Annual Report & Accounts 2022

Continuing to provide for our customers and our communities

Always with your interest at heart

Furness BUILDING SOCIETY

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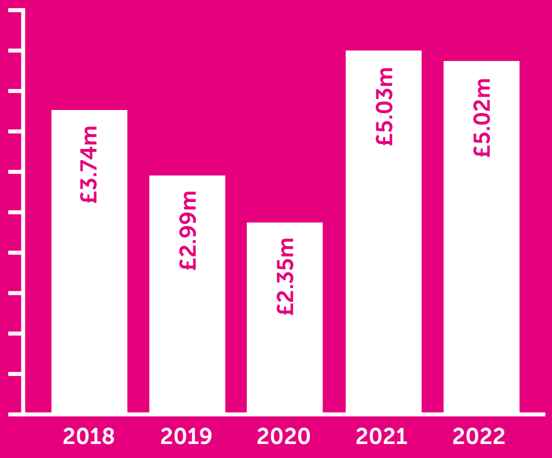

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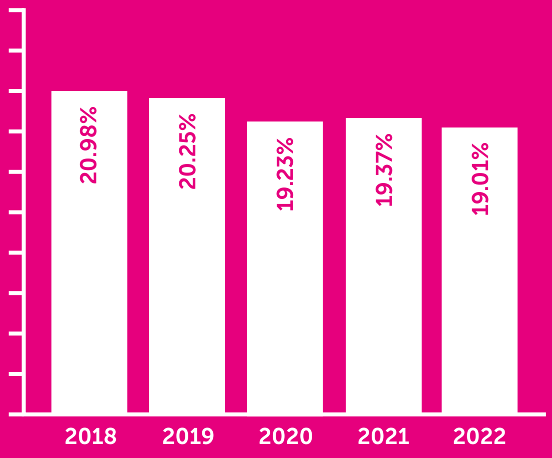

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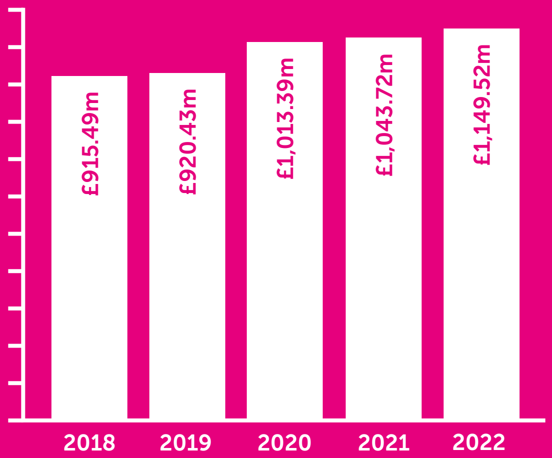

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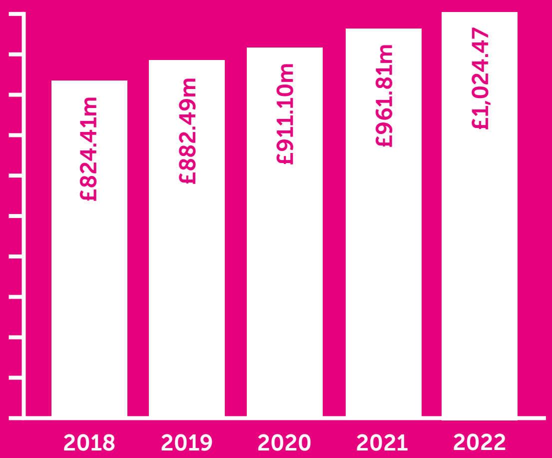

Chairman's Report

Focus on our people and members

It was hard to imagine more eventful years than 2020 and 2021, however 2022 was every bit as challenging for the vast majority of our members and colleagues.

The geo-political situation and consequential global economic impact has caused uncertainty and volatility in financial markets. At home, the aftermath of Brexit and the continuing Covid pandemic has added further economic pressures for the UK. This has resulted in higher inflation and interest rates than we have experienced for many years.

Our team of hardworking people, who are the key to our success, have dealt with significant change this year and I'm grateful to all my colleagues for their continued support. We equally recognise that this has been a very challenging time for most of our members and are grateful for their continued support for the Society. The cost of living crisis has affected us all and we understand the pressure on all households during this unusual and difficult time.

Due to the inflationary pressures of 2022 the Monetary Policy Committee voted eight times to increase interest rates during the year. We were determined to find a balanced and fair way to help our mortgage members and resolved to pass on less than half of the earlier Bank of England Base Rate rises to them. We will need to keep this under review and it has been necessary to pass on more of recent interest rate rises. However, we always have our members' interests at heart.

To ensure we support those members who might struggle to manage the financial challenges in the coming months we have created a specialist team for mortgage members facing financial uncertainty or worries. We continue to urge our customers to contact us should they have any concerns about their mortgage repayments because we have a package of solutions that could help to ease the strain.

While we have managed the base rate increases for those with mortgages, we've also worked hard to protect the interests of our savings customers. We've continued to raise interest rates across our savings accounts in a conscientious manner and we're proud to have had a number of best-buy products in our portfolio. Our approach will ensure our savings members receive fair returns on their savings.

We expect that next year will be another challenging year; however, your Society is in a strong and stable position to deal with the challenges. Our balance sheet strength enables us to continue with our strategy of controlled growth and investment in digitisation and branches to ensure we remain relevant and competitive.

Our digitisation project will see us invest a significant sum in order to provide savings members with a mobile application and improved online self-serve functionality that will enable them to choose how to interact with us. Our Branch refurbishment and brand projects are also a priority to ensure we provide a modern branch environment that our members demand. We will be launching a new reinvigorated look and feel, having explored the modernisation of our brand in 2022, and this will reflect our status as a modern-day building society for members which will serve them throughout all of life's journeys.

Despite our continued evolution, we are committed to remaining true to our traditional, ethical, human-led values, putting people and our service to you at the very heart of your society.

More on our 2022 performance

Our financial performance was strong in 2022 and more details of this are provided in the Directors' Report on page 14. We made a profit before tax of over £5m and we were able to grow our balance sheet to £1.2bn, predominantly by increasing our retail savings balances. This supported continued lending where we met the milestone of £1bn mortgages in May 2022. Our mortgage book is performing well and our arrears levels remain low.

Our Strategic Priorities

Our IT systems are fundamental to the services we provide and we continue to invest in them. During 2022 we have been through a robust and exhaustive search for a new solution to take our online and mobile digitisation forward. We have identified our preferred solution and are in the final stages of due diligence for an innovative and proven system which will enable us to meet our customers' needs for a seamless digital experience to complement our Branch services. Our improved digital functionality will help us meet the expectations of new generations of members who prefer to access services on mobile devices and tablets.

It is incumbent on Boards to ensure that they make the best possible use of the resources available to them. Capital is a key resource, the adequacy of which is fundamental to protecting our franchise and meeting members' needs.

We have strengthened our risk management resources and whilst we are not complacent, we believe we are well prepared for the challenges ahead. The level of Regulatory change continues at pace and we are resourced to deal with this.

We continue to invest in our people and have protected our staff with additional 'cost of living' payments. We want all of our staff and members to feel valued and supported. We have reviewed our People Strategy and will be embarking on a programme of actions in 2023 to protect the recruitment and retention of our talented team who will help to secure the future success of our business. Our Brand and Branch refurbishment programme, previously mentioned, will also help to improve our Employer Brand.

Looking Forward

I'm pleased with our performance in 2022 and the steps we have taken to put us in a strong position for next year and beyond to meet the challenges we face.

The general economic environment continues to be challenging. The volatility of interest rates looks set to continue and the cost-of-living challenges are starting to impact households. Although house prices have been remarkably resilient over the last 12-18 months, we do not expect this to continue. The new interest rate environment has intensified competition for savings and uncertainty about whether interest rates will rise or fall make decisions about whether to take fixed rate mortgages and savings difficult.

However as previously mentioned our strong capital position gives us confidence that we can continue to invest in our infrastructure and continue to grow our balance sheet in a controlled manner.

With confidence and optimism we continue the planned investments in branches, our brand and our digital capability will, we believe, ensure that we remain relevant and competitive in what continues to be a competitive market place. Our investment in branch, brand and digital means we are not expected to achieve the same profits in 2023 as seen in 2022.

I extend my sincere thanks to our talented team for their hard work and commitment during 2022 which enables us to enter 2023 in a strong position and prepared to face the economic challenges before us.

Last but by no means least – thanks to our members for their loyalty and support through these difficult times. We will continue to do our very best to provide the products and services you need to the high standards you deserve.

Approved by the Board of Directors 14 March 2023

Graham Berville

Chairman, Graham Berville
14 March 2023

Strategic Report

Performance Overview & Priorities

When we entered 2022 it was hard to imagine a year ahead more eventful than the previous two. And yet the past twelve months have seen a series of events that have continued to create challenges for our business, our members and our people.

We only have to consider the unrest caused by the current global backdrop to set the context for 2022. Russia's invasion of Ukraine, the aftermath of Brexit and the ongoing repercussions of the Covid pandemic are some of the factors contributing to the extreme circumstances we're experiencing across the world. And this is further prompting an unsettled reaction here on home soil, with a surge in energy costs, soaring inflation and increasing interest rates contributing to a deepening cost of living crisis.

Despite the turbulence we've all encountered, we hold cautious optimism for the year ahead. We've achieved good results and our financial performance reflects the pragmatism we have adopted over the past few difficult years. We enter 2023 in a strong and solid position with a balance sheet that will enable us to continue supporting our members when and how they need it most.

We're hugely grateful for the contribution of our people during a demanding period that enabled us to exceed our £1bn mortgage asset target and complete the preparation phases for our strategic initiatives.

We have committed to a significant investment over the corporate plan period to develop our digital technology, brand and branch network as we continue to grow our business to meet the future needs of members and secure a successful business for future colleagues.

As in previous years, we remain committed to contributing to our members' personal prosperity by facilitating property ownership and a fair savings return.

Our purpose remains unchanged; we're here to help people buy or build their dream homes and help them with their savings aspirations, providing long term value and security.

We have dealt with the numerous Bank of England base rate increases in a fair and balanced way to mitigate the impact on mortgage repayments and provide value to our savings members. We will continue to adopt a strategy of balance and fairness to members which delivers the stability and security our members expect to ensure the continued success of our Society for future generations.

Financial strength and stability were important goals during the year and achieving £1bn mortgage assets was a significant milestone for us. We continued to make contributions to the DB Scheme pension. The impact of this, alongside changes in actuarial assumptions, has resulted in an accounting surplus in our accounts at the year end. The new pension governance structure put in place in 2021 including professional Trustees, investment advisers and Scheme administrators, has enabled a successful de-risking and investment strategy to be implemented and managed consistently.

