muir and Susan Sharrock Yates. The Chair 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 38 to 41.

BOARD RISK COMMITTEE

The Board Risk Committee comprises three Non-executive Directors, currently Peter Navin (Chair), John Cole and Susan Sharrock Yates. The Executive Directors, the Chief Risk Officer and the 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 Peter Navin, with the Chief Executive and Finance Director 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 Chair of the Board, the Chairs 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 50 to 53.

NOMINATION COMMITTEE

The Nomination Committee, which meets at least once a year, is comprised of the Society's Chair (Simon Wainwright), the Senior Independent Director (Patrick Muir) and the Chief Executive. It is chaired by Simon Wainwright 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 (AGM). 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 Chair 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 Chairs 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 and the People Department has 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 level 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 JUDGEMENT 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 Chair 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 Chair 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 Chair 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 Chair) 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 Chair is designated to be the Senior Independent Director, to act as a sounding board for the Chair 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 2024 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	4 (4)			2 (2)	1 (1)
Simon Wainwright	10 (10)	5 (5)	1 (1)	3 (4)	
Patrick Muir	10 (10)	5 (5)		4 (4)	1 (1)
John Cole	9 (10)	5 (5)	6 (6)		
Susan Sharrock Yates	10 (10)		6 (6)		
Mark Bogard	10 (10)				1 (1)
Andrew Barnard	10 (10)				
Peter Navin	10 (10)		5 (5)	2 (2)	
Robin Churchouse	2 (2)				

The Chair 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 Chair 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. Directors are only submitted for re-election if the annual performance evaluations referred to below confirm their ongoing contribution and the specialist knowledge, skills, experience and independence required. Appointments lasting beyond 6 years are subject to particularly rigorous annual review, reflecting the need for progressive refreshment of the Board. The Chair and Vice Chair have now served on the Board for more than 9 years and, in accordance with the Code, would have been due to stand down from the Board at last year's AGM. Whilst it is within the Board's policy, as noted above, for the Chair to serve a maximum of 12 years, it is out of line with the principle of the Code that the tenure of Non-executive Directors should not exceed 9 years. This was considered by the other Board members and they were satisfied that both the Chair and Vice Chair continued to be independent. In order to maintain continuity, a strong Board composition and to allow time for a carefully planned recruitment process to be followed, the other Board members concluded that it was in the best interests of the Society's Members to extend their appointments beyond 9 years. A succession plan has been drawn up which provides for the staggered replacement of these Non-executive Directors and recruitment of two new Non-executive Directors has been completed.

The Nomination Committee which comprises the Chair, 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.

Following the retirement of Rodger Hughes at last year's AGM, Robin Churchouse was appointed to the Board in October 2024. The Society appointed a specialist search firm, Odgers Berndtson, to facilitate the independent external search process. Odgers Berndtson 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 Chair, taking into account the views of other Directors, and the Chair is evaluated by the Vice Chair, as Senior Independent Director, also having regard for the views of other Directors. The Chief Executive's appraisal is conducted by the Chair, after taking into account the views of other Directors and his immediate subordinates and the Chief Executive appraises the other Executive Director 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 Thorburn McAlister in early 2023 and the report was considered by the Board in March 2023. The overall tenor of the report was very positive and any relevant recommendations have been implemented. Thorburn McAlister have no connection with the Society or individual Directors of the Society.

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 54 to 55. The Chief Executive's Review, Strategic Report and the Directors' Report on pages 10 to 37 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 Chair 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 Chair.

The Report on Remuneration, prepared by the Chair of the Society's Remuneration Committee, is to be found on pages 50 to 53 and explains how the Society complies with the Code Principles relating to remuneration. Details of Directors' Emoluments during 2024 can be found in Note 9 to the Accounts.

Simon Wainwright
Chair
6 March 2025

Report on Remuneration

PATRICK MUIR

THIS REPORT ILLUSTRATES HOW THE SOCIETY HAS REGARD 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 an established Remuneration Committee, which comprises three Non-executive Directors, Patrick Muir, Peter Navin (replaced Rodger Hughes from May 2024) and Simon Wainwright and is chaired by Patrick Muir. All of the Non-executive Directors are considered to be independent. Patrick Muir has been Chair 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 Chair of the Board, the Chairs 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 Chair 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 or act against the principles of the Consumer Duty. 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.***
- ***To ensure that remuneration supports the practices and behaviours which lead to good outcomes for Members in line with the Consumer Duty.***

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. There was no external review of Executive pay during 2024. The basic salaries of the Executives were increased by 5% in line with the increase awarded to all staff.

The current 3-year Medium Term Incentive Plan (MTIP) scheme was put in place in 2022 and ended in 2024. The scheme is based on Key Performance Indicators (KPIs) 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, and 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 performance of the Society's staff during 2024, 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 expenses when attending training or meetings other than standard board and committee meetings. 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, the Chair's of the Board sub-committees and the Senior Independent Director. No benchmarking exercise was undertaken in 2024. The basic fee for the Non-Executive Directors was increased by 5% in line with the increase awarded to all staff. The fees paid for chairing specific committees remained unchanged.

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 PRINCIPLE 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. No external benchmarking was conducted during 2024.

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.

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
Chair, Remuneration Committee
6 March 2025

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 2024 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 33;*
- *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.*

KPMG

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 2024 which comprise the Income Statements, Statements of Comprehensive Income, Statements of Financial Position, Statement 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 2024 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 20 financial years ended 31 December 2024. 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: Group annual accounts as a whole	£1,030k (2023:£980k) 0.6% (2023: 0.6%) of net assets	
Coverage	97% (2023: 99.7%) of Group net assets	
Key audit matters		**vs 2023**
Recurring risks	Valuation of lifetime mortgages	↓
	Impairment of loans and advances to customers	↓

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 2023), 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. 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: £5.7 million (2023: £6.6m) *Refer to page 39 (Group Audit Committee Report), pages 70 and 73-74 (accounting policy) and Note 14 (financial disclosures).*	**Valuation of the No Negative Equity Guarantee (NNEG):** Included within loans and advances to customers are lifetime mortgages 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 separate embedded derivative, with fair value movements recorded in the Income Statement. 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 prepayment rates. The Black-Scholes model is most sensitive to movements in the house price growth and volatility assumptions.	Our procedures included: — **Historical comparisons:** We assessed and challenged assumptions applied in the models against the Group’s and Society’s historical experience for voluntary prepayment and additional drawdown. As part of this we analysed both current year and historical data sets to assess for trends. We also compared assumptions against historical market data for house price growth and volatility. We considered whether the historical market data is reflective of future market trends including assessing how the economic uncertainty relating to evolving macroeconomic risks have been factored into the assumptions; — **Benchmarking assumptions:** We compared the HPI growth and volatility assumptions to third party market data and industry comparable assumptions. We also compared the voluntary prepayment assumption to data subsequent to the balance sheet date; — **Our expertise:** We used our own actuarial specialists and economists to assess the house price assumptions and mortality assumptions. — **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 compare the output to the Group’s and Society’s models and test the data inputs into the model for completeness and accuracy; — **Sensitivity analysis:** We performed sensitivity analysis on judgemental assumptions, including early voluntary redemption rates, house price growth and volatility, to determine those most significant to the valuation and critically assess the impact on the NNEG valuation for a range of alternative assumptions; 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 valuations and assess the hedge accounting disclosures for compliance with IAS 39. **Our findings** — The results of our testing were acceptable (2023 result: acceptable
Lifetime mortgages £7.5 million; (2023: £19.2m) and £42.0 (2023: £55.2m) *Refer to page 39 (Group Audit Committee Report), pages 70 and 73-74 (accounting policy) and Note 14 (financial disclosures).*	**Valuation of the derivative and hedging adjustment applied to the portfolio:** The Group and Society hold a balance guarantee swap against the 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 determine 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. The continuance of macroeconomic risks that presented themselves last year have introduced 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 risk for valuation of the derivative and hedging adjustments and the valuation of the no negative equity guarantee has reduced due to a change in the interest rate environment and other economic variables compared to prior year. However, a degree of estimation uncertainty remains, 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 risk	Our response
Impairment of loans and advances to customers: Income statement debit/(credit): 164k (2023: £431k) Balance sheet: 721k (2023: £629k) *Refer to page 40 (Group Audit Committee Report), page 70 (accounting policy), page 74 (critical accounting estimates and judgements in applying accounting policies) and Notes 10 and 30 (financial disclosures).*	**Impairment of loans and advances to customers:** 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. 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 Society on terms that the Society would not consider otherwise. The individual and collective impairment allowances are derived from a model that uses a combination of the Society's historical experience and external data, adjusted for current conditions. 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. Whilst estimation uncertainty remains, our current year risk assessment indicates a reduction in this level. This is driven by a combination of factors including the change in interest rate environment, reduction in inflation rate and the reliance on a blend of management estimates, market data and other external information as the source for the assumptions. The effect of these matters is that, as part of our risk assessment, we determined that the impairment allowance on loans and advances to customers has an elevated risk of estimation uncertainty. The elevated audit risk is identified on the Society's residential loan portfolio only	Our procedures included: — **Historical comparisons:** We assessed the key assumptions used in the impairment model, against the Group's and Society's historical experience and consider whether historical experience is reflective of future market trends, including assessing the reasonableness of the considerations of the economic uncertainty relating to evolving macroeconomic risks; — **Benchmarking assumptions:** We compared the key assumptions used in the impairment model, such as forced sale discount and probabilities of default, with those applied at peer organisations; — **Independent reperformance:** We independently recalculated the individual and collective allowance; — **Sensitivity analysis:** We assessed the model for its sensitivity to changes in the key assumptions to help us assess the risks associated with the assumptions and identify areas of potential additional focus; — **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 impairment allowance balance. — **Test of detail:** We selected a sample of impaired loans to assess whether the impairment triggers have been met on the loan. To assess the completeness of the impaired loan list, we conducted a reciprocal test by selecting a sample of unimpaired loans and evaluating whether they should be classified as impaired. We identified relevant data inputs in the impairment calculation and assessed the completeness and accuracy of these data inputted into the model for calculation of the impairment allowance estimate by reference to relevant supporting information. **Our findings** — The results of our testing were acceptable (2023 result: acceptable)

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

Materiality for the Group annual accounts as a whole was set at £1,030k (2023: 980k), determined with reference to a benchmark of Group net assets (of which it represents 0.6% (2023: 0.6%).

Materiality for the Society annual accounts as a whole was set at £1,010k (2023: £970k), determined with reference to a benchmark of net assets, of which it represents 0.59% (2023: 0.6%).

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.

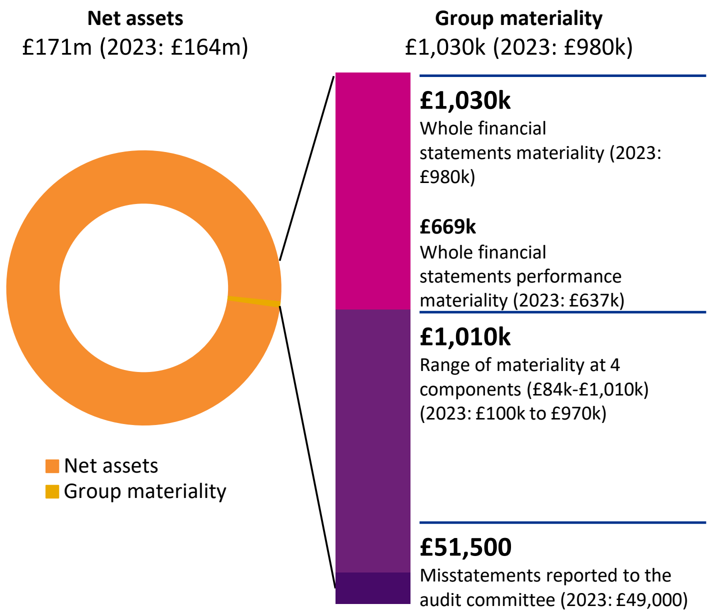
Performance materiality was set at 65% (2023: 65%) of materiality for the annual accounts as a whole, which equates to £669,000 (2023: £637,000) for the Group and £656,000 (2023: £630,000) for the Society. We applied this percentage in our determination of performance materiality based on the level of identified misstatements and control deficiencies during the prior period.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £51,500 (2023: £49,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Overview of the scope of our audit

This year, we applied the revised group auditing standard in our audit of the consolidated annual accounts. The revised standard changes how an auditor approaches the identification of components, and how the audit procedures are planned and executed across components.

