The Nottingham

2022 ANNUAL REPORT AND ACCOUNTS

Scarlett Palmer – Mortgage Processor

CONTENTS

KEY HIGHLIGHTS

GROSS MORTGAGE LENDING UP **18%** TO **£659m**

RESULTING IN TOTAL ASSETS OF **£3.8 BILLION**

£23.9m OF INTEREST PAID TO SAVERS

GROUP PRE-TAX PROFIT OF **£18.9m**

£15.2m ON UNDERLYING BASIS

NET PROMOTER SCORE OF **72%**

WITH **85%** OF OUR MEMBERS 'HIGHLY SATISFIED'

EMPLOYEE ENGAGEMENT SCORE OF: **81%** IN OUR ANNUAL SURVEY

STRONG CAPITAL POSITION WITH CET 1 RATIO AT: **16.8%** AND LEVERAGE RATIO OF: **5.7%**

NEW **PURPOSE & STRATEGY** LAUNCHED

£1,000 COST OF LIVING BONUS AND PAY AWARD FOR OUR COLLEAGUES

ENTERED KEY STRATEGIC PARTNERSHIP WITH GEN H

The Nottingham

GEN H

841 COLLEAGUE HOURS VOLUNTEERED TO GOOD CAUSES

CHAIR'S STATEMENT

Introduction

In last year's statement I talked about how the Society had made good progress with positive results in an environment of continued low interest rates and about the first rate rise we had seen for years in December 2021 belatedly reflecting the emerging inflationary pressures. As expected during 2022 there were significant further interest rate increases to tackle rising inflation. The year also witnessed political volatility as evidenced by two changes of Prime Minister. We took appropriate action, with impacts being felt across our member base. We ended the year with a Bank of England base rate of 3.5% as the Monetary Policy Committee struggled to bring the high level of inflation back to its target.

This brings to an end the very low interest environment we have seen over the past decade reflecting the economic challenges we have all had to cope with, including the turmoil brought about by the ending of the extraordinary interventions of lockdown and the invasion of Ukraine by Russia. These economic challenges are expected to continue and in its Autumn statement, the Bank of England warned of the longest recession in 100 years, with the UK economy facing a "very challenging outlook".

When mutuality matters

As a mutual, we are cognisant of the increasing household bills our members and communities are facing, whether it be rising energy prices, food costs or mortgage interest rates. The ramifications of these rises will undoubtably lead to a significant fall in living standards for the whole country. Inflation may well take some time to be brought under control, and whilst some of the short-term factors may reverse, the impact on people's living standards is expected to continue for some years.

We are very much aware of the impact this will have on all our saving members, our borrowers, and our colleagues. We have always aimed to be prudent in our lending and are not yet seeing the stress of this come through in missed mortgage payments or significant arrears for the vast majority of our borrowers. However, we are monitoring this closely to check that the pressures being faced by individuals do not become overwhelming. We are always ready to engage with our members, and to have the right conversations with each of you as you face into these pressures.

Those conversations are not limited to our members. Throughout the course of the year, we have extended help to our colleagues who are tackling some of these challenges on a personal level. We felt it was appropriate during the year to make additional cost-of-living payments to help with the exceptional increases in daily household costs. These were made in August and November and were warmly received by our colleagues. Our support also goes beyond financial assistance and we're proud of our wellbeing programmes, which see high levels of engagement from colleagues.

In terms of our savers, the increases in interest rates have allowed us to improve savings rates. We have passed rate increases on wherever possible, while balancing this against the need to lend money to mortgage borrowers at a sufficient margin for the Society to remain sustainable over the long term.

Other decisions that were made in 2022 were taken with the long-term strength and stability of the Society in mind. Last year we talked to the changing behaviours of customers that were accelerated throughout the pandemic with increased use of online and digital channels. In financial services, we were not immune to that and took the decision to close branches where the volume and value of transactions were declining and meant we could no longer serve our members in an economically sustainable way.