We've shown great resilience in our business continuity and our performance, although we are not complacent. During 2022 we invested in a new team, led by our Group Secretary to manage our Operational resilience and Strategic Change, in addition to strengthening our Risk & Compliance function in order to ensure we

continue to meet our high regulatory compliance standards. Robust risk management is a key enabler for all that we do and allows us to operate effectively and maximise our opportunities whilst maintaining a strong control environment. Our Chief Risk Officer, Elaine O'Dwyer, leads our new combined Risk and Compliance second line function and will continue to ensure enterprise wide risk management is a key focus as we embed new regulations such as consumer duty and implement our strategic initiatives.

We welcomed a new Finance Director, Laura Hamp, whom we were pleased to promote internally as a result of our succession planning, and we have restructured and strengthened our Finance and Treasury functions as a result. Many improvements have been made in our risk management across these areas which will enable us to optimise the tools available to us for the long term success and modernisation of the business.

We also welcomed our new Chief Commercial Officer, Simon Broadley to the Society in December 2022 and he will bring a wealth of experience to inform the direction of our product and member proposition as we invest in our strategic initiatives. The digital functionality will support and complement our new Branch designs and our brand values will underpin the delivery of the new technology and services.

Post-tax profit for the year was in line with previous year at £4m and the key drivers of the 2022 profit performance were the structural impacts of interest rate rises and continued balance sheet and mortgage book growth, offset by an increase in management expenses.

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

Key Performance Indicators		2022	2021
Balance Sheet	Assets	**£1,236m**	£1,131m
	Loans to members	**£1,024m**	£962m
	Retail shares and deposits	**£1,150m**	£1,044m
Operating Performance	Management expenses (% of mean assets)	**1.33%**	1.20%
	Interest Margin (% of mean assets)	**1.76%**	1.56%
	Mortgage arrears (>2months)	**£2.0m**	£3.5m
	Profit after tax	**£4.0m**	£4.0m
Financial strength	Regulatory capital	**£82.1m**	£77.8m
	Total capital ratio	**19.0%**	19.4%
	Liquid assets (% of shares and borrowings)	**16.5%**	15.5%

Economic Climate

Following the Bank of England's base rate increases, we implemented eight rate changes across the mortgage and savings portfolios over the course of the year which contributed to profits to the magnitude of approximately £1m.

The housing market has continued to perform with a perhaps unexpected resilience. However, there has been significant volatility in the markets over the course of 2022 and particularly during the latter part of the year. This has required careful and close management of product lines and liquidity metrics. The rising interest rates and inflationary pressures which have contributed to the cost of living challenges have had an impact on both mortgage demand, affordability and savings flows and wholesale markets.

Our people have worked extremely hard across the business to ensure we supported our customers through another challenging year. We are confident in our plans for the Corporate Plan period, however we are not complacent and there will undoubtedly be some further economic challenges to face in 2023.

Society Performance and Strength

Our overall performance in the year has been strong. We have dealt with the volatility, uncertainty and operational challenges of the economic environment in a consistent and fair way which has produced good results.

Gross capital as a percentage of Share and Deposit Liabilities (SDL) was 7.2% (8.0%:2021) and our CET1 ratio 18.9% (19.2%:2021). Our capital position is a result of profit plus our defined benefit pension scheme moving to a surplus position. We repaid our subordinated debt, which counted at tier 2 capital, during 2022 at its contractual maturity date. Our overall capital position provides the necessary strength and security for our members.

The underlying net interest margin improved to 1.76% (1.56%:2021) mainly due to managements actions to act quickly to recognise market opportunities and working in an agile and dynamic way to deliver the right products at the right time. The increase was due to the implementation of several mortgage and savings rate changes.

Assets

Mortgage assets increased by £62m and total assets increased by 9.3% to £1.2bn. There was strong mortgage growth in the first half of the year supported by discount mortgages as the Society looked to restructure the balance sheet and rebalance its discount to fixed lending ratio. This was in contrast to the second half when lenders, including the Society, paused new lending to take stock of a highly volatile political and economic landscape. The last quarter of the year saw a return to trading which saw growth in new lending reinstated despite a slow-down in the market generally as the Cost of Living crisis begins to impact on the number of people looking for new homes.

Mortgages

The demand for mortgages remained remarkably resilient in a turbulent year and we delivered gross mortgage lending of £263m (£249m: 2021).

We were able to use improved credit risk analysis to help the product development teams deliver appropriately priced products and criteria, and assist the underwriters with the processing of decisions.

> **The average loan to value (LTV) of the whole mortgage portfolio remains under 50% LTV.**

Our mortgage assets grew by 6.5% (5.6%:2021) to £1,024m (£962m: 2021) and we plan to maintain a strong pipeline of new business into 2023. The Bank of England base rate increases meant that affordability for mortgages was harder for some customers and that has started to impact on demand. However we continue to offer a full range of products and our manual underwriting helps us to understand and assist in more complex circumstances. We are confident in our steady growth plans and product development areas for 2023.

Our continued investment in people has enabled us to strengthen our credit risk management. This development has helped us to support regional home ownership, and develop our lending criteria and products to meet the demands of our customers and brokers in some niche areas with our manual underwriting expertise and capacity. As a mutual, it is our intention to provide residential home loans, where appropriate returns for risk are available, in markets such as first time buyers and self-build, to help our communities and customers where appropriate. Helping customers in our communities to purchase a home is our core purpose and we will continue to develop our products and propositions to facilitate that within our risk appetite.

Arrears and Provisions

Arrears and forbearance metrics remain relatively low but we expect that the economic impact of a rising interest rate and inflationary environment will cause financial difficulties and hardship for some people during the course of 2023 and beyond. We have planned ahead and taken extra steps to ensure we have the right support in place to help our members through any financial challenges they might face.

Loan loss provisions have increased in the year from £695k to £815k at 31 December 2022 to reflect the forecast house price reductions over the next 12-18 months.

The number of mortgages in arrears (over 2 months) at 31 December 2022 was 19 (34: 2021), with total arrears outstanding at the year-end £57k on these cases and an aggregate balance of £2.0m.

We show forbearance where appropriate, and at the year end, there were 17 (30: 2021) cases on which forbearance was being applied.

We are not complacent and our arrears management team has been planning and preparing to provide any additional support which may be required by our members in 2023.

Savings and Funding

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

> **We've seen growth of 7.8% in our share balances (4.4%:2021) with total balances of £956m (£887m: 2021).**

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

At the end of the year we held £190m (£162m: 2021) of liquid assets and our liquidity level of 16.5% SDL (15.5%:2021) was comfortably above the regulatory requirements.

Supporting our People, Members and Communities

Our commitment to supporting our loyal members and local communities will remain a focus for us through 2023. We're proud of the help we've been able to provide to some smaller local charities and food banks during the Cost of Living crisis.

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

Looking Forward

We have a strong leadership team in place to deliver our strategic initiatives and a dedicated workforce right across the business who are invested in supporting our members and communities.

We expect that economic conditions over the next year will remain difficult and uncertain. However, with the loyalty and commitment of our people we are optimistic and prepared for the challenges ahead and looking forward to implementing further strategic developments.

In 2023 the Society intends to invest in its brand, branch and digital offering, therefore whilst we expect sound financial performance our profits maybe lower than those achieved during 2022.

Chris Harrison

Chief Executive, Chris Harrison
14 March 2023

Directors' Report

Business Review
Remaining Financially Robust

Remaining financially robust ensures the Society can continue to invest in the future, whilst tackling the issues of today.

As we've steered our business through the challenging circumstances of another turbulent year, our financial focus has been to prioritise long-term prosperity over short-term costs or benefits to provide security for our members.

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

Net Interest Margin

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

Other Income and Charges

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

Management Expenses

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

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

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

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

Impairment Charges

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

Profit

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

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

Capital

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

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

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

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

Liquidity

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

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

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

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Going Concern and Long-term Viability

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

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

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

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

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

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

Post Year-end Events

The outlook for the UK economy remains highly uncertain.

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

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

Supplier Payment Policy

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

Donations

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

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

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

Directors

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

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

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

Directors who served during 2022 are listed on page 38. None of the Directors had an interest in the shares or debentures of any associated body of the Society at any time during the financial year.

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

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

Disclosure of Information to the Auditor

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

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

Appointment of the Auditor

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

Pillar 3 Disclosures

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

Climate Change

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

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

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

Risk Review
Managing & Mitigating Risk

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

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

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

Line 3
Internal audit assurance

Line 2
Oversight, support and advice

Line 1
Ownership and management of risk and controls

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

Strategic Risk

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

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

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

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

Credit Risk

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

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

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

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

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

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

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

Liquidity and Funding Risk

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

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

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

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

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

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

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

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

Basis Risk

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

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

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

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

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

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

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

Margin Risk

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

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

Operational Risk

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

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

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

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

Process Risk

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

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

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

Legal and Regulatory Risk

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

Conduct Risk

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

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

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

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

Cyber Security Risk

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

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

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

Pensions

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

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

Market Environment Risk

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

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

Climate Change Risk

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

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

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

Our People and Members

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

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

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

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

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

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

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

The Year Ahead

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

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

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

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

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

Approved by the Board of Directors on 14 March 2023

Statement of Directors' Responsibilities

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

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

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

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

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

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

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

Directors' responsibilities for Accounting Records and Internal Controls.

The Directors are responsible for ensuring that the Group:

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

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

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

Corporate Governance Report

Our Approach to Corporate Governance

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

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

Leadership

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

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

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

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

> **Our Board is committed to delivering the strategy through good governance including effective and informed decision making.**

Board Role

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

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

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

Specific Board responsibilities include:

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

Whilst some management activities and decisions are delegated to committees, the Board keeps certain matters for its own approval and these are set out in its Schedule of Matters reserved.

Board Composition

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

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

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

In accordance with regulatory requirements a number of our Non-Executive Directors and Executives have been allocated prescribed responsibilities as part of the Senior Management and Certification regime and have been approved to perform these functions by the regulatory authorities.

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

We're pleased to report that our Board and its members continue to perform effectively and impartially, providing the high level of skills and experience required to navigate the challenges ahead, as highlighted in the Chairman's Report.

Board Evaluation

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

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

Whilst reviews of the Board and Committee effectiveness are undertaken on an annual basis, in line with best practice, periodically an independent review of the Board is undertaken. Deloitte LLP completed an independent Board evaluation exercise in June 2021, and the agreed action plan has also been completed.

Board Meetings

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

Formal and scheduled monthly meetings took place as usual and we held a total of 10 in 2022. All meetings were quorate and fully documented.