In particular, the definition of a component has changed, shifting the focus from how the entity prepares financial information to how we, as the group auditor, plan to perform audit procedures to address group risks of material misstatement ("RMMs"). Similarly, the group auditor has an increased role in designing the audit procedures as well as making decisions on where these procedures are performed (centrally and/or at component level) and how these procedures are executed and supervised. As a result, we assess scoping and coverage in a different way and comparisons to prior period coverage figures are not meaningful. In this report we provide an indication of scope coverage on the new basis.



In total, we identified 6 components, having considered our evaluation of the Group's operational structure and our ability to perform audit procedures centrally. Of those, we identified 4 quantitatively significant components which contained the largest percentages of either total revenue or total assets of the Group, for which we performed audit procedures as both the Group and Component auditor.

We set the component materialities, ranging from £84k to £1,010k, having regard to the mix of size and risk profile of the Group across the components

We performed audit procedures in relation to components that accounted for 97% of the total assets and liabilities that made up Group net assets and 81% of the total profits and losses that made up Group profit before tax.

We performed analysis at an aggregated Group level to re-examine our assessment that there is not a reasonable possibility of a material misstatement in these components.

Our audit of the Society was undertaken to the materiality level specified above and was performed by a single audit team.

The scope of the audit work performed was predominately substantive as we placed limited reliance upon the Group's internal control over financial reporting

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").

In our evaluation of the directors' conclusions, we considered the inherent risks to the Group's and Society's business model and analysed how those risks might affect the Group and the 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 are losses resulting from changes in the fair value of the valuation and the swap and hedged instrument linked to the Group's and Society's portfolio of lifetime mortgages and the valuation of the no negative equity guarantee.

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 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 the 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; and

— using analytical procedures to identify any unusual or unexpected relationships.

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 management 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. Further detail of the procedures performed, some of which are designed the address the fraud risk, is set out in the key audit matters 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 including journals posted outside of normal course of business and those to seldom used accounts;

— assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and

— 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 consequence 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 and Society's activities and its legal form. Auditing standards limited the required audit procedures to identify non-compliance with these laws and regulations to enquiry of 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 54-55, the directors are responsible for: the preparation of 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.

Michael McGarry
(Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
6 March 2025

KPMG

INCOME STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2024

		GROUP		SOCIETY	
		2024	2023	**2024**	2023
	Note	**£'000**	£'000	**£'000**	£'000
Interest receivable and similar income	3	**151,404**	130,140	**143,819**	130,401
Interest payable and similar charges	4	**(112,787)**	(82,274)	**(105,551)**	(81,105)
Net interest income		**38,617**	47,866	**38,268**	49,296
Fees and commissions receivable		**130**	102	**111**	87
Net gains/(losses) from financial instruments	5	**1,411**	(2,960)	**1,085**	(2,449)
Income from investments in subsidiaries	6a	**-**	-	**(448)**	41
Release of provision against subsidiary loan	6c	**-**	-	**-**	823
Gain/(loss) on investment properties	18	**178**	(335)	**-**	-
Other income	6b	**1,173**	1,140	**143**	72
Total net income		**41,509**	45,813	**39,159**	47,870
Administrative expenses	7	**(32,618)**	(27,217)	**(29,776)**	(25,178)
Depreciation and amortisation of software and goodwill	17	**(1,267)**	(1,142)	**(924)**	(933)
Pension scheme finance charge	25	**(1)**	(14)	**(1)**	(14)
Operating profit before impairment losses and provisions		**7,623**	17,440	**8,458**	21,745
Provisions for impairment losses on loans and advances	10	**(164)**	(431)	**(73)**	(272)
Profit before tax		**7,459**	17,009	**8,385**	21,473
Tax charge	11	**(2,765)**	(4,839)	**(2,526)**	(4,766)
Profit for the financial year	26	**4,694**	12,170	**5,859**	16,707
Profit for the financial year attributable to:					
Members of National Counties Building Society		**4,389**	12,129	**5,859**	16,707
Non-controlling interests		**305**	41	**-**	-
		4,694	12,170	**5,859**	16,707

The Notes on pages 68 to 114 form part of these Accounts.
The above results are all derived from continuing operations.

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2024

		GROUP		SOCIETY	
		2024	2023	**2024**	2023
	Note	**£'000**	£'000	**£'000**	£'000
Profit for the financial year	26	**4,694**	12,170	**5,859**	16,707
Other comprehensive (loss)/gain					
Items that will not be re-classified to the income statement					
Remeasurement of retirement benefit obligation	25	**(1,498)**	(683)	**(1,498)**	(683)
Tax credit	11	**375**	171	**375**	171
		(1,123)	(512)	**(1,123)**	(512)
Items that may subsequently be re-classified to the income statement					
Available-for-sale investments:					
Fair value movements taken to reserves		**(1,744)**	360	**(1,744)**	360
Amount transferred to income statement		**–**	1,528	**–**	1,528
Tax credit/(charge)	11	**436**	(472)	**436**	(472)
Net (loss)/gain from changes in fair value	27	**(1,308)**	1,416	**(1,308)**	1,416
Other comprehensive (loss)/gain for the year net of tax		**(2,431)**	904	**(2,431)**	904
Total comprehensive income for the year		**2,263**	13,074	**3,428**	17,611
Total comprehensive income attributable to:					
Members of National Counties Building Society		**1,958**	13,033	**3,428**	17,611
Non-controlling interests		**305**	41	**–**	–
		2,263	13,074	**3,428**	17,611

The Notes on pages 68 to 114 form part of these Accounts.

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2024

		GROUP		SOCIETY	
		2024	2023	**2024**	2023
	Note	**£'000**	£'000	**£'000**	£'000
Assets					
Liquid assets					
Cash in hand and balances with the Bank of England	13a	**206,755**	280,998	**206,755**	280,998
Loans and advances to credit institutions	13b	**6,237**	4,031	**1,201**	806
Debt securities	13c	**228,154**	132,976	**228,154**	132,976
Total liquid assets		**441,146**	418,005	**436,110**	414,780
Derivative financial instruments	14	**50,671**	53,928	**40,651**	46,891
Loans and advances to customers	15	**2,136,739**	1,986,665	**2,097,800**	1,925,180
Investments in subsidiary undertakings	16	**–**	–	**46,777**	117,910
Property, plant and equipment	17a	**7,089**	7,372	**6,777**	7,107
Intangible assets	17b	**1,337**	1,293	**703**	464
Investment property	18	**11,381**	11,073	**–**	–
Other assets	19	**2,312**	2,042	**2,162**	1,841
Total assets		**2,650,675**	2,480,378	**2,630,980**	2,514,173
Liabilities					
Shares	20	**2,002,674**	1,818,805	**2,002,674**	1,818,805
Other borrowings					
Amounts owed to credit institutions	21	**180,447**	249,876	**180,447**	249,876
Amounts owed to other customers	22	**88,647**	79,515	**88,647**	79,515
Debt securities in issue	23	**144,887**	74,527	**–**	–
Total other borrowings		**413,981**	403,918	**269,094**	329,391
Total shares and borrowings		**2,416,655**	2,222,723	**2,271,768**	2,148,196
Derivative financial instruments	14	**26,361**	41,129	**23,531**	37,937
Deferred tax	12	**134**	336	**134**	357
Other liabilities	24	**35,406**	46,076	**161,917**	157,673
Retirement benefit obligation	25	**859**	667	**859**	667
Total liabilities		**2,479,415**	2,310,931	**2,458,209**	2,344,830
Reserves					
General reserves	26	**171,733**	168,612	**173,244**	168,508
Available-for-sale reserve	27	**(473)**	835	**(473)**	835
		171,260	169,447	**172,771**	169,343
Total reserves and liabilities		**2,650,675**	2,480,378	**2,630,980**	2,514,173
Reserves attributable to:					
Members of National Counties Building Society		**170,508**	168,550	**172,771**	169,343
Non-controlling interests		**752**	897	**–**	–
		171,260	169,447	**172,771**	**169,343**

The Notes on pages 68 to 114 form part of these Accounts.

These Accounts were approved by the Board of Directors on 6 March 2025 and were signed on its behalf by:

Simon Wainwright
Chair

STATEMENT OF CHANGES IN MEMBERS' INTERESTS

FOR THE YEAR ENDED 31 DECEMBER 2024

	GROUP 2024				
	General reserves £'000	**Available-for-sale reserve £'000**	**Sub total £'000**	**Non-controlling interests £'000**	**Members' interests £'000**
Balance as at 1 January 2024	**168,612**	**835**	**169,447**	**(897)**	**168,550**
Profit for the financial year	**4,694**	**–**	**4,694**	**(305)**	**4,389**
Other comprehensive loss for the year	**(1,123)**	**(1,308)**	**(2,431)**	**–**	**(2,431)**
Distribution to non-controlling interest	**(450)**	**–**	**(450)**	**450**	**–**
Balance as at 31 December 2024	**171,733**	**(473)**	**171,260**	**(752)**	**170,508**

	GROUP 2023				
	General reserves £'000	Available-for-sale reserve £'000	Sub total £'000	Non-controlling interests £'000	Members' interests £'000
Balance as at 1 January 2023	157,034	(581)	156,453	(936)	155,517
Profit for the financial year	12,170	–	12,170	(41)	12,129
Other comprehensive (loss)/gain for the year	(512)	1,416	904	–	904
Distribution to non-controlling interest	(80)	–	(80)	80	–
Balance as at 31 December 2023	168,612	835	169,447	(897)	168,550

	SOCIETY 2024				
	General reserves £'000	**Available-for-sale reserve £'000**	**Sub total £'000**	**Non-controlling interests £'000**	**Members' interests £'000**
Balance as at 1 January 2024	**168,508**	**835**	**169,343**	–	**169,343**
Profit for the financial year	**5,859**	**–**	**5,859**	–	**5,859**
Other comprehensive loss for the year	**(1,123)**	**(1,308)**	**(2,431)**	–	**(2,431)**
Balance as at 31 December 2024	**173,244**	**(473)**	**172,771**	–	**172,771**

	SOCIETY 2023				
	General reserves £'000	Available-for-sale reserve £'000	Sub total £'000	Non-controlling interests £'000	Members' interests £'000
Balance as at 1 January 2023	152,313	(581)	151,732	–	151,732
Profit for the financial year	16,707	–	16,707	–	16,707
Other comprehensive (loss)/gain for the year	(512)	1,416	904	–	904
Balance as at 31 December 2023	168,508	835	169,343	–	169,343

STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 31 DECEMBER 2024

	Note	GROUP 2024 £'000	2023 £'000
Cash flows from operating activities			
Profit before tax		**7,459**	17,009
Adjustments for:			
Depreciation and amortisation of software and goodwill		**1,267**	1,142
(Profit)/loss on sale of investment properties		**(10)**	3
Profit on sale of fixed assets		**(2)**	–
Amortisation of debt securities		**(3,586)**	(256)
(Gain)/loss on investment properties		**(168)**	332
Provision for impairment losses on loans and advances		**164**	431
Loans and advances written off		**(72)**	(225)
Pension scheme charge		**548**	527
		5,600	18,963
Changes in operating assets and liabilities:			
Increase in prepayments, accrued income and other assets		**(547)**	(5,269)
Increase/(decrease) in accruals, deferred income and other liabilities		**659**	(9,864)
Net increase in loans and advances to customers		**(159,659)**	(133,928)
Net increase in shares		**171,894**	57,319
Net decrease in amounts owed to other credit institutions and other customers		**(59,576)**	(73,022)
Net decrease in derivatives and fair value adjustments		**(1,185)**	(7,434)
Contributions to the pension scheme		**(1,854)**	(1,117)
Taxation paid		**(2,064)**	(4,319)
Net cash flows from operating activities		**(52,332)**	(177,634)
Cash flows from investing activities			
Purchase of debt securities		**(183,931)**	(71,725)
Disposal of debt securities		**90,039**	73,684
Return of cash ratio deposit from the Bank of England		**4,370**	–
Purchase of property, plant and equipment		**(532)**	(1,444)
Disposal of property, plant and equipment		**8**	–
Purchase and refurbishment of investment property		**(595)**	(263)
Disposal of investment property		**465**	395
Purchase of intangible assets		**(502)**	(226)
Deferred consideration paid		**(167)**	–
Net cash flows from investing activities		**(90,845)**	421
Increase in debt securities in issue		**70,360**	74,527
Distribution to non-controlling interest		**(450)**	(80)
Net cash flows from financing activities		**69,910**	74,447
Net decrease in cash and cash equivalents		**(67,667)**	(83,803)
Cash and cash equivalents at 1 January		**280,659**	364,462
Cash and cash equivalents at 31 December	28	**212,992**	280,659

The Notes on pages 68 to 114 form part of these Accounts.