This was a not a decision we took lightly as we understand the impact and inconvenience this creates for existing members and for those colleagues who were not in a position to accept redeployment opportunities within the Society. We worked hard to ensure the impact of this was minimised, particularly for the most vulnerable customers.

It would be remiss of me at this point not to thank the entire team throughout the Society that supported members and colleagues through the branch changes announced in September. The same team have also been integral in allowing the Society to adapt to rapidly changing external circumstances on a day-to-day basis. We as a Board are very grateful for that cohesion, energy, and hard work, as we all aim to keep the Society on a secure footing for both existing and future members, colleagues, and our communities.

Our board and leadership

Following our Annual General Meeting, Mike Brierley stepped down as a Non-Executive Director, Peter O'Donnell took over as Chair of the Audit Committee, and David Marlow stepped down as CEO. We are grateful to Mike for his experience and advice in turbulent times and particularly to David for his leadership throughout his tenure – maintaining stability during that exceptional decade of artificially low interest rates.

We are pleased to have added Paul Astruc, our CFO, formally to the Board of Directors in June.

The Board and I were delighted to welcome Sue Hayes to the Society in January and as CEO from March. Sue has made significant strides throughout 2022 in continuing to take the Society forward, whilst developing the team to support her. Sue took over at time of rapid change in our external trading environment and an ever-evolving competitive landscape. She has led a thorough strategic review process with consideration, enthusiasm, and flair to ensure our foundations for future sustainable growth are built in the right way.

CHAIR'S STATEMENT (CONTINUED)

As a Board, we continue to provide oversight of the strategy, which has had to adapt in the light of the changing landscape. The Board gave its full support to the strategic review and the development of a compelling new purpose, which Sue has done a sterling job leading, and of which she will share in more detail in her CEO review. The review has reinforced and refocused us on the purpose of the building society movement – to enable those who find it difficult to access funds easily to buy their own homes. It will involve us in looking hard at the detailed design and flexibility of our mortgages and the journey our borrowers go through. It will involve continuing investment in systems and data analytics underpinning our risk analysis, but not any fundamental shift in our risk appetite.

Looking ahead to 2023, it will continue to be a difficult time for many as the recession bites, and the cost-of-living pressures show no sign of easing. This will inevitably impact the housing market and the savings market. As a mutual we will be seeking to adapt to these changes with the long-term strength and stability of the Society at the heart of our thinking.

Thank you

Thank you to the Board for its support of Sue and me as we have navigated through all that 2022 challenged us with. We have delivered a robust performance and paved the way for future growth. Finally, and most importantly, I would like to offer my heartfelt thanks to you, our members, for your loyalty and support throughout 2022 and beyond.

Andrew Neden
Chair

2 March 2023

CHIEF EXECUTIVE'S REVIEW

Introduction

Firstly, a huge thank you to all our members for continuing to support Nottingham Building Society.

When I joined The Nottingham in January of 2022, I was immediately struck by the huge sense of pride that exists in our strong legacy. I was equally motivated by the significant opportunity we had to shape our future plans, aligned to a guiding purpose the whole Society could get behind.

I met with many colleagues and some members, and we carried out a great deal of analysis. We then set about mapping out the journey required to thoroughly review our strategic direction. I wanted to ensure it was designed to serve our members today, as well as ensuring that we have sufficient ambition and stretch to deliver future growth and sustainability.

A purpose to be proud of

Throughout 2022 the leadership team and I reflected deeply to truly understand where we are now, what was working well and what not so well, and where our efforts should be focused for the future. We looked at our heritage, the mutual sector, and the changing environment in great depth. One of the questions the regulators have been asking the sector more broadly, is how we will be relevant and sustainable for the future, whilst not losing sight of our existing members.

We took over six months to get it right, and we have developed a new strategic blueprint, which is the cornerstone of our strategy, and which we will use to focus our energy, drive decision making and form the bedrock of our culture. It sets out our purpose, our strategic drivers (the core things we need to do), and the behaviours we need to build for the future. At its heart, our purpose is the concept our Society was born from, evolved to reflect the challenges of the modern world.

Our Strategic Purpose is:

'Together we fight for the Extra Ordinary to own their own home.'