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

Risk Management

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

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

Line 1 – Business operations

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

Line 2 – Oversight functions

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

Line 3 – Independent assurance

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

Board Review

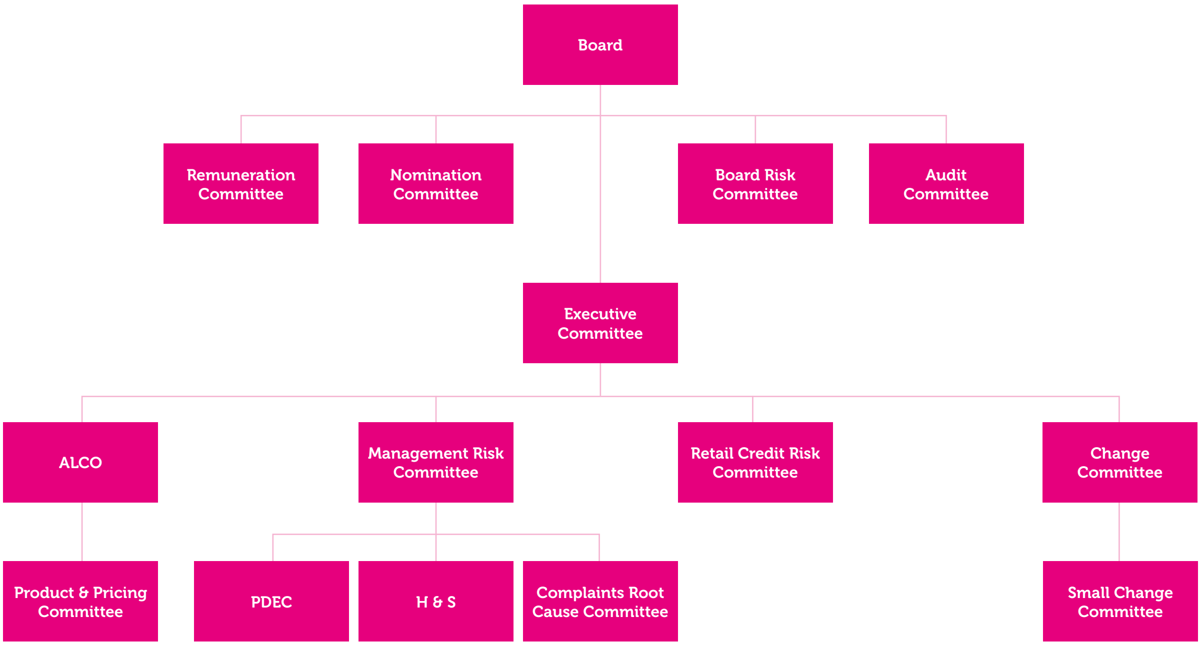
The Board has reviewed the adequacy and effectiveness of the risk and control framework in place throughout 2022 and is satisfied that the framework of internal controls meets the business' requirements.

The review considers:

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

The Board has reviewed the adequacy and effectiveness of the risk and control framework in place throughout 2022 and is satisfied that the framework of internal controls meets the business' requirements.

Our Board Committees



Executive Committee (ExCo)

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

Assets and Liability Committee (ALCO)

ALCO's role is to optimise and manage the margin and liquidity to enable the business to deliver the member benefits within agreed risk parameters. The Chief Executive is Chair of the Committee.

Credit Risk Committee

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

Management Risk Committee

Chaired by the CRO, the Committee meets regularly and comprises of representatives of the Society's Leadership Team and the Operational Risk Manager. This Committee provides oversight to all the Society's operational risks.

Change Committee

Chaired by the Director of Operational Resilience and Strategic Change, the Committee meets regularly to manage the portfolio of Change across the business.

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

Audit Committee

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

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

Specific responsibilities include:

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

Audit Committee activity in 2022

External Audit: Tracking and monitoring to completion of actions resulting from the Mazars Audit Management letter recommendations following the 2021 year-end Audit sign off.

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

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

Appointment of the Auditor

Mazars LLP acted as the Society's external audit firm throughout the 2022 financial year. The Audit Committee is responsible for assessing the independence and effectiveness of the external audit process and the approach taken to the appointment or reappointment of the External Auditor. This is the third year Mazars LLP has acted as the Society's External Auditor, having been appointed following a full tender process.

Key Financial Reporting Judgements in 2022

Credit Risk – Impairment of Loans and Advances

Provisioning for loan impairment involves modelling and assumptions. Our modelling was updated in 2022 to take account of updated ONS data and behavioural data. The Society has also applied a reduction to HPI in its impairment modelling to reflect expected future cashflows.

Revenue Recognition - Effective Interest Rate Accounting (EIR)

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

Defined Benefit Pension Scheme

The Defined Benefit Scheme valuation involves significant estimation judgements and assumptions which are based upon the advice of actuaries. The Committee and auditors have reviewed the data and are satisfied with the approach adopted. The Society has recognised an accounting surplus for the year ended 31 December 2022.

Going Concern Basis of Preparation for the 2022 Annual Report & Accounts

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

Fair, Balanced and Understandable

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

Key Areas of Focus for 2023

In 2023 we'll be reviewing the assurance framework and monitoring the completion of audit and compliance plans. We will also be considering the financial reporting in accordance with our responsibilities set out in the Committee Terms of Reference.

Board Risk Committee

The Board Risk Committee advises our Board on risk appetite, risk exposure and future risk strategy.

Specific responsibilities include:

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

Board Risk Committee Activity in 2022

Health and Safety: We're satisfied that our risks were well managed and the level of oversight appropriate. The risks to the health and wellbeing of our people and members were of paramount importance.

Operational Risk Management: The Committee received regular reports regarding operational risks and business change. Regulatory change was a significant risk in 2022 due to a number of key changes becoming effective during the period. Resource and specialist knowledge was required to ensure the changes were delivered.

Credit Risk: The Committee was engaged in and monitored the development of the credit risk modelling and MI which was subject to continued improvement during 2022.

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

Key Areas of Focus for 2023

In 2023 we'll be supporting ongoing developments to our risk management framework, climate risk management, consumer duty regulation and our transformation programme. In addition, we will closely monitor the credit risk position.

Nomination Committee

Our Nomination Committee oversees the selection process of Board members, Executive appointments and senior management team members as well as the allocation of senior management functions.

Specific responsibilities include:

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

Nomination Committee Activity in 2022

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

Executive Recruitment: Reviewing the appointment of a Finance Director and Chief Commercial Officer and Company Secretary.

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

Key Areas of Focus for 2023:

In 2023 we'll be focusing on succession planning and ensuring the Board and leadership team receive the appropriate training and support to effectively carry out their duties.

In 2023 we'll be focusing on succession planning and ensuring the Board and leadership team receive the appropriate training and support to effectively carry out their duties.

Remuneration Committee

The Remuneration Committee is comprised solely of Non-Executive Directors and determines our overall remuneration policy as well as the remuneration packages for Executives.

Specific responsibilities include:

- Determining the terms, conditions and remuneration of our Chairman and Executive Directors
- Approving the terms, conditions and remuneration of Board appointed roles and the senior management team on the recommendation of the Chief Executive
- Approving the terms, conditions and remuneration of the Chief Executive on recommendation of the Chairman.

Remuneration Committee Activity in 2022

Remuneration Packages: Approving remuneration packages for executive and senior management appointments and benchmarking our packages to ensure they remain relevant.

We also made selective awards to key staff as required and committed to maintaining the minimum wage to more than the Real Living Wage Foundation Scheme.

Due to the unusual economic circumstances which have contributed to higher inflation, soaring energy and fuel bills and higher interest rates, we agreed to support staff (excluding the senior leadership team) through the cost of living crisis with additional payments which were made in July and December 2022.

Bonus Schemes: Approving Bonus Scheme rules for 2023 and payments for 2022 performance, including an all colleague award paid in December 2022.

Balance Scorecard: Considering development of MI and data to inform the Committee on key risk metrics and current issues.

A detailed report on Directors' remuneration can be found on page 40

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

Director Membership
During financial year 2022

	Board	Audit	Risk	Nomination	Remuneration
Chairman	**G M Bervillle**	**N J Gower**	**P A McLelland**	**G M Berville**	**K L Rebecchi**
	K L Rebecchi	K L Rebecchi	N J Gower	K L Rebecchi	P A McLelland
	N J Gower	P A McLelland	A P Haywood	N J Gower	A P Haywood
	P A McLelland	–	P D Rogerson	C M Harrison	P D Rogerson
	A P Haywood	–	C O'Donnell	–	–
	P D Rogerson	–	L S Hamp	–	–
	C M Harrison	–	–	–	–
	C O'Donnell	–	–	–	–
	L S Hamp	–	–	–	–

C O'Donnell left the Society at the end of August 2022. L S Hamp was in attendance from the end of August 2022 as interim Finance Director.

Director Attendance
During financial year 2022

Director	Board	Audit	Risk	Nomination	Remuneration
G M Bervillle	10/10	–	–	4/4	–
K L Rebecchi	10/10	6/6	–	4/4	5/5
N J Gower	10/10	6/6	5/7	4/4	–
P A McLelland	10/10	6/6	7/7	–	5/5
A P Haywood	10/10	–	7/7	–	5/5
P D Rogerson	10/10	–	7/7	–	5/5
C M Harrison	10/10	–	–	4/4	–
C O'Donnell (Pre Sept 2022)	7/7	–	5/5	–	–
L S Hamp (Sept 2022 onwards)	3/3	–	2/2	–	–
Total No Held	**10**	**6**	**7**	**4**	**5**

Team Biographies

Board of Directors & Other Officers

Graham Berville

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

Key roles:
Chairman
Chairman of Nomination Committee

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

Chris Harrison

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

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

Kim Rebecchi

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

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

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

Nic Gower

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

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

Wider commitments:
Director of the Manchester University NHS Foundation Trust

Phillip McLelland

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

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

Wider commitments:
Chief Risk Officer for the Calisen Group

Andy Haywood

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

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

Wider commitments:
Chief Information Officer for Yorkshire Water

Peter Rogerson

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

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

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

Laura Hamp

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

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

Elaine O'Dwyer

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

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

Pam Mawson

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

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

Directors' Remuneration Report

Our Remuneration Policy Attracting, retaining and remunerating talent

Attracting, retaining and motivating talented individuals whose performance contributes to the success and stability of our business is critical. We also recognise our responsibility to protect members' interests by spending money wisely and not paying more than necessary to attract candidates with the appropriate level of skills and experience.

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

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

Executive and Non-Executive remuneration

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

Summaries of the 2022 remuneration elements and packages are shown on page 42.

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

Executive and Senior Leadership Bonus Scheme for 2022

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

The specific measures contained in the bonus structure are:

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

Consulting our Members

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

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

Summary of Executive Remuneration 2022

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

Executive Directors' Fees

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

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

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

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

Non-Executive Directors' Fees

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

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

K L Rebecchi
Chairman of the Remuneration Committee
14 March 2023

Independent Auditor's Report

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

Opinion

We have audited the annual accounts of Furness Building Society (the 'Society') and its subsidiaries (the 'Group') for the year ended 31 December 2022 which comprise the Group and Society Statement of Comprehensive Income and Other Comprehensive Income, Group and Society Statement of Changes in Equity, Group and Society Statement of Financial Position, Group Cash Flow Statement, and notes to the annual accounts, including a summary of significant accounting policies.

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

In our opinion, the annual accounts:

- give a true and fair view of the state of the Group's and Society's affairs as at 31 December 2022 and of the Group's and of the Society's income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986.