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 10 to 16 and the Strategic Report on pages 18 to 33. 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 30 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 those building societies not participating in the annual concurrent stress test, which includes the Society, published in June 2024. 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 Directors' Emoluments has not been repeated.

The Country by Country information for the year ended 31 December 2024 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 FRS102. 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 FRS102, 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.

1.3 SPECIAL PURPOSE FUNDING VEHICLE – EBBISHAM NO. 1

The Society has transferred the beneficial interest in certain loans and advances to customers to a special purpose funding vehicle, Ebbisham No. 1 Limited (Ebbisham). Ebbisham has used these loans to raise debt from investors who gain the security of the underlying assets as collateral. Ebbisham is fully consolidated into the Group accounts in accordance with FRS102 as the Society is deemed to have control over Ebbisham because it has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The transfer of the beneficial interest in these loans to Ebbisham is not treated as a sale by the Society. The Society continues to recognise these assets within its own Statement of Financial Position after the transfer because it retains substantially all the risks and rewards of the portfolio through its investment in the subordinated loan notes issued by Ebbisham. In the accounts of the Society, the cash proceeds received from the transfer are accounted for as a deemed loan repayable to Ebbisham, which is held at amortised cost.

1.4 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.

1.5 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.

1.6 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 freehold buildings are being depreciated on a straight line basis over 50 years commencing from the start of 2014 when the Group transitioned to FRS102. 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.

1.7 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.

1.8 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 FRS102, 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.

1.9 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.

1.10 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 and includes any hedge fair value adjustment. 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.

Included in loans and advances to customers of the Society are balances which have been used to secure funding issued by the Group's special purpose vehicle, which is consolidated into the Group's financial statements. The beneficial interest in the underlying loans has been transferred to this entity. The loans are retained within the Society's Statement of Financial Position as the Society retains substantially all of the risk and rewards relating to the loans.

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.

1.11 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.

1.12 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.

1.13 DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

Financial assets are derecognised when the contractual rights to receive cash flows have expired or where substantially all the risks and rewards of ownership have been transferred. Financial liabilities are derecognised only when the obligation is discharged, cancelled or has expired.

1.14 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.

1.15 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.

1.16 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.

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.

1.17 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.

1.18 SHARE BASED PAYMENTS

One of the Society's subsidiaries, Smart Money People (SMP), operates a Management Incentive Plan (MIP) for its Directors and key employees and a separate B class of Ordinary Shares has been issued by SMP to facilitate the Plan. These B shares are currently held by the Society. Under the terms of the MIP, share options over B Ordinary Shares have been issued to Directors and key employees which vest over a period of 4 years and on the payment of an agreed exercise price would transfer them. However, the exercise of these options is dependent on a Realisation Event occurring (sale, partial sale, listing, asset sale or winding-up) and the value of the business at the time would need to be in excess of a pre-determined Hurdle Value. Given the significant net liabilities of SMP and the uncertainty over a Realisation Event no liability for the share options issued is currently recognised in the Group numbers.

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 Society to make assumptions around the average expected lives of mortgage loans. In determining these expected lives the 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.

The Society uses historical redemption curves within its effective interest rate calculation, which shows at each month across the curves, what proportion of the mortgage book is expected to have redeemed at that point in time. Redemptions of loans that are still within an initial product term will trigger early redemption charges, and mortgages that don't redeem after the end of an initial product term will move onto a standard variable rate.

If the Society was to increase the proportion of the mortgage book redeeming at each month across the historical redemption curves by 10%, then the effective interest rate adjustment included within Loans and advances to customers would decrease by £1.8m. This is because the effective interest rate calculation will assume lower future SVR income which would outweigh any increased early redemption charge income expected to be received.

If the Society was to decrease the proportion of the mortgage book redeeming at each month across the historical redemption curves by 10%, then the effective interest rate adjustment included within Loans and advances to customers would increase by £2.3m. This is because the effective interest rate calculation will assume higher future SVR income which would outweigh any decreased early redemption charge income expected to be received.

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 1.10.

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 £1.5m in the Group and £0.9m 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 £3.3m and in the Society would be £2.0m.

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 £0.7m 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 £2.3m and in the Society would be £1.3m.

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 £1.1m 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 £0.6m 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 £2.3m in the Group and £1.5m 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 £1.9m in the Group and £1.2m in the Society.

If the time included within the model between the date of death of a borrower or the borrower going into long-term care and the date of sale of the property, was to increase by 1 month, then the Group's NNEG derivative value would increase resulting in a charge to the Income Statement of £103,000 in the Group and £52,000 in the Society.

If the voluntary prepayment rate of the lifetime loans experienced in the future was at a rate of 5% for the next five years, which is above the rate experienced in the current year, then the Group's NNEG derivative value would decrease resulting in a credit to the Income Statement of £0.7m in the Group and £0.4m 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 are reviewed quarterly and this review may result in the swap notional being higher than the lifetime mortgage portfolio balance and therefore below the lower boundary within the swap. This would result in increased ineffectiveness being recognised in the Income Statement. At the year end, this review showed that the Lifetime Mortgage Book is expected to remain within the swap boundaries in the future and so no ineffectiveness was recorded. 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. If the voluntary prepayment experienced in the future was at a rate of 5% for the next five years, which is above the rate experienced in the current year, then this would result in an additional charge to the Income Statement of £0.1m 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 judgement.

Provisions are calculated using historic default and loss experience, but require judgement 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 Group and the Society by £0.8m. 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 and the Society by £0.1m. If the rates used were to decrease by 10% this would result in a reduction in the provision in the Group and Society of £0.1m. 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 £0.3m 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 £36.8m. A change in the market yield curves of minus 1% would change the total net fair value of derivative financial instruments included in the Statement of Financial Position of the Group by £39.8m. 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 £1,138,100 charge to the Group Income Statement.

2.7 EMPLOYEE PENSION BENEFITS

The Group operates a defined benefit pension scheme. Significant judgements (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 judgements, which are based upon the Board receiving external advice from the scheme actuaries, are outlined in Note 25 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 £0.6m and increase the net balance sheet position by £0.6m and a 0.25% decrease in the rate will increase the liability by £0.6m and decrease the net balance sheet position by £0.6m. A 0.25% increase in the inflation rate will increase the liability by £0.3m and decrease the net balance sheet position by £0.3m and a 0.25% decrease in the inflation rate will decrease the liability by £0.3m and increase the net balance sheet position by £0.3m. A 1 year increase in the average life expectancy of the members of the scheme will increase the liability by £0.4m 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.

2.8 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 (SMP). The carrying value at the assessment date consisted of £0.1m equity and a £5.3m loan. At Group level, goodwill of £0.6m exists in respect of the purchase of Be Clever With Your Cash by SMP. This goodwill does not form part of the Society assessment. No impairment was required from the impairment assessment on 31 December 2024.

There are several key assumptions in the calculation of the SMP valuation. Stressing these assumptions would reduce the calculated valuation and may result in a provision being required against the investment.

The valuation calculation assumes that SMP can be sold in the future at a multiple of the forecast cashflow in the year of sale. The forecast cashflows are taken from the most recent set of Board approved financial projections. A provision would be required against the investment if the forecast cashflow in the year of sale was reduced by 15% or the sale multiple applied to the forecast cashflow was reduced by 16%.

Another key assumption is the discount rate applied to future cashflows to reach the net present value. In determining an appropriate rate of return and therefore a discount rate to use, consideration has been given to target rates of return for financial sponsors investing in businesses at a similar life cycle stage to SMP (i.e. beyond start-up but still in an early, high growth stage of development). This required rate of return captures the perceived risk of the business as well as the lack of liquidity inherent in an investment in a private company such as SMP. The discount rate used in the year end valuation has been updated from 50% to 30% this year to reflect the further maturity of the SMP business. The discount rate would need to be increased by 15% before a provision is required. A 15% increase would result in a £0.1m provision, a 20% increase would require a £0.4m provision.

While such variances to the key assumptions are not expected by management, they are considered possible.

Smaller stresses to multiple assumptions could also result in a provision requirement, although the assumptions are not completely independent. The discount rate is an expression of the risk involved in the cashflow forecasts so changes in assumptions around projected cashflows might be offset by counterbalancing changes to the discount rate. The Society is content that the assumptions used in the valuation are reasonable and balanced.

3. INTEREST RECEIVABLE AND SIMILAR INCOME

	GROUP		SOCIETY	
	2024	2023	**2024**	2023
	£'000	£'000	**£'000**	£'000
On loans fully secured on residential property	**98,942**	83,513	**89,771**	78,127
On other loans:				
Connected undertakings	**–**	–	**2,236**	2,691
Other	**182**	285	**182**	285
On debt securities:				
Interest and other income from fixed income securities	**5,302**	3,988	**5,302**	3,988
Net loss arising on realisation	**–**	(1,528)	**–**	(1,528)
On other liquid assets:				
Interest and other income	**15,876**	12,679	**17,866**	13,243
Net interest income from financial instruments – interest rate swaps	**31,102**	31,203	**28,462**	33,595
	151,404	130,140	**143,819**	130,401

4. INTEREST PAYABLE AND SIMILAR CHARGES

	GROUP		SOCIETY	
	2024	2023	**2024**	2023
	£'000	£'000	**£'000**	£'000
On shares held by individuals	**88,460**	63,231	**88,460**	63,231
On deposits and other borrowings	**24,327**	19,043	**17,091**	17,874
	112,787	82,274	**105,551**	81,105

5. NET GAINS/(LOSSES) FROM FINANCIAL INSTRUMENTS

	GROUP		SOCIETY	
	2024	2023	**2024**	2023
	£'000	£'000	**£'000**	£'000
Gain/(loss) on derivatives in designated fair value hedge relationships	**8,763**	(42,065)	**8,763**	(42,065)
Adjustments to hedged items in fair value hedge relationships	**(8,566)**	40,443	**(8,566)**	40,443
Gain/(loss) on other derivatives not in designated fair value hedging relationships	**1,214**	(1,338)	**888**	(827)
	1,411	(2,960)	**1,085**	(2,449)
Gain/(loss) on other derivatives not in designated fair value hedging relationships				
Interest rate swaps not in a hedging relationship	**844**	(1,131)	**518**	(620)
Embedded derivatives – Lifetime mortgages No Negative Equity Guarantee	**370**	(207)	**370**	(207)
	1,214	(1,338)	**888**	(827)

The interest rate swaps not in a hedging relationship are swaps taken out to hedge the mortgage pipeline of offers and swaps to hedge fixed rate savings bonds.

For both the Group and the Society, the net gains/(losses) from financial instruments includes a gain of £35,000 (2023: £94,000) that relates to the hedged derivatives associated with the lifetime mortgages.

6a. INCOME FROM INVESTMENTS IN SUBSIDIARIES

	GROUP		SOCIETY	
	2024 £'000	2023 £'000	**2024 £'000**	2023 £'000
Share of (loss)/profit from Family & Arden Homes LLP	**-**	-	**(898)**	41
Dividend received from Family & Arden Homes LLP	**-**	-	**450**	-
	-	-	**(448)**	41

Prior to 2024, the Society accrued its share of the profits in Family & Arden Homes LLP as they arose. During the current year, the Directors assessed that the more appropriate treatment would be to recognise income only to the extent that a dividend is paid. As a result of the change, a loss of £898,000 has been recognised in 2024 representing the reversal of prior year profits accrued not yet paid out as a dividend. In addition, investments in subsidiary undertakings have been reduced by the same amount (see note 16a). The 2023 comparative has not been restated for this change, as the Directors do not consider the effect on the prior year financial statements to be material.