Providing a safe place for people's savings is the first step in enabling this. And with our mutual ethos, using those savings entrusted to us to help people fulfil the dream of owning their own home. It sounds simple, but the reality is that it is a significant challenge for so many ordinary, hard-working members of society to take that first, or next, step on the ladder.

The Extra Ordinary we are referring to are fast becoming the norm. They are people who don't fit the mould of what a 'standard borrower' looks like. Someone who does not necessarily 'tick all the boxes' for one reason or another, whether that is sporadic income as freelancers or workers in the gig economy, those with multiple sources of income, those cases where illness, career breaks or marital breakdown has affected their income or finally those who need financial support from friends and family. These are ordinary people with some extra considerations that need to be understood through the mortgage application process.

We will continue to support all those existing mortgage customers and members as well as the broker community in addition to the Extra Ordinary.

Achieving our purpose is not a destination, it's an ongoing journey we have only just begun, of listening, learning, and acting on what we learn. Making informed decisions, ensuring our business is agile enough to adapt and knowing our people understand the direction of travel. Unearthing our purpose and setting out the strategic drivers to get us there will pave the way for the change required. We need to take a different approach to borrowers who need a helping hand on the property ladder, and we are best placed to do that, with mutuality as our bedrock.

Laying foundations for growth

By landing on a purpose with longevity, we allow ourselves the time to set the foundations required to make changes in the right way. We recognise we cannot do this alone.

Building the right team has been key, and we have started to announce some significant strategic hires and new roles to bolster our talented team with our first Chief Technology and Transformation Officer, and Chief Lending Officer.

Alongside this, finding the right allies to support our ambitions was another focus of 2022. Our partnership with Generation Home, announced in November, is an excellent example of this. Their purpose is: *'Owning a home should be an opportunity for everyone. We're rebuilding it to make it simple, transparent and fair'*. Partnering with a business that shares our purpose, and a depth of cultural alignment, provides us with a platform for success. Both businesses are passionate about helping people to own their own home and recognise the challenging and dynamic environment that many face to achieve their ambitions.

These changes will not happen overnight as we build capabilities and choose strategic partners who can offer customer innovation which is a step ahead of ours and supports the delivery of our purpose beyond our existing channels. In the case of Generation Home, they offer a unique proposition to help customers get onto the property ladder by enabling their friends and relatives to contribute to their income or deposit. With our support, they can enable home ownership to become a reality and we are proud to be partnering with a business that shares our resolute determination to help people own their own home and provide fantastic customer experience. This matters now, more than ever. Partnerships with like-minded businesses and people is a key part of our strategy going forward.

CHIEF EXECUTIVE'S REVIEW (CONTINUED)

Other steps we took to support home ownership in 2022 included significant activity across our mortgage business. As the Bank of England base rate gradually increased throughout the year, mortgage rates also rose. However, in September we saw the most significant volatility yet as financial markets responded to the mini-budget presented by the former Chancellor, Kwasi Kwarteng, as then new Prime Minister, Liz Truss, pursued her growth plans through the biggest tax-cuts since 1972, funded by a vast expansion in borrowing. The reaction in the markets was swift, as the pound fell to its lowest ever level against the US dollar, UK government debt prices collapsed and the Bank of England stepped in to provide financial stability.

We were not immune to feeling the impact here as we were forced to reprice in response to some of the most drastic swap rate and interest rate movements in recent history. It was a challenge that our team rose to. Although this wasn't easy at times, we focused on keeping a market presence to help borrowers get the mortgages they need, and to help brokers navigate through these very challenging times.

As a result of the increase in applications during this period, and our ongoing investment and product launches throughout the year to diversify our range and respond to broker appetite, we ended the year breaking the £1bn application value barrier with gross lending of £659m, up 18% on 2021.

A relevant and sustainable society

I am pleased to report that we ended the year in a strong position, with profit before tax of £18.9m, up £3.8m on 2021. Our financial performance has been achieved despite additional costs and increased provisions for expected future credit losses driven by the rising cost of living, and inflationary challenges that our borrowers face into 2023 and beyond. Increasing interest rates have supported the strong performance.