Basis for opinion

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

Conclusions relating to going concern

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

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

- Undertaking an initial assessment at the planning stage of the audit to identify events or conditions that may cast significant doubt on the Group's and Society's ability to continue as a going concern;
- Making enquiries of the directors to understand the period of assessment considered by them, the assumptions they considered and the implication of those when assessing the Group's and Society's future financial performance;
- Assessing the reasonableness of the Society's 5-year Corporate Plan, ICAAP and ILAAP documentation, which include management's stress testing, and form the base of their Going Concern assessment;

- Assessing the historical accuracy of forecasts prepared by the directors;
- Assessing and challenging key assumptions and mitigating actions put in place in response to the current economic situation, including but not limited to, the 'cost of living crisis', inflation, levels and interest rates;
- Considering the consistency of the directors' forecasts with other areas of the annual accounts and our audit; and
- Evaluating the appropriateness of the directors' disclosures in the annual accounts on going concern.

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

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

Key audit matters

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

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

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

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Key Audit Matter	How our scope addressed this matter
Credit risk – impairment of loans and advances to customers £813k (2021: £693k) *Refer to note 1.12 for the associated accounting policy, note 1.22 for management's critical judgements and estimates in applying the accounting policy, and note 14 of the annual accounts.* Credit risk is an inherently judgemental area due to the use of subjective assumptions and a high degree of management estimation in calculating the impairment provisions. The total impairment provision of the Group and Society consists of individual provisions on loans with default indicators and a collective provision on the performing portfolio. Collective impairment The collective impairment is derived by management from a model that uses a combination of the Group's and Society's historical experience and, due to the Group's and Society's limited loss experience, external data, adjusted for current conditions. In particular, the impairment assessment is most sensitive to movements in the house price index ('HPI'), the forced sale discounts ('FSD') applied to collateral values and the probability of default ('PD') of the loans. In addition, management judgement is applied in determining an adjustment to the provisioning model to reflect the anticipated reduction in expected cash proceeds on repossession and realisation of collateral. Specific impairment Management judgement is applied in estimating the individual provisions. In particular, an adjustment is made to the probability of default to reflect the risk associated with loans in arrears by at least three months, or for which collateral has been repossessed.	Our audit procedures included, but were not limited to: • Evaluating the design and implementation and testing the operating effectiveness of the key controls operating at the Group and Society in relation to the credit processes (loan origination and approval and loan redemptions) • Testing the completeness and accuracy of loans that are assessed by management for specific impairment provision including recalculating the provision charge; • Reviewing and challenging the management's assumption in respect of the adjustment to the House Price Index; • Assessing the relevance of external data used in the provisioning model based on our understanding of the Group's and Society's portfolio; • Testing the integrity of the spreadsheet model used to calculate the collective and specific impairment provision. This included testing of input data (e.g. House Price Index, Probability of Default, etc) used in the model; • Comparing the Group's and Society's key assumptions (PD, HPI and FSD) with similar lenders or other market players and loan portfolios with similar characteristics and considering whether these assumptions were consistent with industry benchmarks. • Performing sensitivity analysis over the key assumptions of PD, FSD and HPI; • Developing an auditor's range estimate of the collective provision using reasonable alternative assumptions relevant to the Group's and Society's portfolio; and • Assessing the adequacy of Group's and Society's disclosures in relation to the degree of estimation uncertainty involved in arriving at the provision for impairment losses on loans and advances to customers in the annual accounts. Our observations Based on the audit procedures performed, we found the resulting estimate of the loan impairment provision as at 31 December 2022 to be reasonable and in compliance with the requirements of IAS 39.

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

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

Overall materiality	Group: £824,000 (2021: £780,000) Society: £801,000 (2021: £757,000)
How we determined it	1% of Reserves
Rationale for benchmark applied	We consider that reserves is the most appropriate benchmark to use for the Group and Society, whose strategy is to provide mortgages, savings products and other financial services for the mutual benefit of members and customers and not one of profit maximisation. Further, reserves as a benchmark is supported by the fact that regulatory capital is a key benchmark for management and regulators, where reserves is an approximation of regulatory capital resources.
Performance materiality	Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the annual accounts exceeds materiality for the annual accounts as a whole. Performance materiality of £618,000 (2021: £567,000) was applied in the audit based on 75% (2021: 75%) of overall materiality. In determining the performance materiality, we considered a number of factors, including the effectiveness of internal controls and the history of misstatements, and concluded that an amount towards the upper end of our normal range was appropriate
Reporting threshold	We agreed with the directors that we would report to them misstatements identified during our audit above £41,000 (2021: £23,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

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

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

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

	2022	2021
Number of reporting entities subject to full audit scope	3	3
% Group net interest income	100%	100%
% Group profit before tax	100%	100%
% Group total assets	100%	100%

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

Other information

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

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

We have nothing to report in this regard.

Opinions on the Annual Business Statement and the Directors' Report

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

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

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

Matters on which we are required to report by exception

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

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

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the Annual Accounts

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

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

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

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

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

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

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

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

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

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

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

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

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

Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed by the directors on 9 September 2020, to audit the annual accounts for the year ended 31 December 2020 and subsequent financial periods. The period of total uninterrupted engagement is three years, covering the years ended 31 December 2020 to 31 December 2022.

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

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

Use of the audit report

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

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

Chartered Accountants and Statutory Auditor
One St Peter's Square
Manchester
M2 3DE
14 March 2023

Furness Building Society Annual Accounts

Statement of Comprehensive Income

For the year ended 31 December 2022

	Notes	Group 2022 £000	Society 2022 £000	Group 2021 £000	Society 2021 £000
Interest receivable and similar income	2	**32,918**	**32,807**	24,053	23,948
Interest payable and similar charges	3	**(12,052)**	**(12,052)**	(6,663)	(6,663)
Net interest income		**20,866**	**20,755**	17,390	17,285
Fee and commissions receivable		**48**	**48**	72	72
Fees and commissions payable		**(213)**	**(213)**	(179)	(179)
Other operating income		**148**	**148**	126	126
Net gain from other financial instruments at fair value through profit and loss	4	**16**	**16**	662	662
Total net income		**20,865**	**20,754**	18,071	17,966
Administrative expenses	5	**(15,050)**	**(15,020)**	(12,689)	(12,665)
Depreciation and amortisation	16/17	**(670)**	**(670)**	(657)	(657)
Operating profit before impairment losses and provisions		**5,145**	**5,064**	4,725	4,644
Provisions for liabilities	24	**-**	**-**	9	9
Impairment (charge)/credit on loans and advances	14	**(122)**	**(122)**	294	292
Profit before tax		**5,023**	**4,942**	5,028	4,945
Tax expense	8	**(1,050)**	**(1,035)**	(1,045)	(1,030)
Profit for the financial year		**3,973**	**3,907**	3,983	3,915

Other Comprehensive Income

	Notes	Group 2022 £000	Society 2022 £000	Group 2021 £000	Society 2021 £000
Profit for the financial year		**3,973**	**3,907**	3,983	3,915
Changes in fair value of debt securities and treasury bills:					
- valuation losses taken to equity	9/11	**(215)**	**(215)**	(3)	(3)
Actuarial gain recognised on the pension scheme	29	**816**	**816**	3,548	3,548
Taxation charge on Other Comprehensive Income	8	**(204)**	**(204)**	(492)	(492)
Total Comprehensive Income for the year		**4,370**	**4,304**	7,036	6,968

The Notes on pages 56 to 82 form an integral part of these Accounts.

Statement of Changes in Equity

Group 2021	Notes	General reserves £000	Available-for-sale reserves £000	Total £000
Balance as at 1 January 2021		**70,993**	**18**	**71,011**
Profit for the year		3,983	-	3,983
Other Comprehensive Income for the year:				
Actuarial gain recognised on the Pension Scheme	29	3,548	-	3,548
Movement in deferred tax relating to the Pension Scheme		(492)	-	(492)
Changes in fair value of debt securities:				
Taken through Other Comprehensive Income		-	(3)	(3)
Other Comprehensive Income for the year		**3,056**	**(3)**	**3,053**
Total Comprehensive Income for the year		**7,039**	**(3)**	**7,036**
Balance as at 31 December 2021		**78,032**	**15**	**78,047**
Group 2022				
Balance as at 1 January 2022		**78,032**	**15**	**78,047**
Profit for the year		3,973	-	3,973
Other Comprehensive Income for the year:				
Actuarial gain recognised on the Pension Scheme	29	816	-	816
Movement in deferred tax relating to the Pension Scheme		(204)	-	(204)
Changes in fair value of debt securities:				
Taken through Other Comprehensive Income		-	(215)	(215)
Other Comprehensive Income for the year		**612**	**(215)**	**397**
Total Comprehensive Income for the year		**4,585**	**(215)**	**4,370**
Balance as at 31 December 2022		**82,617**	**(200)**	**82,417**

The Notes on pages 56 to 82 form an integral part of these Accounts.

Statement of Changes in Equity continued

Society 2021	Notes	General reserves £000	Available-for-sale reserves £000	Total £000
Balance as at 1 January 2021		**68,677**	**18**	**68,695**
Profit for the year		3,915	-	3,915
Other Comprehensive Income for the year:				
Actuarial gain recognised on the Pension Scheme	29	3,548	-	3,548
Movement in deferred tax relating to the Pension Scheme		(492)	-	(492)
Changes in fair value of debt securities:				
Taken through Other Comprehensive Income		-	(3)	(3)
Other Comprehensive Income for the year		**3,056**	**(3)**	**3,053**
Total Comprehensive Income for the year		**6,971**	**(3)**	**6,968**
Balance as at 31 December 2021		**75,648**	**15**	**75,663**
Society 2022				
Balance as at 1 January 2022		**75,648**	**15**	**75,663**
Profit for the year		3,907	-	3,907
Other Comprehensive Income for the year:				
Actuarial gain recognised on the Pension Scheme	29	816	-	816
Movement in deferred tax relating to the Pension Scheme		(204)	-	(204)
Changes in fair value of debt securities:				
Taken through Other Comprehensive Income		-	(215)	(215)
Other Comprehensive Income for the year		**612**	**(215)**	**397**
Total Comprehensive Income for the year		**4,519**	**(215)**	**4,304**
Balance as at 31 December 2022		**80,167**	**(200)**	**79,967**

The Notes on pages 56 to 82 form an integral part of these Accounts.