6b. OTHER INCOME

	GROUP		SOCIETY	
	2024 £'000	2023 £'000	**2024 £'000**	2023 £'000
Rents receivable	**533**	516	**-**	-
Management fees from subsidiary	**-**	-	**28**	42
Servicer fees from Ebbisham No.1	**-**	-	**115**	30
Income from Smart Money People	**640**	624	**-**	-
	1,173	1,140	**143**	72

6c. RELEASE OF PROVISION AGAINST SUBSIDIARY LOAN

	GROUP		SOCIETY	
	2024 £'000	2023 £'000	**2024 £'000**	2023 £'000
Release of provision against loan to Smart Money People	**-**	-	**-**	823
	-	-	**-**	823

7. ADMINISTRATIVE EXPENSES

		GROUP		SOCIETY	
	Note	**2024 £'000**	2023 £'000	**2024 £'000**	2023 £'000
Staff costs	8	**17,981**	16,430	**16,845**	15,709
Other administrative expenses		**14,637**	10,787	**12,931**	9,469
		32,618	27,217	**29,776**	25,178
Other administrative expenses include:					
Remuneration of Auditor and its associates (excluding Value Added Tax):					
Group and Society statutory audit		**720**	658	**720**	658
Subsidiary statutory audit		**59**	57	**59**	57
Prior year		**79**	6	**79**	6
		858	721	**858**	721
For other services:					
Other services pursuant to legislation		**24**	24	**24**	24
Total Auditor remuneration		**882**	745	**882**	745

There were no other payments made to the Auditor or their associates during 2024 (2023: No other payments made).

8. EMPLOYEES

	GROUP		SOCIETY	
	2024 Number	2023 Number	**2024 Number**	2023 Number
The average number of persons employed (including Executive Directors) during the year was as follows:				
Full-time	**225**	199	**207**	185
Part-time	**22**	22	**21**	22
	£'000	£'000	**£'000**	£'000
The aggregate staff costs were as follows:				
Wages and salaries	**14,371**	13,272	**13,381**	12,631
Social security costs	**1,701**	1,538	**1,586**	1,475
Other pension costs	**1,909**	1,620	**1,878**	1,603
	17,981	**16,430**	**16,845**	15,709

9. DIRECTORS' EMOLUMENTS

Emoluments of the Directors of the Society totalling £1,181,000 (2023: £1,204,000) are detailed as follows:

a) Executive Directors

	2024					
	Salary £'000	**Performance bonus £'000**	**Medium-term incentive plan £'000**	**Benefits £'000**	**Pension £'000**	**Total £'000**
Mark Bogard	**308**	**63**	**47**	**24**	**69**	**511**
Andrew Barnard	**222**	**45**	**27**	**15**	**50**	**359**
	530	**108**	**74**	**39**	**119**	**870**

Chris Croft, formerly Executive Director and Company Secretary, left the Society in November 2022 having received £259,441 as compensation for loss of office. He subsequently made a claim for unfair dismissal which was settled in July 2024 with a further payment of £54,400 and the payment of his legal costs.

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 each Director will be paid in two equal amounts in 2025 and 2026.

Mark Bogard is no longer an active member of the Group's Pension Scheme and Andrew Barnard has never been a member of the Scheme. Their pension emoluments in 2024 represent monthly cash payments in lieu of contributions to the Scheme.

	2023					
	Salary £'000	Performance bonus £'000	Medium-term incentive plan £'000	Benefits £'000	Pension £'000	Total £'000
Mark Bogard	294	75	67	24	66	526
Andrew Barnard	212	54	39	15	48	368
	506	129	106	39	114	894

b) Non-executive Directors

	2024 Fee £'000
Simon Wainwright	**67**
Patrick Muir	**56**
John Cole	**55**
Peter Navin	**53**
Susan Sharrock Yates	**48**
Robin Churchouse	**8**
Rodger Hughes	**24**
	311

	2023 Fee £'000
Simon Wainwright	51
Patrick Muir	52
John Cole	51
Peter Navin	44
Susan Sharrock Yates	44
Robin Churchouse	–
Rodger Hughes	68
	310

During the year, a company for which Patrick Muir is a Director, was paid £68,400 (2023: £58,500) 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 2024 or 31 December 2023.

10. PROVISIONS FOR IMPAIRMENT LOSSES ON LOANS AND ADVANCES

GROUP

	Loans fully secured on residential property		Loans fully secured on land		Other loans		Total	
	Individually identified £'000	Collectively identified £'000	Individually identified £'000	Collectively identified £'000	Individually identified £'000	Collectively identified £'000	Individually identified £'000	Collectively identified £'000
At 1 January 2024	**157**	**472**	–	–	–	–	**157**	**472**
Provision utilised net of recoveries	**(72)**	–	–	–	–	–	**(72)**	–
Charge for the year	**119**	**45**	–	–	–	–	**119**	**45**
At 31 December 2024	**204**	**517**	–	–	–	–	**204**	**517**

SOCIETY

	Loans fully secured on residential property		Loans fully secured on land		Other loans		Total	
	Individually identified £'000	Collectively identified £'000	Individually identified £'000	Collectively identified £'000	Individually identified £'000	Collectively identified £'000	Individually identified £'000	Collectively identified £'000
At 1 January 2024	**149**	**469**	–	–	–	–	**149**	**469**
Provision utilised net of recoveries	**(72)**	–	–	–	–	–	**(72)**	–
Transfer from subsidiary	**99**	**3**	–	–	–	–	**99**	**3**
Charge for the year	**28**	**45**	–	–	–	–	**28**	**45**
At 31 December 2024	**204**	**517**	–	–	–	–	**204**	**517**

GROUP

	Loans fully secured on residential property		Loans fully secured on land		Other loans		Total	
	Individually identified £'000	Collectively identified £'000	Individually identified £'000	Collectively identified £'000	Individually identified £'000	Collectively identified £'000	Individually identified £'000	Collectively identified £'000
At 1 January 2023	157	266	–	–	–	–	157	266
Provision utilised net of recoveries	(225)	–	–	–	–	–	(225)	–
Charge for the year	225	206	–	–	–	–	225	206
At 31 December 2023	157	472	–	–	–	–	157	472

SOCIETY

	Loans fully secured on residential property		Loans fully secured on land		Other loans		Total	
	Individually identified £'000	Collectively identified £'000	Individually identified £'000	Collectively identified £'000	Individually identified £'000	Collectively identified £'000	Individually identified £'000	Collectively identified £'000
At 1 January 2023	85	261	–	–	–	–	85	261
Provision utilised net of recoveries	–	–	–	–	–	–	–	–
Charge for the year	64	208	–	–	–	–	64	208
At 31 December 2023	149	469	–	–	–	–	149	469

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 £19,519 in relation to 12 accounts under forbearance (2023: £1,077; 23 accounts). Of this, £19,529 relates to 12 Society accounts (2023: £1,077; 13 accounts) currently being helped by such measures (see note 30).

11. TAX CHARGE

	Note	GROUP 2024 £'000	GROUP 2023 £'000	SOCIETY 2024 £'000	SOCIETY 2023 £'000
Current tax		**(1,982)**	(4,280)	**(1,768)**	(4,234)
Adjustment in respect of prior years		**(174)**	(95)	**(170)**	(95)
Deferred tax	12	**(609)**	(477)	**(588)**	(450)
Adjustment in respect of prior years	12	**–**	13	**–**	13
Total tax charge		**(2,765)**	(4,839)	**(2,526)**	(4,766)
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 25% (2023: 23.5%)		**(1,865)**	(3,997)	**(2,096)**	(5,046)
Items not deductible for tax		**(49)**	(35)	**–**	193
Losses in subsidiary not relieved		**(682)**	–	**–**	–
Adjustment in respect of prior years		**(174)**	(82)	**(170)**	(82)
Non-taxable items		**(5)**	(7)	**(5)**	(11)
Other timing differences		**10**	(718)	**(255)**	180
Tax charge for the year		**(2,765)**	(4,839)	**(2,526)**	(4,766)
Tax recognised directly in other comprehensive income					
Tax on available-for-sale assets					
Deferred tax	12	**436**	(472)	**436**	(472)
Tax on retirement benefit obligations					
Deferred tax	12	**375**	171	**375**	171
		811	(301)	**811**	(301)

The Group has £4,614,000 (Society – £nil) of tax losses arising within its subsidiaries Smart Money People Limited and Be Clever With Your Cash Limited that have not been utilised or recognised.

12. DEFERRED TAX

	Note	GROUP 2024 £'000	GROUP 2023 £'000	SOCIETY 2024 £'000	SOCIETY 2023 £'000
Movement on deferred tax					
At 1 January		**(336)**	429	**(357)**	381
Income statement charge	11	**(609)**	(464)	**(588)**	(437)
Recognised directly in other comprehensive income	11	**811**	(301)	**811**	(301)
At 31 December		**(134)**	(336)	**(134)**	(357)
The deferred tax asset is attributable to the following items:					
FRS 102 transitional adjustments		**–**	75	**–**	54
Pension and other post retirement benefits		**215**	390	**215**	390
AFS timing differences		**158**	(278)	**158**	(278)
Other timing differences		**(507)**	(523)	**(507)**	(523)
		(134)	(336)	**(134)**	(357)

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 £206,755,000 (2023: £280,998,000) is £10,533,000 (2023: £26,850,000) of cash collateral pledged against derivative financial instruments and £nil (2023: £4,370,000) of cash held at the Bank of England as a mandatory cash ratio deposit. This mandatory cash ratio deposit was not readily available for use in the Group's day-to-day operations and therefore it was excluded from the cash and cash equivalents balance shown in Note 28.

	GROUP		SOCIETY	
	2024	2023	**2024**	2023
	£'000	£'000	**£'000**	£'000
b) Loans and advances to credit institutions				
Repayable on demand	**6,237**	4,031	**1,201**	806
c) Debt securities				
Gilts	**219,632**	123,568	**219,632**	123,568
Multilateral Development Banks	**8,522**	9,408	**8,522**	9,408
	228,154	132,976	**228,154**	132,976
Debt securities have remaining maturities as follows:				
Accrued interest	**1,251**	974	**1,251**	974
In not more than one year	**106,587**	19,723	**106,587**	19,723
In more than one year	**120,316**	112,279	**120,316**	112,279
	228,154	132,976	**228,154**	132,976
Debt securities analysed, excluding accrued interest				
Transferable securities:				
Listed on a recognised investment exchange	**226,903**	132,002	**226,903**	132,002

Included within the debt securities analysis are debt securities that are pledged as collateral for derivative and other financial transactions. As at 31 December 2024, the Group and Society had pledged listed debt securities with a market value of £23,232,090 (2023: £17,607,000).

Also included within the debt securities analysis are debt securities with a market value of £nil (2023: £nil) 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.

	GROUP 2024	GROUP 2023	SOCIETY 2024	SOCIETY 2023
Movements in the year on debt securities are analysed as follows:				
At 1 January	**132,002**	130,789	**132,002**	130,789
Additions	**183,931**	71,725	**183,931**	71,725
Disposals and maturities	**(90,039)**	(73,684)	**(90,039)**	(73,684)
Amortisation of discount	**3,586**	256	**3,586**	256
Change in fair value adjustment for hedged risk	**(833)**	1,028	**(833)**	1,028
Net (loss)/gain from changes in fair value recognised in other comprehensive income	**(1,744)**	1,888	**(1,744)**	1,888
At 31 December	**226,903**	132,002	**226,903**	132,002

14. DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of derivative financial instruments held at 31 December 2024 are set out below.

	GROUP			SOCIETY		
	Notional principal amount	**Fair value – Assets**	**Fair value – Liabilities**	**Notional principal amount**	**Fair value – Assets**	**Fair value – Liabilities**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
At 31 December 2024						
Derivatives designated as fair value hedges with hedge accounting applied						
Interest rate swaps	**1,377,483**	**33,352**	**(10,460)**	**1,377,483**	**33,352**	**(10,460)**
	1,377,483	**33,352**	**(10,460)**	**1,377,483**	**33,352**	**(10,460)**
Unhedged derivatives						
Interest rate swaps	**787,840**	**17,319**	**(10,226)**	**640,920**	**7,299**	**(10,226)**
Embedded derivatives	**–**	**–**	**(5,675)**	**–**	**–**	**(2,845)**
	787,840	**17,319**	**(15,901)**	**640,920**	**7,299**	**(13,071)**
Total derivative assets/(liabilities)	**2,165,323**	**50,671**	**(26,361)**	**2,018,403**	**40,651**	**(23,531)**

	GROUP			SOCIETY		
	Notional principal amount	Fair value – Assets	Fair value – Liabilities	Notional principal amount	Fair value – Assets	Fair value – Liabilities
	£'000	£'000	£'000	£'000	£'000	£'000
At 31 December 2023						
Derivatives designated as fair value hedges with hedge accounting applied						
Interest rate swaps	1,140,159	42,195	(27,344)	1,140,159	42,195	(27,344)
	1,140,159	42,195	(27,344)	1,140,159	42,195	(27,344)
Unhedged derivatives						
Interest rate swaps	606,944	11,733	(7,230)	515,472	4,696	(7,229)
Embedded derivatives	–	–	(6,555)	–	–	(3,364)
	606,944	11,733	(13,785)	515,472	4,696	(10,593)
Total derivative assets/(liabilities)	1,747,103	53,928	(41,129)	1,655,631	46,891	(37,937)

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 2024 was a liability of £7,467,000 (2023: £19,229,000).