We have made it a key priority to support our members through these difficult times by paying savers the best rates we could whilst strengthening the Society. Building the right team has also been very important. In 2022 we announced some significant hires to bolster our talented executive team. Alongside this, finding the right allies to support our ambitions was a focus. Our partnership with Generation Home, announced in November, is a great example of how we will think differently to help achieve our goals.

Part of being a sustainable society is being relevant and adding value to all our stakeholders, our colleagues, members and the communities we serve. As part of this we have continued the Environmental, Social and Governance (ESG) agenda in 2022. In relation to environmental and climate change, we promised to cut our own emissions by >10% and have achieved 18%. In relation to colleagues, we have made two cost of living payments to support them through these challenging times.

Supporting local communities has continued to be an important part of The Nottingham. Throughout 2022 we delivered our Corporate and Social Responsibility programme that saw 841 hours volunteered to community projects and charities by our team. In addition to this, £150,000 was donated to the Samuel Fox Foundation.

As Andrew alluded to in his statement, the economic environment we exited in 2021, alongside fresh challenges in 2022, meant throughout our strategic review process we were required to assess how our Society, and our branches more specifically, are being used today, along with predictions of how this will change over time.

The outcome of this review saw us make the very difficult decision to close 17 of our branches in locations where the level of activity had reached a point where it was no longer sustainable to justify the cost of running the branch. We tested some pilot activity ahead of making that decision to see if there were other alternatives, but these did not stimulate sufficient activity in the form of footfall or new membership. This meant we couldn't see the potential for those branches to become sustainable at any point in the future, considering the historical and ongoing trends.

We announced these closures in September and fully closed the branches in December. We provided all impacted members with the rationale supported by comprehensive analysis that led to our decision on why each of the locations would be closing. This was to ensure we were being as open and transparent as possible about the rationale for the decision, which was primarily driven by the average cost of each transaction being prohibitively high.

Closing branches is never easy and I received feedback from some of you in relation to this. I want to thank you for taking the time to get in touch and share your views. The Board and I were also humbled by the dedication and commitment the affected colleagues demonstrated to you, our members, throughout this difficult time. I know their professionalism and tenacity was also appreciated by those of you who were affected by these closures. The support we gave to the impacted team members, offering where possible redeployment opportunities and enhanced redundancy packages, meant many left the Society with a positive outlook and we wish them all the best of luck for the future.

Our branch network and colleagues who run them are a vital part of what we offer to our members, and integral to fulfilling our purpose of helping people own their homes. We continue to invest in viable branches and maintain a high street presence where our colleagues support members and the community.

Looking ahead

So, as you have seen already and will read more about in this report, 2022 was a year that brought challenges and opportunities, both within our Society, and in the wider marketplace. But one we have navigated with purpose, serving our members today, whilst building a sustainable Society with significant growth potential.

I am proud of the results we are sharing today and would like to thank our members, and each one of our dedicated colleagues, for their continued trust in the Society. We look ahead to the coming years with a renewed sense of focus, guided by a clear and impactful purpose, with mutuality as our bedrock.

Sue Hayes
Chief Executive

2 March 2023

STRATEGIC REPORT

Our blueprint for the future

There is a constant requirement to assess how the world is changing and how our strategy needs to adapt to meet the expectations of the modern consumer. Over the last couple of years this has become even more important and with the societal changes of the pandemic starting to be accepted as the new norm, we have taken the opportunity to reset. This involved an in-depth strategic review process to understand who we were best placed to help, at a time of so many evolving and emerging needs and to use this analysis to shape what part we could play as a modern mutual.

Building Societies are the original purpose-led financial services organisations, and redefining our purpose is a key step in focusing our efforts to ensure we continue to have a positive impact on our members' lives, whilst also being relevant today as well as for future generations.

We have created a strategic blueprint that consists of three elements:

- **Our purpose** – the role we play in our members' lives, ***why*** we do what we do.
- **Our strategic drivers** – ***what*** we need to prioritise.
- **Our behaviours** – ***how*** we all need to operate.