Statement of Financial Position

For the year ended 31 December 2022

Assets	Notes	Group 2022 £000	Society 2022 £000	Group 2021 £000	Society 2021 £000
Liquid assets:					
Cash in hand and balances with the Bank of England	10	**109,975**	**109,975**	140,660	140,660
Treasury bills & gilts	9	**29,138**	**29,138**	10,159	10,159
Loans and advances to credit institutions	10	**17,517**	**17,251**	10,928	10,661
Debt securities	11	**32,917**	**32,917**	-	-
Derivative financial instrument assets	12	**18,173**	**18,173**	2,437	2,437
Loans and advances to customers:					
Loans fully secured on residential property	13	**1,021,729**	**1,019,016**	958,001	954,946
Loans fully secured on land	13	**2,745**	**2,745**	3,813	3,813
Investments in subsidiary undertakings	15	**-**	**497**	-	912
Other assets	18	**11**	**11**	1,831	1,831
Intangible fixed assets	16	**772**	**772**	1,022	1,022
Tangible fixed assets	17	**922**	**922**	1,005	1,005
Prepayments and accrued income	19	**981**	**981**	912	912
Retirement benefit asset	29	**1,212**	**1,212**	-	-
Total assets		**1,236,092**	**1,233,610**	1,130,768	1,128,358

Liabilities	Notes	Group 2022 £000	Society 2022 £000	Group 2021 £000	Society 2021 £000
Shares	20	**955,876**	**955,876**	886,918	886,918
Amounts owed to credit institutions		**23,135**	**23,135**	7,510	7,510
Amounts owed to other customers	21	**170,504**	**170,504**	149,292	149,292
Subordinated liabilities	26	**-**	**-**	4,998	4,998
Derivative financial instrument liabilities	12	**668**	**668**	186	186
Other liabilities	22	**1,478**	**1,462**	1,238	1,223
Accruals and deferred income	23	**1,834**	**1,818**	1,539	1,528
Provisions for liabilities	24	**180**	**180**	164	164
Retirement benefit obligations	29	**-**	**-**	876	876
Total liabilities		**1,153,675**	**1,153,643**	1,052,721	1,052,695

Reserves	Notes	Group 2022 £000	Society 2022 £000	Group 2021 £000	Society 2021 £000
General reserves		**82,617**	**80,167**	78,032	75,648
Available-for-sale reserves		**(200)**	**(200)**	15	15
Total reserves attributable to members of the Society		**82,417**	**79,967**	78,047	75,663
Total reserves and liabilities		**1,236,092**	**1,233,610**	1,130,768	1,128,358

The Notes on pages 56 to 82 form an integral part of these Accounts.

The Accounts were approved by the Board of Directors on 14 March 2023 and were signed on its behalf by:

G M Berville
Chairman

K L Rebecchi
Vice Chairman

C M Harrison
Chief Executive

Group Cash Flow Statement

Cash flows from operating activities	Notes	Group 2022 £000	Group 2021 £000
Profit before tax		**5,023**	5,028
Adjustments for:			
Depreciation and amortisation	16/17	**670**	657
Profit on disposal of tangible fixed assets		**-**	(3)
Interest on subordinated debt	3	**158**	322
Increase/(Decrease) in impairment of loans and advances	14	**122**	(294)
Total		**5,973**	5,710
Changes in operating assets and liabilities			
Decrease/(increase) in prepayments, accrued income and other assets		**908**	(943)
Increase in accruals, deferred income and other liabilities		**724**	196
Increase in loans and advances to customers		**(78,036)**	(55,689)
Increase in shares		**68,958**	37,455
Increase/(decrease) in amounts owed to credit institutions and other customers		**36,838**	(7,126)
(Increase)/decrease in loans and advances to credit institutions		**(6,520)**	3,166
Decrease in retirement benefit obligation		**(1,272)**	(1,260)
Taxation paid		**(1,019)**	(251)
Net cash generated by/(used in) operating activities		**20,581**	(24,452)
Cash flows from investing activities			
Purchase of debt securities and treasury bills	9/11	**(67,150)**	(10,113)
Disposal of debt securities and treasury bills	9/11	**15,473**	8,220
Purchase of tangible fixed assets	17	**(297)**	(187)
Disposal of tangible fixed assets	17	**-**	20
Purchase of intangible assets	16	**(40)**	(622)
Net cash used in investing activities		**(52,014)**	(2,682)
Cash flows from financing activities			
Interest and capital paid on subordinated debt	3/26	**(5,156)**	(322)
Net cash used by financing activities		**(5,156)**	(322)
Net decrease in cash and cash equivalents		**(30,616)**	(21,746)
Cash and cash equivalents at 1 January		**149,172**	170,918
Cash and cash equivalents at 31 December	**10**	**118,556**	149,172

The Notes on pages 56 to 82 form an integral part of these Accounts.

Notes to the Accounts

01 | Principal Accounting Policies

1.1 General information

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

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

1.2 Basis of preparation

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

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

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

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

1.3 Going concern

Annual Accounts have been prepared on a going concern basis. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the date when the financial statements are authorised for issue. In addition, there must be no indication from our regulators that they doubt our ability to continue as a going concern.

The Board has considered a number of stress scenarios, including the impact on the Society's liquidity, capital position and operational resilience, and has concluded the assumptions in the assessment are relevant and the Society has sufficient capital and liquidity to continue as a going concern.

1.4 Basis of consolidation

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

1.5 Interest

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

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

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

1.6 Fees and commission

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

Other fees receivable are recognised on the accruals basis when all contractual obligations have been fulfilled.

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

1.7 Taxation

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

Current taxation

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

Deferred taxation

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

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

1.8 Financial assets

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

a) Loans and receivables

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

b) Available-for-sale financial assets

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

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

c) Financial assets at fair value through profit or loss

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

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

These hedging relationships are discussed in d) below.

d) Fair Value Hedges

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

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

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

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

1.10 Financial liabilities

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

1.11 Derecognition of financial assets and liabilities

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

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

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

1.12 Impairment of financial assets

a) Assets carried at amortised cost

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

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

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

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

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

b) Available-for-sale assets

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

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

1.13 Offsetting

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

1.14 Cash and cash equivalents

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

1.15 Tangible fixed assets

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

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

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

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

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

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

1.16 Intangible assets

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

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

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

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

1.17 Leasing

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

1.18 Liquid assets

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

1.19 Employee benefits

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

a) Short term benefits

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

b) Pension costs

i. Defined Benefit Pension Plan

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

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

Any remeasurements of the net pension surplus are recognised in the Statement of Comprehensive Income. Actuarial gains or losses are recognised in Other Comprehensive Income. Any past service costs or interest costs, which reflect the increase in the defined obligation which arises as benefits are one period closer to settlement, are recognised in operating profit.

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

ii. Defined Contribution Scheme

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

1.20 Provisions

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

1.21 Dividends

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

1.22 Critical judgements and estimates in applying the accounting policy

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

a) Impairment losses on loans and advances to customers

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

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

The collective impairment policy has remained consistent with the prior year. An annual review of assumptions has taken place and updates have been made as appropriate as such the Society has applied a reduction to HPI in its impairment modelling. This reflects an expected fall in house prices through 2023 and has resulted in an increased provision for the year ended 2022.

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

b) Effective Interest Rate (EIR)

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

i. Expected Mortgage Lives

In determining the average expected lives of mortgage assets, the Group uses historical and forecast redemption and product switch data as well as management judgement. The expected lives of mortgage assets are periodically reassessed for reasonableness as any variation in the average expected lives will change the Effective Interest Rate (EIR) carrying value in the Statement of Financial Position and the timing of the recognition of interest income. A movement of 0.25 months to the average expected life of mortgages would change the EIR carrying value by +/- £0.30m. The Group recognises, due to the level of uncertainty in the economy, there is an increased risk cash flows may fluctuate due to mortgage lives behaving differently to expected.

ii. Mortgage Related Fee

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

c) Defined Benefit Pension Scheme Valuation

The Group operates a defined benefit pension scheme. Significant judgements have to be exercised in estimating the value of the liabilities of the scheme, and hence of its net deficit. The assumptions are outlined in Note 29.

Of these assumptions, changes in the discount rate and inflation have the most material impact on the net pension obligation. A movement in the discount rate of +0.50% increases the pension surplus by £1.4m. A movement in the inflation rate of +0.50% decreases the pension surplus by £0.6m.

d) Fair value of derivatives and financial assets

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

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

1.23 Country by Country Reporting

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

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

02 | Interest Receivable and Similar Income

	Group 2022 £000	Society 2022 £000	Group 2021 £000	Society 2021 £000
On loans fully secured on residential property net of income/expense on derivatives	**30,528**	**30,410**	23,697	23,590
On other loans				
Fully secured on land	**160**	**160**	170	170
To subsidiary undertakings	**-**	**7**	-	2
On debt securities				
Interest and other income	**150**	**150**	-	-
On treasury bills and gilts				
Interest and other income	**276**	**276**	26	26
On other liquid assets				
Interest and other income	**1,804**	**1,804**	160	160
Total	**32,918**	**32,807**	24,053	23,948

03 | Interest Payable and Similar Charges

	Group 2022 £000	Society 2022 £000	Group 2021 £000	Society 2021 £000
On shares held by individuals	**9,603**	**9,603**	5,917	5,917
On other shares	**4**	**4**	2	2
On subordinated liabilities	**158**	**158**	322	322
On deposits and other borrowings	**2,287**	**2,287**	422	422
Total	**12,052**	**12,052**	6,663	6,663

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

	Group 2022 £000	Society 2022 £000	Group 2021 £000	Society 2021 £000
Derivatives in designated fair value hedge relationships	**13,706**	**13,706**	5,431	5,431
Adjustments to hedged items in fair value hedge accounting relationships	**(13,644)**	**(13,644)**	(4,847)	(4,847)
Derivatives not in designated fair value hedge relationships	**(46)**	**(46)**	78	78
Total	**16**	**16**	662	662

05 | Administrative Expenses

	Group 2022 £000	Society 2022 £000	Group 2021 £000	Society 2021 £000
Staff costs (Note 6)	**9,150**	**9,150**	8,161	8,161
Other expenses	**5,900**	**5,870**	4,528	4,504
Total	**15,050**	**15,020**	12,689	12,665
Other expenses include				
Amounts payable to auditors (excluding VAT):	**182**	**168**	176	166
Amounts payable under operating leases	**161**	**161**	177	177

06 | Staff Numbers and Costs

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

Full Time	Number	Number	Number	Number
Principal office and administration centre	**98**	**98**	90	90
Branch offices	**33**	**33**	29	29
Total	**131**	**131**	119	119
Part Time				
Principal office and administration centre	**31**	**31**	29	29
Branch offices	**20**	**20**	24	24
Total	**51**	**51**	53	53
The aggregated costs of these persons were as follows	£000	£000	£000	£000
Wages and salaries	**7,608**	**7,608**	6,932	6,932
Social security costs	**807**	**807**	612	612
Other pension costs*	**735**	**735**	617	617
Total	**9,150**	**9,150**	8,161	8,161

*Other pension costs includes employer contributions to the pension Defined Contribution Scheme of £405k.

07 | Emoluments of and Transactions with Directors

Total Directors' emoluments amounted to £851k (£1,052k: 2021). Full details are given in the Directors' Remuneration Report on pages 40 to 43.

Under the Society rules, all Directors are required to hold a savings balance of at least £1,000. Savings balances were £119k as at 31 December 2022 (£118k: 2021) and are held on normal commercial terms.

At 31 December 2022 there were no (no: 2021) outstanding loans granted in the ordinary course of business to Directors. A register is maintained at the Head Office of the Society which shows details of all loans, transactions and arrangements with connected persons. A statement for the current financial year of the appropriate details contained in the register will be available for inspection at the Head Office for a period of 15 days up to and including the day of the Annual General Meeting. The Directors of the Society are considered to be the only key management personnel, as defined by FRS 102.