As at 31 December 2024, £33,765,000 (2023: £44,466,000) of cash and securities was pledged as collateral against derivative financial instruments.

The Group's unhedged interest rate swaps include a £10,020,000 (2023: £6,980,000) fixed interest rate swap entered into by Ebbisham No.1 Limited which hedges the fixed interest rate risk associated with the secured funding deal.

15. LOANS AND ADVANCES TO CUSTOMERS

	Note	GROUP 2024 £'000	GROUP 2023 £'000	SOCIETY 2024 £'000	SOCIETY 2023 £'000
Loans and advances to customers net of provisions are analysed as follows:					
Loans fully secured on residential property		**2,113,911**	1,950,319	**2,076,678**	1,893,521
Loans fully secured on land		**1,611**	4,095	**1,611**	4,095
		2,115,522	1,954,414	**2,078,289**	1,897,616
Fair value adjustment for hedged risk		**21,217**	32,251	**19,511**	27,564
		2,136,739	1,986,665	**2,097,800**	1,925,180
Loans and advances to customers have remaining maturities from the Statement of Financial Position date as follows:					
Repayable on call and at short notice		**13,493**	9,700	**11,330**	7,478
In not more than three months		**5,651**	4,234	**5,651**	4,185
In more than three months but not more than one year		**16,975**	22,416	**16,975**	22,242
In more than one year but not more than five years		**366,809**	326,081	**359,715**	314,045
In more than five years		**1,704,141**	1,584,979	**1,676,598**	1,543,190
Effective interest rate adjustment		**9,174**	7,633	**8,741**	7,094
Fair value adjustment for hedged risk		**21,217**	32,251	**19,511**	27,564
Provision for impairment losses on loans and advances	10	**(721)**	(629)	**(721)**	(618)
		2,136,739	1,986,665	**2,097,800**	1,925,180

At 31 December 2024, loans and advances to customers includes balances for both the Group and Society which have been used in secured funding arrangements, resulting in the beneficial interest of these loans being transferred to Ebbisham No.1 Limited, a special purpose vehicle consolidated into the Group Accounts. All the loans pledged, with a book value of £181,038,000 (2023: £112,314,000), are retained within the Society's Statement of Financial Position as the Society retains substantially all the risk and rewards relating to the loans. These loans secure £145,118,000 (2023: £75,066,000) of drawn funding under the £250 million facility for the Group and the Society.

Included within the fair value adjustment for hedged risk is an amount relating to the hedged lifetime mortgage portfolio. For the Group this is £41,990,000 (2023: £55,221,000) and for the Society this is £40,285,000 (2023: £50,534,000).

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 in subsidiary undertakings £'000	Loans to subsidiary undertakings £'000	Subordinated loan notes issued by subsidiary undertaking £'000	Total £'000
At 1 January 2024	**979**	**66,916**	**50,015**	**117,910**
Reclassification of Subordinated Loan Notes issued	–	–	**(50,015)**	**(50,015)**
Movement in fair value hedge adjustment	–	**(2,982)**	–	**(2,982)**
Interest on loan	–	**227**	–	**227**
Loan advanced	–	**2,052**	–	**2,052**
Share of profit of subsidiary LLP	**(898)**	–	–	**(898)**
Net repayment	–	**(19,517)**	–	**(19,517)**
At 31 December 2024	**81**	**46,696**	–	**46,777**

The subordinated loan notes have been issued by Ebbisham No.1 Limited (Ebbisham) as part of a secured funding deal. The repayment of the notes is based on the collection of the principal and interest of the underlying mortgage assets and is contractually repayable by October 2026. In the prior year, the Society recorded these subordinated loan notes as part of investments in subsidiary undertakings with a corresponding liability within loans from subsidiary undertakings (see note 24). During the current year, the directors assessed that the more appropriate treatment would be to eliminate the subordinated loan notes from the balance sheet and reduce loans from subsidiary undertakings by the same amount. The 2023 comparatives have not been restated for this adjustment as the Directors do not consider the effect on the prior year financial statements to be material.

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%**
Be Clever With Your Cash Limited	**England**	**Consumer money advice website**	**Ordinary**	**100%**
Ebbisham No.1 Limited	**England**	**Funding vehicle**	**N/A**	**0%**

The shares in Ebbisham No.1 Limited are held by Maples Fiduciary Services (UK) Limited. The Society fully consolidates this entity in its consolidated financial statements under the requirements of FRS102.

The registered office of the subsidiary undertakings, excluding Ebbisham No.1 Limited, is Ebbisham House, 30 Church Street, Epsom, Surrey, KT17 4NL.

The registered office of Ebbisham No.1 Limited is Duo Level 6, 280 Bishopsgate, London, EC2M 4RB.

Be Clever With Your Cash Limited is a 100% subsidiary of Smart Money People Limited.

17a. PROPERTY, PLANT AND EQUIPMENT

	GROUP			SOCIETY		
	Freehold land and buildings £'000	Equipment, fixtures & fittings and vehicles £'000	Total £'000	Freehold land and buildings £'000	Equipment, fixtures & fittings and vehicles £'000	Total £'000
Cost						
At 1 January 2024	5,374	9,882	15,256	5,374	9,496	14,870
Additions	–	532	532	–	337	337
Disposals	–	(18)	(18)	–	(18)	(18)
Removal of fully written down assets	–	(3,341)	(3,341)	–	(3,341)	(3,341)
At 31 December 2024	5,374	7,055	12,429	5,374	6,474	11,848
Depreciation						
At 1 January 2024	68	7,816	7,884	68	7,695	7,763
Charge for year	7	802	809	7	654	661
Eliminated on disposals	–	(12)	(12)	–	(12)	(12)
Removal of fully written down assets	–	(3,341)	(3,341)	–	(3,341)	(3,341)
At 31 December 2024	75	5,265	5,340	75	4,996	5,071
Net book value						
At 31 December 2023	5,306	2,066	7,372	5,306	1,801	7,107
At 31 December 2024	5,299	1,790	7,089	5,299	1,478	6,777

The net book value of freehold land and buildings occupied for own activities at 31 December 2024 was for the Group and Society £5,299,000 (2023: £5,306,000).

17b. INTANGIBLE ASSETS

	GROUP			SOCIETY		
	Software £'000	Goodwill £'000	Total £'000	Software £'000	Goodwill £'000	Total £'000
Cost						
At 1 January 2024	4,576	2,244	6,820	4,576	–	4,576
Additions	502	–	502	502	–	502
At 31 December 2024	5,078	2,244	7,322	5,078	–	5,078
Amortisation						
At 1 January 2024	4,112	1,415	5,527	4,112	–	4,112
Charge for year	263	195	458	263	–	263
At 31 December 2024	4,375	1,610	5,985	4,375	–	4,375
Net book value						
At 31 December 2023	464	829	1,293	464	–	464
At 31 December 2024	703	634	1,337	703	–	703

18. INVESTMENT PROPERTY

	GROUP
	Investment property £'000
Cost	
At 1 January 2024	11,073
Purchase of investment properties	526
Refurbishment costs	69
Disposal of investment properties	(455)
Gain on revaluation of investment properties	168
At 31 December 2024	11,381

	2024 £'000	2023 £'000
Income statement		
Gain/(loss) on investment properties		
Gain/(loss) on sale of investment properties	10	(3)
Gain/(loss) on revaluation of investment properties	168	(332)
	178	(335)

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 2024 are included in accruals.

19. OTHER ASSETS

	GROUP		SOCIETY	
	2024 £'000	2023 £'000	2024 £'000	2023 £'000
Sundry debtors	344	363	194	162
Prepayments and accrued income	1,968	1,679	1,968	1,679
	2,312	2,042	2,162	1,841

20. SHARES

	Group 2024 £'000	Group 2023 £'000	Society 2024 £'000	Society 2023 £'000
Held by individuals				
Repayable from the date of the Statement of Financial Position in the ordinary course of business:				
Accrued interest	**41,471**	29,496	**41,471**	29,496
On demand	**964,253**	756,731	**964,253**	756,731
In not more than three months	**503,115**	481,375	**503,115**	481,375
In more than three months but not more than one year	**367,319**	374,192	**367,319**	374,192
In more than one year but not more than five years	**126,516**	177,011	**126,516**	177,011
	2,002,674	1,818,805	**2,002,674**	1,818,805

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 2024 £'000	Group 2023 £'000	Society 2024 £'000	Society 2023 £'000
Repayable from the date of the Statement of Financial Position in the ordinary course of business:				
Accrued interest	**2,006**	3,256	**2,006**	3,256
In not more than three months	**13,897**	17,938	**13,897**	17,938
In more than three months but not more than one year	**164,544**	78,682	**164,544**	78,682
In more than one year but not more than five years	**–**	150,000	**–**	150,000
	180,447	249,876	**180,447**	249,876

22. AMOUNTS OWED TO OTHER CUSTOMERS

	Group 2024 £'000	Group 2023 £'000	Society 2024 £'000	Society 2023 £'000
Repayable from the date of the Statement of Financial Position in the ordinary course of business:				
Accrued interest	**1,949**	1,421	**1,949**	1,421
On demand	**1,535**	1,945	**1,535**	1,945
In not more than three months	**54,033**	36,549	**54,033**	36,549
In more than three months but not more than one year	**30,130**	38,600	**30,130**	38,600
In more than one year but not more than five years	**1,000**	1,000	**1,000**	1,000
	88,647	79,515	**88,647**	79,515

23. DEBT SECURITIES IN ISSUE

	Group 2024 £'000	Group 2023 £'000	Society 2024 £'000	Society 2023 £'000
Repayable from the date of the Statement of Financial Position in the ordinary course of business:				
Senior Loan Notes	**145,118**	75,066	**–**	–
Unamortised issue costs	**(231)**	(539)	**–**	–
	144,887	74,527	**–**	–

The Senior Loan Notes, which are part of a bilateral funding facility, have been issued by Ebbisham No.1 Limited and are secured by a portfolio of residential buy to let mortgage loans originated by the Society.

The Loan Notes are repayable by October 2026. The interest rate on the Loan Notes is 1.25% above SONIA increasing to 2% above SONIA from 28 October 2025.

24. OTHER LIABILITIES

	Group 2024 £'000	Group 2023 £'000	Society 2024 £'000	Society 2023 £'000
Loans from subsidiary undertakings	**–**	–	**127,093**	112,314
Corporation tax payable	**206**	114	**171**	225
Other creditors	**31,718**	41,682	**31,703**	41,658
Accruals and deferred income	**3,482**	4,280	**2,950**	3,476
	35,406	46,076	**161,917**	157,673

The loan from subsidiary undertakings represents a deemed loan from Ebbisham No.1 Limited (Ebbisham) as part of a secured funding deal. This balance represents the value of the loans transferred to Ebbisham of £181,038,476 (2023: £112,314,197) less the value of the subordinated loan notes issued to the Society by Ebbisham of £53,945,823 (2023 £nil). See note 16(a) for an explanation of the change in accounting of the subordinated loan notes in 2024. The repayment of the loan is based on the collection of the principal and interest of the underlying mortgage assets and is contractually repayable by October 2026.

Group and Society other creditors includes £30,280,000 (2023: £41,190,000) of cash collateral received from derivative counterparties.

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 2024 was £14,812. The loan is interest free for 12 months and after that interest accrues at a rate of 2.5%.