08 Tax on profit on ordinary activities

Current Tax	Group 2022 £000	Society 2022 £000	Group 2021 £000	Society 2021 £000
Current tax on income for the period	**689**	**674**	706	691
Adjustments in respect of prior periods	**(1)**	**(1)**	(1)	(1)
Total current tax	**688**	**673**	705	690
Deferred tax				
Origination/(reversal) of timing differences	**474**	**474**	764	764
Adjustment in respect of previous years	**7**	**7**	-	-
Effect of changes in tax rates	**85**	**85**	68	68
Total deferred tax	**566**	**566**	832	832
Total Tax	**1,254**	**1,239**	1,537	1,522

8.1 Tax recognised in Statement of Comprehensive Income

	2022			2021		
Group	Current tax £000	Deferred tax £000	Total tax £000	Current tax £000	Deferred tax £000	Total tax £000
Recognised in profit and loss	**688**	**362**	**1,050**	705	340	1,045
Recognised in Other Comprehensive Income	**-**	**204**	**204**	-	492	492
Total tax	**688**	**566**	**1,254**	705	832	1,537
Society						
Recognised in profit and loss	**673**	**362**	**1,035**	690	340	1,030
Recognised in Other Comprehensive Income	**-**	**204**	**204**	-	492	492
Total tax	**673**	**566**	**1,239**	690	832	1,522

8.2 Factors affecting tax charge for the year

The tax assessed for the year differs to the standard rate of Corporation tax in the UK 19% (19%: 2021).

Total tax reconciliation	Group 2022 £000	Society 2022 £000	Group 2021 £000	Society 2021 £000
Profit on ordinary activities before tax	**5,023**	**4,942**	5,028	4,945
Corporation tax at 19% (19%: 2021)	**954**	**939**	955	940
Effects of:				
Adjustment to tax charge in respect of previous periods	**6**	**6**	(1)	(1)
Tax rate changes	**85**	**85**	68	68
Deferred tax not recognised	**-**	**-**	-	-
Expenses not deductible	**11**	**11**	29	29
Other	**(6)**	**(6)**	(6)	(6)
Tax Recognised in Profit & Loss	**1,050**	**1,035**	1,045	1,030

The Group expects its effective tax rate in future years to be broadly in line with the standard rate of corporation tax in the UK.
The Corporation Tax rate for the year ended 31 December 2022 was 19%. For the year ended 31 December 2022 deferred tax was provided at a rate of 25% being the rate substantively enacted at the balance sheet date. The movements in deferred taxation are disclosed in Note 25.

09 | Treasury Bills and Gilts

	Group 2022 £000	Society 2022 £000	Group 2021 £000	Society 2021 £000
Gilts	**24,221**	**24,221**	10,159	10,159
Treasury Bills	**4,917**	**4,917**	-	-
Total	**29,138**	**29,138**	10,159	10,159
Movements during the year of debt are analysed as follows:				
At 1 January	**10,159**	**10,159**	2,595	2,595
Additions	**34,595**	**34,595**	10,113	10,113
Disposals and maturities	**(15,473)**	**(15,473)**	(2,500)	(2,500)
Movement in premium and accrued interest	**34**	**34**	(46)	(46)
Net loss from changes in fair value recognised in Other Comprehensive Income	**(177)**	**(177)**	(3)	(3)
Total At 31 December	**29,138**	**29,138**	10,159	10,159

10 | Loans and Advances to Credit Institutions

	Group 2022 £000	Society 2022 £000	Group 2021 £000	Society 2021 £000
Repayable on demand	**8,581**	**8,315**	8,512	8,245
Cash pledged as collateral against derivative contracts	**5,828**	**5,828**	1,079	1,079
Other loans and advances	**3,108**	**3,108**	1,337	1,337
Total	**17,517**	**17,251**	10,928	10,661

10.1 Cash and cash equivalents

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

	Group 2022 £000	Group 2021 £000
Cash in hand and balances with the Bank of England	**109,975**	140,660
Loans and advances to credit institutions:		
Repayable on demand	**8,581**	8,512
Total	**118,556**	149,172

11 Debt Securities

	Group 2022 £000	Society 2022 £000	Group 2021 £000	Society 2021 £000
Issued by UK banks and building societies	**14,474**	**14,474**	-	-
Issued by multilateral European development bank	**18,443**	**18,443**	-	-
Total	**32,917**	**32,917**	-	-
Transferable Debt Securities Comprise				
Listed on a recognised investment exchange	**32,917**	**32,917**	-	-
Transferable securities held as financial fixed assets at fair value	**32,917**	**32,917**	-	-

11.1 Movements during the year of debt securities

Movements during the year of debt securities held as financial fixed assets are analysed as follows:

	Group 2022 £000	Society 2022 £000	Group 2021 £000	Society 2021 £000
At 1 January	**-**	**-**	5,722	5,722
Additions	**32,555**	**32,555**	-	-
Disposals and maturities	**-**	**-**	(5,720)	(5,720)
Movement in premium and accrued interest	**400**	**400**	(2)	(2)
Net loss from changes in fair value recognised in Other Comprehensive Income	**(38)**	**(38)**	-	-
At 31 December	**32,917**	**32,917**	-	-

12 Derivative Financial Instruments Group and Society

	Contractual amount £m	Fair value assets £000	Fair value liabilities £000
At 31 December 2022			
Unmatched derivatives - interest rate swaps	**7**	**-**	**1**
Derivatives designated as fair value hedges – interest rate swaps	**398**	**18,173**	**(669)**
Total	**405**	**18,173**	**(668)**
At 31 December 2021			
Unmatched derivatives - interest rate swaps	43	97	(41)
Derivatives designated as fair value hedges – interest rate swaps	317	2,340	(145)
Total	**360**	**2,437**	**(186)**

13 | Loans & Advances to Customers

	Group 2022 £000	Society 2022 £000	Group 2021 £000	Society 2021 £000
Loans fully secured on residential property	**1,021,729**	**1,019,016**	958,001	954,946
Loans fully secured on land	**2,745**	**2,745**	3,813	3,813
Total loans	**1,024,474**	**1,021,761**	961,814	958,759

Total loans before adjustments	**1,038,972**	**1,036,257**	963,125	960,068
Effective interest rate adjustment	**2,169**	**2,169**	1,592	1,592
Provision for impairment losses on loans and advances	**(815)**	**(813)**	(695)	(693)
Fair value adjustment for hedged risk	**(15,852)**	**(15,852)**	(2,208)	(2,208)
Total loans	**1,024,474**	**1,021,761**	961,814	958,759

The Society has pledged as collateral £196.9m (£154.5m: 2021) of mortgages to the Bank of England under the Term Funding Scheme with additional incentives for SMEs.

14 | Allowance for Impairment

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

Movements during 2021	Loans fully secured on residential property		Loans fully secured on land		Sub-total		
	Individual £000	Collective £000	Individual £000	Collective £000	Individual £000	Collective £000	Total £000
Group							
At 1 January 2021	534	320	186	-	**720**	**320**	**1,040**
Net write-offs and recoveries	(51)	-	-	-	**(51)**	**-**	**(51)**
Balance	483	320	186	-	**669**	**320**	**989**
Impairment allowance	(150)	(53)	(91)	-	**(241)**	**(53)**	**(294)**
At 31 December 2021	**333**	**267**	**95**	**-**	**428**	**267**	**695**
Society							
At 1 January 2021	533	317	186	-	**719**	**317**	**1,036**
Net write-offs and recoveries	(51)	-	-	-	**(51)**	**-**	**(51)**
Balance	482	317	186	-	**668**	**317**	**985**
Impairment allowance	(150)	(51)	(91)	-	**(241)**	**(51)**	**(292)**
At 31 December 2021	**332**	**266**	**95**	**-**	**427**	**266**	**693**

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

15 | Investment In Subsidiary Undertakings

	Society 2022 £000	Society 2021 £000
Loan to subsidiary undertaking	**497**	912
Movements at cost in the above loan during the year are as follows:		
At 1 January	**912**	1,292
Repayments	**(415)**	(380)
Total at 31 December	**497**	912

The loan to subsidiary undertaking is predominantly to Furness Mortgage Services Limited who have continued to trade in the year. A nominal amount of approximately £2k is loaned to Furness Financial Advisers which is no longer trading. The Society has the following subsidiary undertakings in which it directly holds all of the issued shares at a total cost of £6. Each is a company within the meaning of the Companies Act 2006 and is incorporated in the United Kingdom.

15.1 Subsidiary Undertakings

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

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

16 | Intangible Assets Group and Society

Cost	Software £000
At 1 January 2022	5,101
Additions	40
Total at 31 December 2022	**5,141**
Depreciation	
At 1 January 2022	4,079
Charges in year	290
Total at 31 December 2022	**4,369**
Net book value	
Total at 31 December 2022	**772**
Total at 31 December 2021	1,022

17 | Tangible Fixed Assets Group and Society

Cost	Land & buildings £000	Equipment, fixtures & fittings £000	Total £000
At 1 January 2022	1,427	7,053	8,480
Additions	-	297	297
Disposals	-	-	-
Total at 31 December 2022	**1,427**	**7,350**	**8,777**
Depreciation			
At 1 January 2022	1,258	6,217	7,475
Charges in year	6	374	380
Disposals	-	-	-
Total at 31 December 2022	**1,264**	**6,591**	**7,855**
Net Book Value			
Total at 31 December 2022	**163**	**759**	**922**
Total at 31 December 2021	169	836	1,005

17.1 Net book value of land and buildings comprises:

	Society 2022 £000	Society 2021 £000
Freehold	**163**	169
Of which:		
Land and buildings occupied by the Group/Society for its own activities	**86**	92

18 | Other Assets

	Group 2022 £000	Society 2022 £000	Group 2021 £000	Society 2021 £000
Due within one year	**11**	**11**	1,356	1,356
Due after one year	-	-	475	475
Total	**11**	**11**	1,831	1,831
Due within one year includes				
Net debtor position on derivatives	-	-	1,347	1,347
Due after one year includes				
Deferred tax asset (Note 25)	-	-	475	475

19 | Prepayments and Accrued Income

	Group 2022 £000	Society 2022 £000	Group 2021 £000	Society 2021 £000
Rent and rates paid in advance	**55**	**55**	68	68
Fees and subscriptions paid in advance	**163**	**163**	171	171
IT support fees paid in advance	**708**	**708**	618	618
Other	**55**	**55**	55	55
Total	**981**	**981**	912	912

20 | Shares Held

	Group 2022 £000	Society 2022 £000	Group 2021 £000	Society 2021 £000
Held by individuals	**955,425**	**955,425**	886,619	886,619
Other shares	**451**	**451**	299	299
Total	**955,876**	**955,876**	886,918	886,918

21 | Amounts Owed to Other Customers

	Group 2022 £000	Society 2022 £000	Group 2021 £000	Society 2021 £000
Amounts owed to other customers	**170,504**	**170,504**	149,292	149,292

'Included in the amounts above for 2022 is £90m (£90m: 2021) borrowed from the Bank of England. Repayment dates are October 2024 and March 2025.

22 | Other Liabilities

Other Liabilities Comprise	Group 2022 £000	Society 2022 £000	Group 2021 £000	Society 2021 £000
Creditors	**1,478**	**1,462**	1,238	1,223
Of which tax related:				
Corporation tax	**299**	**283**	472	457
Deferred tax liability (Note 25)	**91**	**91**	-	-

23 | Accruals and Deferred Income

	Group 2022 £000	Society 2022 £000	Group 2021 £000	Society 2021 £000
Staff related costs	**1,076**	**1,076**	895	895
Other administrative and operating costs	**683**	**667**	581	570
Others	**75**	**75**	63	63
Total	**1,834**	**1,818**	1,539	1,528

24 | Provisions For Liabilities Group and Society

	Regulatory £000	Dilapidations £000	Total £000
At 1 January 2022	48	116	**164**
Amounts charged in the year	-	16	**16**
At 31 December 2022	48	132	**180**

Regulatory

This provision relates to compensation that may be payable as a result of previous business activity.

Dilapidations

The Society has obligations under certain lease contracts for dilapidation costs.

25 Deferred Taxation Asset/Liability

The elements of deferred taxation are as follows:	Group 2022 £000	Society 2022 £000	Group 2021 £000	Society 2021 £000
Difference between accumulated depreciation and amortisation and capital allowances	23	23	32	32
Deferred tax asset relating to FRS 102 transition[1]	98	98	147	147
Deferred tax (liability)/asset relating to payroll and pension asset/liability	(212)	(212)	296	296
At 31 December	(91)	(91)	475	475

25.1 Deferred taxation movement in the year

The elements of deferred taxation are as follows:	Group 2022 £000	Society 2022 £000	Group 2021 £000	Society 2021 £000
At 1 January	475	475	1,307	1,307
Amount relased to Statement of Comprehensive Income[2]	(566)	(566)	(832)	(832)
At 31 December	(91)	(91)	475	475

The deferred tax (liability)/asset as at 31 December 2022 has been calculated using the rates substantively enacted for the expected periods of utilisation of 25% (25%: 2021).
[1]In the transition to FRS102 the Group has made measurement and recognition adjustments. The adjustments have been spread over 10 years.
[2]See Note 8.1 for further details.

26 Subordinated Liabilities

	Group 2022 £000	Society 2022 £000	Group 2021 £000	Society 2021 £000
Sterling subordinated loan repayable 25 June 2022	-	-	5,000	5,000
Less unamortised issuance costs	-	-	(2)	(2)
Total	-	-	4,998	4,998

The Society's subordinated loan was settled in full on the 25th June 2022.

27 Financial Commitments

Future minimum lease payments under non-cancellable operating leases	Group 2022 £000	Society 2022 £000	Group 2021 £000	Society 2021 £000
Amounts payable within 1 year	269	269	278	278
Amounts payable within 1 to 5 years	285	285	496	496
Amounts payable after 5 years	-	-	11	11
Total	554	554	785	785

28 | Financial Instruments

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

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

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

28.1 Derivatives

Derivatives used by the Group are exclusively interest rate swaps used to hedge Group balance sheet exposures arising from fixed rate mortgage lending and savings products. The Board of Directors has authorised the use of derivatives in accordance with the Building Societies Act 1986. Derivatives are not used in trading activity or for speculative purposes and all derivatives are therefore designated as hedging instruments. The Accounting Policies for hedging contracts are described in the accounting policies in Note 1. An interest rate swap is a contract to exchange one set of interest rate cash flows for another. Such swaps result in the economic exchange of interest rates. No exchange of principal takes place.

Instead interest payments are based on notional principal amounts agreed at inception of the swap. The duration of the interest rate swap is generally short to medium term and their maturity profile reflects the nature of the exposures arising from the underlying business activities.

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

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

At 31 December 2021	Measured at amortised cost		Measured at fair value			Total
FINANCIAL ASSETS	Loans and receivables £000	Financial assets and liabilities at amortised cost £000	Available for sale £000	Derivatives designated as FVTPL hedges £000	Unmatched derivative £000	£000
Cash in hand	-	140,660	-	-	-	**140,660**
Treasury bills and gilts	-	-	10,159	-	-	**10,159**
Loans and advances to credit institutions	10,928	-	-	-	-	**10,928**
Debt securities	-	-	-	-	-	**-**
Derivative financial instruments	-	-	-	2,340	97	**2,437**
Loans and advances to customers	961,814	-	-	-	-	**961,814**
Total financial assets	972,742	140,660	10,159	2,340	97	**1,125,998**
Non-financial assets	-	4,770	-	-	-	**4,770**
Total assets	**972,742**	**145,430**	**10,159**	**2,340**	**97**	**1,130,768**
FINANCIAL LIABILITIES						
Shares	-	886,918	-	-	-	**886,918**
Amounts owed to credit institutions	-	7,510	-	-	-	**7,510**
Amounts owed to other customers	-	149,292	-	-	-	**149,292**
Derivative financial instruments	-	-	-	145	41	**186**
Subordinated liabilities	-	4,998	-	-	-	**4,998**
Total financial liabilities	-	1,048,718	-	145	41	**1,048,904**
Non-financial liabilities	-	3,817	-	-	-	**3,817**
Total liabilities	**-**	**1,052,535**	**-**	**145**	**41**	**1,052,721**

28.2 Valuation of financial instruments carried at fair value

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

Level 1

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

Level 2

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

Level 3

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

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

At 31 December 2022	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets				
Available-for-sale				
Debt securities	32,917	-	-	**32,917**
Treasury bills & gilts	29,138	-	-	**29,138**
Fair value through profit and loss				
Derivative financial instrument assets	-	18,173	-	**18,173**
Total	**62,055**	**18,173**	**-**	**80,228**
Financial liabilities				
Fair value through profit and loss				
Derivative financial instrument liabilities	-	668	-	668
Total	**-**	**668**	**-**	**668**
At 31 December 2021				
Financial assets				
Available-for-sale				
Debt securities	-	-	-	**-**
Treasury bills & gilts	10,159	-	-	**10,159**
Fair value through profit and loss				
Derivative financial instrument assets	-	2,437	-	**2,437**
Total	**10,159**	**2,437**	**-**	**12,596**
Financial liabilities				
Fair value through profit and loss				
Derivative financial instrument liabilities	-	186	-	186
Total	**-**	**186**	**-**	**186**

28.3 Financial assets pledged as collateral

The total financial assets recognised in the Statement of Financial Position that had been pledged as collateral for liabilities at 31 December 2022 and 2021 is shown in the following table.

	Group 2022 £000	Group 2021 £000
Treasury bills	**4,917**	-
Loans and advances to credit institutions	**5,828**	1,079
Loans and advances to customers	**196,894**	154,505
Total	**207,639**	155,584

Financial assets are pledged as collateral to the Bank of England to support both Term Funding Scheme with additional incentives for SMEs borrowings and to support contingent liquidity drawdowns if required. Mortgage loans of £197m were pledged to the Bank of England as at 31 December 2022. In addition the Society places collateral with a central clearing provider to support initial margin and mark to market movements under derivative contracts used to manage interest rate risk.

28.4 Credit risk

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

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

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

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

	Group 2022 £000	Society 2022 £000	Group 2021 £000	Society 2021 £000
Cash in hand and balances with Bank of England	**109,975**	**109,975**	140,660	140,660
Treasury bills and gilts	**29,138**	**29,138**	10,159	10,159
Loans and advances to credit institutions	**17,517**	**17,251**	10,928	10,661
Debt securities	**32,917**	**32,917**	-	-
Derivative financial instruments	**18,173**	**18,173**	2,437	2,437
Loans and advances to customers	**1,024,474**	**1,021,761**	961,814	958,759
Loans to Subsidiaries	**-**	**497**	-	912
Total Statement of Financial Position exposure	**1,232,194**	**1,229,712**	1,125,998	1,123,588
Off balance sheet exposure – mortgage commitments	**84,269**	**84,269**	100,253	100,253
Total	**1,316,463**	**1,313,981**	1,226,251	1,223,841

28.5 Credit quality analysis of loans and advances to customers

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

	2022		2021	
	Loans fully secured on residential property £000	Loans fully secured on land £000	Loans fully secured on residential property £000	Loans fully secured on land £000
Neither past due nor impaired	**1,011,317**	**1,631**	938,280	2,151
Past due but not impaired				
0-60 days	**6,631**	**61**	6,161	19
60-90 days	**550**	**-**	596	-
90-180 days	**726**	**14**	902	-
180 days+	**-**	**-**	420	-
Impaired				
Not past due	**10,440**	**819**	6,704	1,738
0-60 days	**5,798**	**273**	4,579	-
60-90 days	**503**	**-**	181	-
90-180 days	**-**	**-**	305	-
180 days+	**130**	**-**	978	-
Possession	**79**	**-**	111	-
Total	**1,036,174**	**2,798**	959,217	3,908
Allowance for impairment				
Individual	**288**	**53**	333	95
Collective	**474**	**-**	267	-
Total allowance for impairment	**762**	**53**	600	95

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

28.6 Assets obtained by taking possession of collateral

There was 1 (1: 2021) financial asset obtained during the year by taking possession of collateral held as security against loans and advances and held at year-end. This represents a total mortgage balance of £79k (£111k: 2021).

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

28.7 Collateral held and other credit enhancements

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

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

Average loan to value of loans and advances to customers:

Group 2022	Society 2022	Group 2021	Society 2021	Principal type of collateral held
38.9%	**39.0%**	42.7%	42.8%	Property

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

LTV ratio	Group 2022 £000	Society 2022 £000	Group 2021 £000	Society 2021 £000
Less than 50%	**456,104**	**453,389**	382,083	379,213
50-70%	**376,802**	**376,802**	348,366	348,179
71-90%	**194,985**	**194,985**	220,667	220,667
91-100%	**10,181**	**10,181**	11,014	11,014
More than 100%	**900**	**900**	995	995
Total	**1,038,972**	**1,036,257**	963,125	960,068

28.8 Forbearance

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

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

	Group 2022 Number	Group 2021 Number
Arrangement	**3**	10
Interest Only	**-**	3
Extension of Term	**9**	11
Others	**5**	6
Total	**17**	**30**

The cases above represent total mortgage balances of £1.4m (£2.2m: 2021).

Impairment provisions of £35k (£23k: 2021) are held in respect of these mortgages.