Included in the Group other creditors above, is a deferred consideration liability relating to the acquisition of Be Clever With Your Cash Limited by Smart Money People Limited in 2023. The deferred consideration of £500,000 is payable in 3 equal amounts on the anniversary of the acquisition (March 2023) in 2024, 2025 and 2026. The deferred consideration was discounted to the date of acquisition at 5%, being the estimated cost of borrowing for Smart Money People at that date. The first payment of £167,000 was made in March 2024 and the discounted value of the second and third payments of £304,886, is included in the other creditors above. The remaining discount of £28,114, which represents an estimate of the funding cost, will be unwound to the income statement over the remaining period to March 2026.

	Group 2024	Group 2023	Society 2024	Society 2023
The bounce back loan is repayable from the Statement of Financial Position date as follows:				
In not more than one year	**10**	10	**–**	–
In two to five years	**5**	15	**–**	–
	15	25	**–**	–

25. 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 2023. 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 2023 and 31 December 2024.

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

	GROUP	
	2024	2023
The principal assumptions used by the actuary were as follows:		
Pension commitments discount rate	**5.58%**	4.79%
Pensionable salaries increase	**3.50%**	5.00%
Deferred revaluation – CPI or to a maximum increase of 5%	**2.62%**	2.50%
Pensions in payment increasing in line with RPI or to a maximum increase of 5%	**3.03%**	2.95%
Pensions in payment increasing in line with RPI or to a maximum increase of 2.5%	**2.09%**	2.06%
Pensions in payment increasing in line with CPI or to a maximum increase of 2.5%	**1.86%**	1.86%
Retail Price Index increase	**3.15%**	3.05%
Consumer Price Index increase	**2.62%**	2.53%

The longevity assumptions for 31 December 2024 are based on 95% of the S3PXA year of birth tables adjusted in line with the Continuous Mortality Investigation's 2023 model with a 1.5% long-term rate of improvement in mortality for males and 1.25% for females.

A 15% weighting has been placed on the 2023 and 2022 mortality experience, but no weighting has been placed on the exceptional mortality experience of 2020 and 2021 due to the impact of COVID 19.

The number of years' life expectancy from age 65 is as follows:		
Male retiring in 2024	**22.2**	21.7
Female retiring in 2024	**24.5**	24.2
Male retiring in 2044	**23.8**	23.3
Female retiring in 2044	**25.9**	25.7

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 2024. For the 2024 year end, the curve has been updated to use an expanded dataset to provide increased stability to the curve.

The Society made contributions to the Scheme at a rate of 29.6% during the year (2023: 29.6%). Based on the updated contribution rate following the 2023 actuarial valuation of 15.9% and the membership at 31 December 2024, the Society's estimated contributions in 2025 are £328,000 along with £165,000 for expenses.

	GROUP	
	2024 £'000	2023 £'000
The amounts recognised in the Statement of Financial Position are determined as follows:		
Present value of defined benefit obligation	**(21,656)**	(22,087)
Fair value of scheme assets	**20,797**	21,420
Defined benefit liability in the Statement of Financial Position	**(859)**	(667)
Reconciliation of opening and closing balances of the defined benefit obligation:		
Defined benefit obligation at 1 January	**22,087**	21,355
Current service cost	**372**	353
Interest expense	**1,048**	1,049
Contributions by scheme participants	**123**	123
Actuarial losses/(gains) due to scheme experience	**1,532**	(3)
Actuarial losses/(gains) due to changes in demographic assumptions	**190**	(211)
Actuarial (gains)/losses due to financial assumptions	**(2,792)**	493
Benefits paid	**(904)**	(1,072)
Defined benefit obligation at 31 December	**21,656**	22,087
Reconciliation of opening and closing balances of the fair value of scheme assets:		
Fair value of scheme assets at 1 January	**21,420**	20,781
Interest income	**1,047**	1,035
Return on assets, excluding interest income	**(2,568)**	(404)
Contributions by the employer	**1,854**	1,117
Contributions by scheme participants	**123**	123
Benefits paid	**(904)**	(1,072)
Scheme administrative cost	**(175)**	(160)
Fair value of scheme assets at 31 December	**20,797**	21,420

The actual return on the Scheme assets over the period ending 31 December 2024 was £1,521,000 (2023: £631,000).

Analysis of amount charged in the Income Statement		
Current and past service cost and expenses	**547**	513
Total operating charge (included within administrative expenses)	**547**	513
Analysis of net return on scheme		
Net interest cost	**1**	14
Net interest cost being the pension scheme finance charge	**1**	14
Analysis of amount recognised in the Statements of Comprehensive Income		
Return on assets, excluding interest income	**(2,568)**	(404)
Actuarial loss arising on the scheme liabilities	**(1,532)**	(279)
Gain from change in assumptions	**2,602**	–
Actuarial loss recognised in other comprehensive income	**(1,498)**	(683)

	GROUP 2024 £'000	GROUP 2023 £'000
Assets		
The fair values of the assets in the scheme at 31 December were as follows:		
Equity	**1,952**	1,604
Bonds	**3,095**	225
Property	**232**	282
Cash	**867**	677
Other	**1,987**	1,221
LDI	**5,529**	9,313
Liquid alternatives	**2,198**	1,879
Private credit	**2,172**	3,142
Insured pensioners – purchased annuity contracts	**2,765**	3,077
Total scheme assets	**20,797**	21,420

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 2023 identified a funding shortfall in the Scheme which was to be met by additional contributions from the Society of an annual lump sum contribution of £1,000,000 per annum to cover the period from 1 December 2023 to 30 November 2024 and an additional pro-rata lump sum payment of £83,333 in respect of the period from 1 December 2024 to 31 December 2024. In addition, the Society agreed to pay £163,000 per annum towards expenses of the Scheme reducing to £161,000 from 1 January 2025. These payments would then increase at each 1 April by 3% per annum with the first increase on 1 April 2025. As part of the shortfall funding plan, the Society made a contribution to the Scheme of £1,000,000 in November 2024 and £83,333 in December 2024.

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.

In June 2023, the High Court handed down a decision in the case of Virgin Media Limited v NTL Pension Trustees II Limited and others relating to the validity of certain historical pension changes due to the lack of actuarial confirmation required by law. In July 2024, the Court of Appeal dismissed the appeal brought by Virgin Media Ltd against aspects of the June 2023 decision. The conclusions reached by the court in this case may have implications for other UK defined benefit plans. The Society is currently considering the implications of the case for the Scheme. The defined benefit obligation has been calculated on the basis of the pension benefits currently being administered, and at this stage the Directors are not aware of any confirmed impact of the Virgin Media case that would require an adjustment to be made in the accounting valuation.

26. RESERVES – GENERAL RESERVES

	GROUP 2024 £'000	GROUP 2023 £'000	SOCIETY 2024 £'000	SOCIETY 2023 £'000
At 1 January	**168,612**	157,034	**168,508**	152,313
Profit for the financial year	**4,694**	12,170	**5,859**	16,707
Other comprehensive loss for the year	**(1,123)**	(512)	**(1,123)**	(512)
Distribution to non-controlling interest	**(450)**	(80)	**–**	–
At 31 December	**171,733**	168,612	**173,244**	168,508

27. RESERVES – AVAILABLE-FOR-SALE RESERVE

	GROUP 2024 £'000	GROUP 2023 £'000	SOCIETY 2024 £'000	SOCIETY 2023 £'000
At 1 January	**835**	(581)	**835**	(581)
Net (loss)/gain from changes in fair value	**(1,308)**	1,416	**(1,308)**	1,416
At 31 December	**(473)**	835	**(473)**	835

28. CASH AND CASH EQUIVALENTS

	Note	GROUP 2024 £'000	GROUP 2023 £'000	SOCIETY 2024 £'000	SOCIETY 2023 £'000
Cash in hand and balances with the Bank of England		**206,755**	276,628	**206,755**	276,628
Loans and advances to credit institutions	13b	**6,237**	4,031	**1,201**	806
		212,992	280,659	**207,956**	277,434

As described in Note 13a, the Statement of Financial Position has a Cash in hand and balances with the Bank of England total for 2023 of £280,998,000. This includes the mandatory cash ratio deposit with the Bank of England of £4,370,000. This cash ratio deposit has been excluded from the 2023 total of cash and cash equivalents above as it considered to be not readily available for use in the Group's day-to-day operations. The cash ratio deposit was repaid by the Bank of England during 2024 when the scheme was closed and there are no such balances at 31 December 2024.

Not all of the Group's cash is immediately available for its general purposes, including liquidity management. Cash held in the bank account of Ebbisham No.1 is not immediately available due to the terms of the bilateral funding facility. The total of this cash balance at 31 December 2024 is £4,862,000 (2023: £2,723,000).

29. FINANCIAL COMMITMENTS

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

As a regulated UK deposit-taker, the Society, in common with all regulated UK deposit-takers, is liable to pay 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 2025 triggered at 1 April 2024. No liability for the levies is recognised for scheme years beyond March 2025.

The Society has not paid any FSCS invoices for the CCL levy 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:	GROUP		SOCIETY	
	2024 £'000	2023 £'000	**2024 £'000**	2023 £'000
Capital expenditure contracted but not provided for	**40**	70	**40**	70

d) Commitments

	GROUP 2024 £'000	GROUP 2023 £'000	SOCIETY 2024 £'000	SOCIETY 2023 £'000
Irrevocable undrawn loan facilities to borrowers at year end	**3,802**	4,172	**3,802**	4,172
Commitment to repurchase assets sold under repo agreements	**–**	–	**–**	–
	3,802	4,172	**3,802**	4,172

30. 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 2024	**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	–	206,755	–	–	–	–	206,755
Loans and advances to credit institutions	6,237	–	–	–	–	–	6,237
Debt securities	–	–	228,154	–	–	–	228,154
Derivative financial instruments	–	–	–	–	33,352	17,319	50,671
Loans and advances to customers	2,136,739	–	–	–	–	–	2,136,739
Total financial assets	2,142,976	206,755	228,154	–	33,352	17,319	2,628,556
Non financial assets	–	10,738	–	11,381	–	–	22,119
Total Assets	2,142,976	217,493	228,154	11,381	33,352	17,319	2,650,675
Liabilities							
Shares	–	2,002,674	–	–	–	–	2,002,674
Amounts due to credit institutions	–	180,447	–	–	–	–	180,447
Amounts owed to other customers	–	88,647	–	–	–	–	88,647
Debt securities in issue	–	144,887	–	–	–	–	144,887
Derivative financial instruments	–	–	–	–	10,460	15,901	26,361
Total financial liabilities	–	2,416,655	–	–	10,460	15,901	2,443,016
Non financial liabilities	–	36,399	–	–	–	–	36,399
Total Liabilities	–	2,453,054	–	–	10,460	15,901	2,479,415

	GROUP						
Carrying values as at 31 December 2023	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	–	280,998	–	–	–	–	280,998
Loans and advances to credit institutions	4,031	–	–	–	–	–	4,031
Debt securities	–	–	132,976	–	–	–	132,976
Derivative financial instruments	–	–	–	–	42,195	11,733	53,928
Loans and advances to customers	1,986,665	–	–	–	–	–	1,986,665
Total financial assets	1,990,696	280,998	132,976	–	42,195	11,733	2,458,598
Non financial assets	–	10,707	–	11,073	–	–	21,780
Total Assets	1,990,696	291,705	132,976	11,073	42,195	11,733	2,480,378
Liabilities							
Shares	–	1,818,805	–	–	–	–	1,818,805
Amounts due to credit institutions	–	249,876	–	–	–	–	249,876
Amounts owed to other customers	–	79,515	–	–	–	–	79,515
Debt securities in issue	–	74,527	–	–	–	–	74,527
Derivative financial instruments	–	–	–	–	27,344	13,785	41,129
Total financial liabilities	–	2,222,723	–	–	27,344	13,785	2,263,852
Non financial liabilities	–	47,079	–	–	–	–	47,079
Total Liabilities	–	2,269,802	–	–	27,344	13,785	2,310,931