28.9 Liquidity risk

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

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

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

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

28.10 Maturity analysis for financial assets and financial liabilities

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

AT 31 DECEMBER 2022

Financial assets	On demand £000	Not more than three months £000	More than three months but not more than one year £000	More than one year but no more than five years £000	More than five years £000	Total £000
Cash in hand & balances with Bank of England	109,975	-	-	-	-	**109,975**
Treasury bills and gilts	-	-	24,320	4,818	-	**29,138**
Loans and advances to credit institutions	8,581	1,503	-	5,828	1,605	**17,517**
Debt securities	-	-	-	32,917	-	**32,917**
Derivative financial instruments	-	644	3,066	14,463	-	**18,173**
Loans and advances to customers	-	567	5,891	78,206	939,810	**1,024,474**
Total financial assets	**118,556**	**2,714**	**33,277**	**136,232**	**941,415**	**1,232,194**
Financial liabilities						
Shares	829,345	5,419	28,197	92,915	-	**955,876**
Amounts owed to credit institutions	-	3,019	4,549	15,567	-	**23,135**
Amounts owed to other customers	25,185	15,187	19,513	110,619	-	**170,504**
Subordinated debt	-	-	-	-	-	**-**
Derivative financial instruments	-	4	43	621	-	**668**
Off balance sheet exposure	84,269	-	-	-	-	**84,269**
Total financial liabilities	**938,799**	**23,629**	**52,302**	**219,722**	**-**	**1,234,452**

AT 31 DECEMBER 2021

Financial assets	On demand £000	Not more than three months £000	More than three months but not more than one year £000	More than one year but no more than five years £000	More than five years £000	Total £000
Cash in hand & balances with Bank of England	140,660	-	-	-	-	**140,660**
Treasury bills and gilts	-	-	10,159	-	-	**10,159**
Loans and advances to credit institutions	8,512	-	-	1,079	1,337	**10,928**
Debt securities	-	-	-	-	-	**-**
Derivative financial instruments	-	18	163	2,256	-	**2,437**
Loans and advances to customers	-	684	4,514	77,086	879,530	**961,814**
Total financial assets	**149,172**	**702**	**14,836**	**80,421**	**880,867**	**1,125,998**
Financial liabilities						
Shares	605,286	43,311	72,149	166,172	-	**886,918**
Amounts owed to credit institutions	-	-	7,510	-	-	**7,510**
Amounts owed to other customers	26,076	3,817	26,705	92,694	-	**149,292**
Subordinated debt	-	-	4,998	-	-	**4,998**
Derivative financial instruments	-	44	44	98	-	**186**
Off balance sheet exposure	100,253	-	-	-	-	**100,253**
Total financial liabilities	**731,615**	**47,172**	**111,406**	**258,964**	**-**	**1,149,157**

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

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

GROUP AT 31 DECEMBER 2022

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

GROUP AT 31 DECEMBER 2021

Financial liabilities	On demand £000	Not more than three months £000	More than three months but not more than one year £000	More than one year but no more than five years £000	More than five years £000	Total £000
Shares	605,286	43,346	72,442	169,412	-	**890,486**
Amounts owed to credit institutions	-	-	7,510	-	-	**7,510**
Amounts owed to other customers	26,076	3,819	26,762	93,467	-	**150,124**
Subordinated debt	-	-	5,159	-	-	**5,159**
Derivative financial instruments	-	44	44	98	-	**186**
Subtotal	631,362	47,209	111,917	262,977	-	**1,053,465**
Other liabilities	-	-	3,138	-	876	**4,014**
Total financial liabilities	**631,362**	**47,209**	**115,055**	**262,977**	**876**	**1,057,479**

28.11 Market risk

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

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

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

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

Market Risk Group 31 December 2022	200bps parallel increase £000	200bps parallel decrease £000
Sensitivity to profit and reserves	**(1,556)**	1,702
31 December 2021		
Sensitivity to profit and reserves	**(1,863)**	1,995

28.12 Capital

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

Lending and business decisions

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

Concentration risk

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

Counterparty risk

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

Pricing risk

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

29 | Society Pensions

The Society previously operated a Defined Benefit Pension Scheme, now closed to new entrants and further accrual, on which it recognises gains and losses in each period in the Statement of Comprehensive Income. The Defined Benefit Pension Accounting policy is set out in Note 1.19.

The Society's Defined Benefit Pension Scheme was closed to new entrants in September 2000 and to further accrual in January 2017. Under current arrangements eligible employees can join a defined contribution pension arrangement known as Group Personal Pension Scheme, under which the Society assists with contributions. In 2022, the Society contributed £405k to this scheme (£429k: 2021).

The Defined Benefit pension scheme is funded by the Society. Funding of the scheme is based on a separate actuarial valuation for funding purposes for which the assumptions may differ from the assumptions below. The last actuarial valuation of the scheme was undertaken as at 6th April 2020. The Society's cash contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. Funding requirements have been agreed to 2025 as part of a repayment schedule, with the aim to move towards a position of self-sufficiency. Pension contributions in 2022 were £1.54m (includes £0.26m scheme administration expenses).

Note 1.19 describes the accounting policies applied for employee pensions.

The fair value of the Defined Benefit Pension Scheme assets was £22.173m at 31 December 2022 (£32.441m: 2021). The Scheme's assets include no assets from the Society's own financial instruments and do not include any property occupied by, or other assets used by the Society.

The key assumptions used in this valuation are:

Discount rate 1.8%
Inflation assumption-CPI 2.95%

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

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

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

- Current pensioner aged 62: 24.3 years male, 26.9 years female.
- Future retiree upon reaching 62: 25.6 years male, 28.4 years female.

29.1 Pension breakdown

Net pension surplus/(liability)	2022 £000	2021 £000
Defined benefit obligation	**(20,961)**	(33,317)
Plan assets	**22,173**	32,441
Surplus/(deficit) in the Scheme	**1,212**	(876)
Movement in surplus/(deficit) during the Year		
Deficit in the Scheme at beginning of year	**(876)**	(5,684)
Interest cost	**(5)**	(65)
Actuarial gain	**816**	3,548
Employer contributions paid (gross of charges)	**1,277**	1,325
Surplus/(deficit) in the Scheme at end of year	**1,212**	(876)

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

Changes in the fair value of scheme assets:	2022 £000	2021 £000
Opening fair value of Scheme assets	**32,441**	29,679
Interest on assets	**583**	388
(Loss)/gains on asset return	**(10,778)**	2,053
Contributions by employer (gross)	**1,277**	1,325
Benefits paid	**(1,350)**	(1,004)
Closing fair value of Scheme assets	**22,173**	32,441
Changes in the present value of the defined benefit obligation		
Opening defined benefit obligation	**33,317**	35,363
Interest cost	**588**	453
Gain on changes in assumptions/from experience	**(11,594)**	(1,495)
Benefits paid	**(1,350)**	(1,004)
Closing defined benefit obligation	**20,961**	33,317

The pension costs for the Defined Benefit Pension Scheme in 2022 were as follows:

Analysis of other pension costs charged in arriving at operating profit:	2022 £000	2021 £000
Interest on Pension Scheme	**(5)**	(65)
Net charge to operating profit	**(5)**	(65)

Analysis of amount credited through other comprehensive Income:		
(Loss)/return on assets	**(10,778)**	2,053
Changes in assumptions	**11,594**	1,495
Net credit through Other Comprehensive Income	**816**	3,548

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

	2022	2021
Discount rate	**4.7%**	1.8%
Inflation - RPI	**3.3%**	3.5%
Inflation - CPI	**2.8%**	3.0%

The loss on the scheme's invested assets over the year was 33.2%, equivalent to £10.778m in monetary terms.

The total actuarial gain recognised in Other Comprehensive Income in 2022 was £0.816m (£3.548m gain: 2021).

The fair value of the plan assets were as follows:

	2022 Fair Value £000	2021 Fair Value £000
Equities	**0**	0
Bonds	**16,283**	22,119
Other*	**5,890**	10,322
Total	**22,173**	32,441

*Includes £3,200 in diversified growth fund that allocates funds across a broad range of asset classes including equities.

Following the High Court ruling on 26 October 2018 regarding the equalisation of Guaranteed Minimum Pension ('GMP') benefit within the Lloyds pension scheme, the Society included an allowance for the impact of GMP equalisation within its 2018 accounting figures, where an uplift of 0.3% was applied to the FRS102 liabilities. The liabilities as at 31 December 2022 are based on these figures and therefore allow for this adjustment.

On 20 November 2020 the High Court issued a supplementary ruling in the Lloyds bank GMP equalisation case with respect to members that have transferred out of their scheme prior to the ruling. The Society has estimated the impact of this ruling to be less than 0.1% of liabilities and has therefore excluded the impact from its 2022 accounting figures.

30 | Related Party Transactions

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

As at 31 December 2022 the Society had a loan outstanding to its subsidiary, Furness Mortgage Services Limited, of £0.493m (£0.912m: 2021).

The Society was owed £0.004m by its subsidiary Furness Financial Advisers Limited (£0.002m: 2021).

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

Annual Business Statement

For the year ended 31 December 2022

Statutory Percentages

Statutory Percentages	At 31.12.2022	At 31.12.2021	Statutory limit
Proportion of business assets not in the form of loans fully secured on residential property (the 'lending limit')	**2.22%**	0.94%	25%
Proportion of shares and borrowings not in the form of shares held by individuals (the 'funding limit')	**16.88%**	15.05%	50%

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

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

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

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

Other Percentages

Summary of Key Financial Ratios	2022 (%)	2021 (%)
Gross capital as a percentage of shares and borrowings	**7.17**	7.96
Free capital as a percentage of shares and borrowings	**7.06**	7.79
Liquid assets as a percentage of shares and borrowings	**16.49**	15.50
Profit for the year as a percentage of mean total assets	**0.34**	0.36
Management expenses as a percentage of mean total assets	**1.33**	1.20

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

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

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

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

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

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

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

Directors as at 31 December 2022

Name	Age	Date of Appointment	Business Occupation	Other Directorships
Mr G M Berville	66	31/10/2018	Company Director	Chairman of Keycare Limited Chairman of Keycare Assistance Limited (EIRE) Chairman of Yorkshire Cancer Research
Ms K L Rebecchi	56	05/01/2016	Company Director	Director of Redmayne Bentley Stockbrokers LLP Director of Cynergy Bank Ltd
Mr N J Gower	63	20/05/2014	Company Director	Director of the Manchester University NHS Foundation Trust
Mr P A McLelland	56	26/10/2016	Company Director	Chief Risk Officer for the Calisen Group
Mr A P Haywood	59	25/04/2018	Chief Information Officer	Chief Information Officer for Yorkshire Water
Mr P D Rogerson	58	29/10/2019	Company Director	Director of Redcar and Cleveland Voluntary Development Agency Housing Community Interest Director of Whitworth West Management Company Limited
Mr C M Harrison	61	06/04/2017	Chief Executive	Chief Executive Chairman of the Executive Committee Chairman of the Assets & Liabilities Committee Member of the Nomination Committee

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

Other Officers

Name	Age	Date of Appointment	Business Occupation	Other Directorships
Mrs E O'Dwyer	48	11/01/2021	Chief Risk Officer	
Mrs P A Mawson	52	05/07/2015	Group Secretary & Director of Operational Resilience & Strategic Change	

Particulars of Directors' Remuneration and Expenses

Details of Directors' remuneration and expenses can be found in the Directors' Remuneration Report on pages 40 to 43.

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