Carrying values as at 31 December 2024	SOCIETY					
	Held at amortised cost		Held at fair value			
	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	Total £'000
Assets						
Cash in hand and balances with the Bank of England	–	206,755	–	–	–	206,755
Loans and advances to credit institutions	1,201	–	–	–	–	1,201
Debt securities	–	–	228,154	–	–	228,154
Derivative financial instruments	–	–	–	33,352	7,299	40,651
Loans and advances to customers	2,097,800	–	–	–	–	2,097,800
Investment in subsidiary undertakings	–	46,777	–	–	–	46,777
Total financial assets	2,099,001	253,532	228,154	33,352	7,299	2,621,338
Non financial assets	–	9,642	–	–	–	9,642
Total Assets	2,099,001	263,174	228,154	33,352	7,299	2,630,980
Liabilities						
Shares	–	2,002,674	–	–	–	2,002,674
Amounts due to credit institutions	–	180,447	–	–	–	180,447
Amounts owed to other customers	–	88,647	–	–	–	88,647
Debt securities in issue	–	–	–	–	–	–
Derivative financial instruments	–	–	–	10,459	13,072	23,531
Total financial liabilities	–	2,271,768	–	10,459	13,072	2,295,299
Non financial liabilities	–	162,910	–	–	–	162,910
Total Liabilities	–	2,434,678	–	10,459	13,072	2,458,209

Carrying values as at 31 December 2023	SOCIETY					
	Held at amortised cost		Held at fair value			
	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	Total £'000
Assets						
Cash in hand and balances with the Bank of England	–	280,998	–	–	–	280,998
Loans and advances to credit institutions	806	–	–	–	–	806
Debt securities	–	–	132,976	–	–	132,976
Derivative financial instruments	–	–	–	42,195	4,696	46,891
Loans and advances to customers	1,925,180	–	–	–	–	1,925,180
Investment in subsidiary undertakings	–	117,910	–	–	–	117,910
Total financial assets	1,925,986	398,908	132,976	42,195	4,696	2,504,761
Non financial assets	–	9,412	–	–	–	9,412
Total Assets	1,925,986	408,320	132,976	42,195	4,696	2,514,173
Liabilities						
Shares	–	1,818,805	–	–	–	1,818,805
Amounts due to credit institutions	–	249,876	–	–	–	249,876
Amounts owed to other customers	–	79,515	–	–	–	79,515
Debt securities in issue	–	–	–	–	–	–
Derivative financial instruments	–	–	–	27,344	10,593	37,937
Total financial liabilities	–	2,148,196	–	27,344	10,593	2,186,133
Non financial liabilities	–	158,697	–	–	–	158,697
Total Liabilities	–	2,306,893	–	27,344	10,593	2,344,830

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.

	GROUP				
As at 31 December 2024	**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	**228,154**	**228,154**	**–**	**–**	**228,154**
Derivative financial instruments	**50,671**	**–**	**50,671**	**–**	**50,671**
	278,825	**228,154**	**50,671**	**–**	**278,825**
Liabilities					
Derivative financial instruments	**26,361**	**–**	**13,223**	**13,138**	**26,361**
	26,361	**–**	**13,223**	**13,138**	**26,361**

	GROUP				
As at 31 December 2023	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	132,976	132,976	–	–	132,976
Derivative financial instruments	53,928	–	53,928	–	53,928
	186,904	132,976	53,928	–	186,904
Liabilities					
Derivative financial instruments	41,129	–	15,345	25,784	41,129
	41,129	–	15,345	25,784	41,129

	SOCIETY				
As at 31 December 2024	**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	**228,154**	**228,154**	**–**	**–**	**228,154**
Derivative financial instruments	**40,651**	**–**	**40,651**	**–**	**40,651**
	268,805	**228,154**	**40,651**	**–**	**268,805**
Liabilities					
Derivative financial instruments	**23,531**	**–**	**13,222**	**10,309**	**23,531**
	23,531	**–**	**13,222**	**10,309**	**23,531**

	SOCIETY				
As at 31 December 2023	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	132,976	132,976	–	–	132,976
Derivative financial instruments	46,891	–	46,891	–	46,891
	179,867	132,976	46,891	–	179,867
Liabilities					
Derivative financial instruments	37,937	–	15,344	22,593	37,937
	37,937	–	15,344	22,593	37,937

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 higher interest rates, rising inflation, 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 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.

	GROUP		SOCIETY	
The Group's maximum credit risk exposure is detailed below:	**2024 £'000**	2023 £'000	**2024 £'000**	2023 £'000
Cash in hand and balances with the Bank of England	**206,738**	280,984	**206,738**	280,984
Loans and advances to credit institutions	**6,237**	4,031	**1,201**	806
Debt securities	**228,154**	132,976	**228,154**	132,976
Derivative financial instruments	**50,671**	53,928	**40,651**	46,891
Loans and advances to customers	**2,106,348**	1,946,781	**2,069,548**	1,890,522
Loan to (2023: and profit share from) Family and Arden Homes LLP*	**–**	–	**9,955**	10,326
Total Statement of Financial Position exposure	**2,598,148**	2,418,700	**2,556,247**	2,362,505
Statement of Financial Position exposure – mortgage commitments	**3,802**	4,172	**3,802**	4,172
	2,601,950	2,422,872	**2,560,049**	2,366,677

	GROUP 2024 £'000	GROUP 2023 £'000	SOCIETY 2024 £'000	SOCIETY 2023 £'000
Loans and advances to customers				
Concentration by loan type				
Loans fully secured on residential property				
Owner Occupied and Buy to Let	**1,954,198**	1,787,683	**1,954,198**	1,770,106
Lifetime	**151,260**	155,632	**114,460**	116,939
Other loans				
Loans fully secured on land – commercial	**1,611**	4,095	**1,611**	4,095
Gross balances	**2,107,069**	1,947,410	**2,070,269**	1,891,140
Impairment provisions	**(721)**	(629)	**(721)**	(618)
Effective interest rate adjustment	**9,174**	7,633	**8,741**	7,094
Fair value adjustments	**21,217**	32,251	**19,511**	27,564
	2,136,739	1,986,665	**2,097,800**	1,925,180

*Non–wholly owned Subsidiary.

	GROUP		SOCIETY	
	2024 %	2023 %	**2024 %**	2023 %
Geographical analysis of gross mortgage balances				
North	**2**	2	**2**	2
North East	**5**	5	**5**	5
North West	**6**	6	**6**	5
East Midlands	**4**	4	**3**	4
West Midlands	**5**	5	**5**	5
East Anglia	**3**	3	**3**	3
South East	**64**	64	**64**	65
South West	**9**	9	**10**	9
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%	**3**	3	**3**	3
50% – 75%	**38**	38	**38**	38
<50%	**59**	59	**59**	59
Total	**100**	100	**100**	100
Average loan to value of Owner Occupied and Buy to Let mortgage portfolio	**45**	45	**45**	45
Indexed loan to value distribution of Lifetime gross mortgage balances				
Greater than 95%	**–**	–	**–**	–
90% – 95%	**–**	–	**–**	–
85% – 90%	**–**	1	**–**	–
75% – 85%	**2**	1	**–**	–
50% – 75%	**39**	34	**31**	26
<50%	**59**	64	**69**	74
Total	**100**	100	**100**	100
Average loan to value of Lifetime Mortgage portfolio	**51**	47	**45**	44
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	**21**	**26**	**21**	26

The Group's average indexed loan to value at the year end date is 39% (2023: 45%).

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	
	2024 £'000	2023 £'000	**2024 £'000**	2023 £'000
Loans neither past due or impaired	**2,044,311**	1,903,548	**2,007,511**	1,849,331
Past due but not impaired				
Past due to 3 months	**35,329**	24,711	**35,329**	23,495
Past due 3 to 6 months	**4,245**	4,412	**4,245**	4,206
Past due 6 to 12 months	**10,053**	1,356	**10,053**	1,356
Past due over 12 months	**2,037**	369	**2,037**	258
Possessions	**–**	–	**–**	–
Impaired				
Not past due	**335**	2,377	**335**	2,377
Past due to 3 months	**5,673**	4,015	**5,673**	3,727
Past due 3 to 6 months	**846**	2,159	**846**	2,078
Past due 6 to 12 months	**2,000**	82	**2,000**	82
Past due over 12 months	**258**	151	**258**	–
Possessions	**371**	135	**371**	135
	2,105,458	1,943,315	**2,068,658**	1,887,045

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	
	2024 £'000	2023 £'000	**2024 £'000**	2023 £'000
Residential property	**450**	546	**450**	546

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	
	2024 £'000	2023 £'000	**2024 £'000**	2023 £'000
Loans neither past due or impaired	**1,611**	4,095	**1,611**	4,095
Past due but not 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	**–**	–	**–**	–
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	**–**	–	**–**	–
	1,611	4,095	**1,611**	4,095

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 2024 or 31 December 2023 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 judgement 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.

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		
As at 31 December 2024	**Number of accounts**	**Gross loans £'000**	**Provision £'000**	**Number of accounts**	**Gross loans £'000**	**Provision £'000**
Temporary arrangement – interest-only	**10**	**2,980**	**20**	**10**	**2,980**	**20**
Temporary arrangement – other	**–**	**–**	**–**	**–**	**–**	**–**
Payment holiday requested	**2**	**1,064**	**–**	**2**	**1,064**	**–**
	12	**4,044**	**20**	**12**	**4,044**	**20**

Included in the table above, is one Member who is still receiving formal forbearance (temporary switch to interest only) as a direct consequence of the Covid-19 pandemic.

	GROUP			SOCIETY		
As at 31 December 2023	Number of accounts	Gross loans £'000	Provision £'000	Number of accounts	Gross loans £'000	Provision £'000
Temporary arrangement – interest-only	10	1,444	1	10	1,444	1
Temporary arrangement – other	10	804	–	–	–	–
Payment holiday requested	3	1,311	–	3	1,311	–
	23	3,559	1	13	2,755	1

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 judgement. In making this judgement, 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 2024 and 31 December 2023 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	
	2024 £'000	2023 £'000	**2024 £'000**	2023 £'000
Concentration by credit grading				
AAA	**8,522**	9,408	**8,522**	9,408
AA	**219,632**	123,568	**219,632**	123,568
A	**6,195**	3,736	**1,201**	806
Unrated	**42**	295	**–**	–
	234,391	137,007	**229,355**	133,782
Concentration by industry sector				
Banks	**6,237**	4,031	**1,201**	806
Multilateral Development Banks	**8,522**	9,408	**8,522**	9,408
UK Treasury	**219,632**	123,568	**219,632**	123,568
	234,391	137,007	**229,355**	133,782
Concentration by geographic region				
UK	**225,869**	127,599	**220,833**	124,374
Multilateral Development Banks	**8,522**	9,408	**8,522**	9,408
	234,391	137,007	**229,355**	133,782

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:

	GROUP						
Residual maturity as at 31 December 2024	**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**	**Total £'000**
Financial assets							
Cash in hand and balances with the Bank of England	206,755	–	–	–	–	–	206,755
Loans and advances to credit institutions	–	–	–	–	–	6,237	6,237
Debt securities	–	57,790	48,797	91,005	29,311	1,251	228,154
Derivative financial instruments	–	1,481	7,841	25,728	15,621	–	50,671
Loans and advances to customers	13,493	5,651	16,975	366,809	1,704,141	29,670	2,136,739
Other assets	–	–	–	–	–	22,119	22,119
	220,248	64,922	73,613	483,542	1,749,073	59,277	2,650,675
Financial liabilities and reserves							
Shares	964,253	503,115	367,319	126,516	–	41,471	2,002,674
Amounts owed to credit institutions	–	13,897	164,544	–	–	2,006	180,447
Amounts owed to other customers	1,535	54,033	30,130	1,000	–	1,949	88,647
Debt securities in issue	–	–	–	144,887	–	–	144,887
Derivative financial instruments	–	102	34	2,792	23,433	–	26,361
Other liabilities	–	–	–	–	–	36,399	36,399
Reserves	–	–	–	–	–	171,260	171,260
	965,788	571,147	562,027	275,195	23,433	253,085	2,650,675

	GROUP						
Residual maturity as at 31 December 2023	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	Total £'000
Financial assets							
Cash in hand and balances with the Bank of England	280,998	–	–	–	–	–	280,998
Loans and advances to credit institutions	–	–	–	–	–	4,031	4,031
Debt securities	–	–	19,723	91,101	21,178	974	132,976
Derivative financial instruments	–	1,176	7,117	34,651	10,984	–	53,928
Loans and advances to customers	9,700	4,234	22,416	326,081	1,584,979	39,255	1,986,665
Other assets	–	–	–	–	–	21,780	21,780
	290,698	5,410	49,256	451,833	1,617,141	66,040	2,480,378
Financial liabilities and reserves							
Shares	756,731	481,375	374,192	177,011	–	29,496	1,818,805
Amounts owed to credit institutions	–	17,938	78,682	150,000	–	3,256	249,876
Amounts owed to other customers	1,945	36,549	38,600	1,000	–	1,421	79,515
Debt securities in issue	–	–	–	74,527	–	–	74,527
Derivative financial instruments	–	4	111	7,501	33,513	–	41,129
Other liabilities	–	–	–	–	–	47,079	47,079
Reserves	–	–	–	–	–	169,447	169,447
	758,676	535,866	491,585	410,039	33,513	250,699	2,480,378

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					
31 December 2024	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
Shares	**956,117**	**556,668**	**376,569**	**135,943**	–	**2,025,297**
Amounts owed to credit institutions	–	**14,071**	**164,901**	**160,080**	**5,702**	**344,754**
Amounts owed to other customers	–	**57,226**	**31,471**	**1,093**	–	**89,790**
Debt securities in issue	–	–	–	**145,118**	–	**145,118**
Derivative financial instruments	–	**6,571**	**265**	**(10)**	**299**	**7,125**
Total liabilities	**956,117**	**634,536**	**573,206**	**442,224**	**6,001**	**2,612,084**
31 December 2023						
Shares	748,989	524,873	382,068	191,335	–	1,847,265
Amounts owed to credit institutions	–	18,259	79,093	238,278	17,423	353,053
Amounts owed to other customers	–	39,313	40,469	1,102	–	80,884
Debt securities in issue	–	–	–	75,066	–	75,066
Derivative financial instruments	–	983	(596)	32	1,295	1,714
Total liabilities	748,989	583,428	501,034	505,813	18,718	2,357,982

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 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						
At 31 December 2024	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
Assets							
Cash in hand and balances with the Bank of England	201,876	–	–	–	–	4,879	206,755
Loans and advances to credit institutions	6,237	–	–	–	–	–	6,237
Debt securities	57,795	38,995	9,854	91,449	32,617	(2,556)	228,154
Derivative financial instruments	–	–	–	–	–	50,671	50,671
Loans and advances to customers	600,132	46,007	99,992	1,099,693	261,245	29,670	2,136,739
Other assets	–	–	–	–	–	22,119	22,119
Total assets	866,040	85,002	109,846	1,191,142	293,862	104,783	2,650,675
Liabilities							
Shares	1,401,385	167,191	235,677	156,953	–	41,468	2,002,674
Amounts owed to credit institutions	173,897	4,000	544	–	–	2,006	180,447
Amounts owed to other customers	55,581	17,880	12,250	1,000	–	1,936	88,647
Derivative financial instruments	–	–	–	–	–	26,361	26,361
Debt securities in issue	145,000	–	–	–	–	(113)	144,887
Other liabilities	–	–	–	–	–	36,399	36,399
Reserves	–	–	–	–	–	171,260	171,260
Total liabilities	1,775,863	189,071	248,471	157,953	–	279,317	2,650,675
Impact of derivative financial instruments	1,039,075	90,000	81,000	(928,391)	(281,684)	–	–
Interest rate sensitivity gap	129,252	(14,069)	(57,625)	104,798	12,178	(174,534)	–
Sensitivity to profit and reserves							
Parallel shift of 1%	(161)	52	418	(2,767)	(779)	–	(3,237)
Parallel shift of 2%	(322)	104	836	(5,534)	(1,558)	–	(6,474)

	GROUP						
At 31 December 2023	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
Assets							
Cash in hand and balances with the Bank of England	273,891	–	–	–	–	7,107	280,998
Loans and advances to credit institutions	4,031	–	–	–	–	–	4,031
Debt securities	–	2,003	18,058	90,099	23,071	(255)	132,976
Derivative financial instruments	–	–	–	–	–	53,928	53,928
Loans and advances to customers	755,508	71,001	95,069	829,337	196,496	39,254	1,986,665
Other assets	–	–	–	–	–	21,780	21,780
Total assets	1,033,430	73,004	113,127	919,436	219,567	121,814	2,480,378
Liabilities							
Shares	1,193,530	161,312	228,069	206,399	–	29,495	1,818,805
Amounts owed to credit institutions	237,938	1,007	7,675	–	–	3,256	249,876
Amounts owed to other customers	38,510	21,350	17,250	1,000	–	1,405	79,515
Derivative financial instruments	–	–	–	–	–	41,129	41,129
Debt securities in issue	75,000	–	–	–	–	(473)	74,527
Other liabilities	–	–	–	–	–	47,079	47,079
Reserves	–	–	–	–	–	169,447	169,447
Total liabilities	1,544,978	183,669	252,994	207,399	–	291,338	2,480,378
Impact of derivative financial instruments	791,660	76,700	36,609	(719,830)	(185,139)	–	–
Interest rate sensitivity gap	280,112	(33,965)	(103,258)	(7,793)	34,428	(169,524)	–
Sensitivity to profit and reserves							
Parallel shift of 1%	(348)	125	747	234	(3,443)	–	(2,685)
Parallel shift of 2%	(696)	250	1,494	468	(6,886)	–	(5,370)

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

31. 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.

32. 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	
	2024 £'000	2023 £'000
Common Equity Tier 1 capital		
General reserves	**171,733**	168,612
Entities excluded from the regulatory Group	**3,230**	1,299
Available-for-sale reserve	**(473)**	835
Common Equity Tier 1 capital prior to regulatory adjustments	**174,490**	170,746
Adjustments to regulatory capital	**(967)**	(665)
Common Equity Tier 1 capital	**173,523**	170,081
Tier 2 capital		
Collective provision	**517**	472
Total Capital	**174,040**	170,553

33. COUNTRY-BY-COUNTRY REPORTING (unaudited)

Article 89 of the Capital Requirements Directive IV requires credit institutions and investments firms to disclose annually, specifying by Member State and third country in which it has an establishment, 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 only in the United Kingdom. Details of the Society's trading subsidiaries are disclosed in Note 16.

Average employee numbers are disclosed in Note 8.

	GROUP	
	2024 £'000	2023 £'000
Turnover	**39,920**	49,108
Profit before tax	**7,459**	17,009
Corporation tax paid	**2,064**	4,319

Turnover consists of net interest income, net fees and commissions received or paid and other income.
No public subsidies were received by the Group.

34. RELATED PARTY DISCLOSURES

During the year, the Society paid Smart Money People Limited £10,790 (2023: £9,360) for customer insight information and £68,400 (2023: £58,500) 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 of £9,042,964. Interest is charged on the loan at a fixed rate of 1% per annum above the Bank of England base rate and the loan is repayable in full on 31 December 2026. The balance on the loan at 31 December 2024, including accrued interest, was £5,318,318.

At 31 December 2024, the Society had separate mortgage loans outstanding totalling £19,149,854 (2023: £19,785,596) 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 2024 was £9,954,651 (2023: £9,428,000).

The Directors held £291,120 of savings balances with the Society at 31 December 2024 (2023: £1,503,294).

During the year, the Society paid £8,326 to a company for which John Howard, a former director of the Society, is a Director for his services to the Society.

During 2023, the Society entered into a bilateral funding facility which resulted in the creation of a quasi subsidiary, Ebbisham No.1 Limited. As part of that funding deal, on 11 October 2023, the Society transferred the beneficial interest in £115,697,634 of mortgage loans to Ebbisham No.1. During 2024, the beneficial interest in further mortgage loans with a value of £80,044,515 were transferred to Ebbisham No. 1. Due to redemptions within the mortgage pool, the overall balance of the loans within Ebbisham No. 1 has reduced to £181,038,476 at the year end. Ebbisham No.1 issued Subordinated Notes to the Society to partly fund the transfer value and the balance outstanding on those Notes at the year end was £53,945,823. Interest of £2,180,653 was paid to the Society in the year in respect of the Notes. The Society also received £114,532 in fees from Ebbisham No. 1 for providing mortgage servicing to it.

SMP operates a Management Incentive Plan (MIP) for its Directors and key employees and a separate B class of Ordinary Shares has been issued by SMP to facilitate the Plan. These B shares are currently held by National Counties Building Society. Under the terms of the MIP, share options over B Ordinary Shares have been issued to Directors and key employees which vest over a period of 4 years and on the payment of an agreed exercise price would transfer them. However, the exercise of these options is dependent on a Realisation Event occurring (sale, partial sale, listing, asset sale or winding-up) and the value of the business at the time would need to be in excess of a pre-determined Hurdle Value. One of the Society's Directors, Patrick Muir, was awarded 40 B Ordinary Shares in SMP under the MIP scheme in January 2023.

ANNUAL BUSINESS STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2024

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	**0.18**	25
b) Funding limit		
Proportion of shares and other borrowings other than in the form of shares held by individuals	**17.13**	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

	2024 %	2023 %
As a percentage of shares and borrowings:		
Gross capital	**7.09**	7.62
Free capital	**6.76**	7.25
Liquid assets	**18.25**	18.81
As a percentage of average assets:		
Profit after taxation	**0.18**	0.50
Management expenses – Group	**1.32**	1.16
Management expenses – Society	**1.19**	1.06

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.

Average 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 2024

Simon Wainwright BSc, MBA, FCIB & Chartered Director IOD (Chair)

Born: April 1963
Appointed: March 2015
Business Occupation: Managing Director
Other Directorships: RGA UK Services Ltd, Recognise Bank Limited, City of London Group Plc

Patrick Muir (Vice Chair)

Born: May 1965
Appointed: March 2015
Business Occupation: Marketing Consultant
Other Directorships: Swan Marketing Services Ltd, Chester Rose Ltd, Smart Money People Limited*, Be Clever With Your Cash Limited*

Mark Bogard MA

Born: January 1962
Appointed: May 2012
Business Occupation: Building Society Chief Executive
Other Directorships: Counties Home Loan Management Ltd*, Alexander Hall Associates Ltd, Goodeffect Ltd, Eleven Eton Avenue Limited

Andrew Barnard BA, ACMA, CGMA

Born: July 1971
Appointed: April 2018
Business Occupation: Building Society Finance Director
Other Directorships: Counties Home Loan Management Ltd*

John Cole FCA

Born: July 1953
Appointed: October 2019
Business Occupation: Chartered Accountant
Other Directorships: London South Bank University, Age UK London

Robin Churchouse BA, ACA

Born: January 1966
Appointed: October 2024
Business Occupation: Non-executive Director
Other Directorships: Vida Bank Limited, Vemi Money Limited, Vida Group Holdings Limited

Peter Navin BA, FCIB

Born: August 1962
Appointed: November 2022
Business Occupation: Non-executive Director
Other Directorships: PEN Coaching and Consultancy Ltd

Susan Sharrock Yates BA, FCA, FCT

Born: October 1958
Appointed: August 2020
Business Occupation: Non-executive Director
Other Directorships: None

OFFICERS AT 31 DECEMBER 2024

	Business Occupation:	Directorships:
Chris Agathangelou	Director of Commercial Development	AGA Consulting & Services Ltd
Grigorios Anastasiadis	Director of Information Technology	(None)
Keith Barber DMS, ACIB, DipPFS	Director of Business Development	National Counties Financial Services Ltd*
Malcolm Clays BSocSc, ACA	Director of Finance	(None)
Jamie Crayden BSc	Director of Products and Business Insight	(None)
Blaine Faragher BA(Hons)	Co-Director of Lending	(None)
Michael Feather	Director of Business Change	(None)
Rebecca Hayes	Chief Information and Technology Officer	(None)
Nick Hodges BSc, FCT, ACMA	Director of Treasury	(None)
David Horsman LLM, FCCA	Director of Financial Planning and Analysis	(None)
Kathryn Mendoza LLB	Secretary and Director of Legal and Compliance	(None)
Alistair Nimmo	Director of Marketing	(None)
Phillip Townsend	Co-Director of Lending	(None)
Vicki Webb BSc, MCIPD	Director of People and Learning & Development	(None)
Graeme Wolvaardt	Chief Risk Officer	(None)

*Companies within the National Counties Group

Details of Executive Directors' service contracts are provided in the Report on Remuneration on page 52.
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 KT18 5DD.

PRINCIPAL OFFICE

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

COUNTER SERVICES

Ashley Square
Ashley Centre, Epsom
Surrey KT18 5DD

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

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