The journey we went on to get there involved our entire organisation and significant insight into our customers and members, both today and also into the future, our competitors and the wider ecosystem. This deep thinking ensured we landed on something meaningful that demonstrates how we can help people when they need it the most.

We know home ownership is a life changing milestone, with the potential to provide happiness, security and opportunity for generations to come. Whilst we have been helping people buy houses for over 170 years, we know that home ownership is becoming increasingly difficult for significant parts of the population and as a Society we want to be there to support people to achieve this milestone.

We also recognise that treating traditional borrowers in a consistent and fair way is something that we and the mainstream banks are able to do well. This has meant that those audiences are well catered for by mainstream banks who operate at scale and building societies therefore need to compete on service and differentiation. We are focused on supporting people who want to buy houses but find it hard to get onto the housing ladder because they don't have regular monthly incomes or have hit bumps in the road but are fundamentally good financial risks. This Extra Ordinary group has grown significantly over the last few years and so offers a real opportunity for us to meet the true mutual purpose and to pay our savers appropriate rates for supplying the funding to help them.

As a result, our new purpose is: **Together we fight for the Extra Ordinary to own their own home.**

We define Extra Ordinary as hard-working people with circumstances that many lenders might view as out of the ordinary – from self-employed professionals to those who have had a setback in their career or financial history. We believe this community has a right to be understood, that their needs and circumstances are known, so they can achieve their dream of owning a home. This is something that is worth us all fighting for and we commit to going the extra mile to do this.

This purpose lives at the core of our blueprint for the future. To support delivery of this, we have also given clear direction of what we need to do to deliver this through our strategic drivers and the behaviours our team needs to embrace.

To achieve our purpose, our decisions will be driven by these principles:

- **Mighty Foundations** – The right foundations for our business are in place. The processes, governance, people and technology will underpin our Society to ensure we are strong and resilient now and in the future.
- **Extra Ordinary Depth** – To help our members, customers and partners including brokers, we must build a deep and ongoing understanding of them and their circumstances. A journey of deep listening, learning and adjusting using internal and external data to help us.
- **Purposeful Innovation** – We want to create and deliver leading propositions and customer experiences that will support long term sustainable advantage to lead in these markets and to enable us to deliver our purpose.
- **10X Allies** – We want our allies to be crucial partners who are passionate about our purpose and work with us to accelerate and multiply the impacts we can make. We want to create a movement of people who are on the journey with us to help more and more people own their own home.

As a mutual, it is in our DNA to understand the power of working together and we know our purpose cannot be achieved in insolation. We will identify the partners and like-minded allies that will join us in pursuit of our purpose. This includes our saving community who are integral to the movement that will enable homeownership for thousands of people every year. It also includes our colleagues and through our behaviours we will build a culture where our purpose can be realised.

We encourage them to:

- **Have the brave conversation** – We create an environment where people feel confident to speak up and challenge with the intent to support ongoing improvements in what we do and how we do it.
- **Make the bold leap** – We take action. We lean into the change and drive it forward, challenging the status quo to continuously make things better.
- **Seek the big insight** – We demonstrate curiosity, leaving no stone unturned to find different perspectives and to understand problems and opportunities equally.

We shared this internally towards the end of the year and in Q4 saw the green shoots of success as people were able to reset, refocus and build their future objectives with a clear, purpose-led and member and customer focused strategy.

Business model and Group strategy

The Nottingham Building Society

The Nottingham is a top ten UK building society with £3.8bn of assets, with a regional presence of 31 branches across 8 counties.

The Society operates under three membership hubs:

- **Mortgages** – via our intermediary-led lending hub, offering a wide variety of mortgages, to home owners, landlords and small commercial entities and more recently through our partnership agreement with a fintech mortgage provider.
- **Branches** – via our regional presence of 31 locations across 8 counties.
- **Beehive Money** – our online platform and mobile app, providing access to digital savings accounts.

Mortgages

During 2022 we have revitalised our purpose, placing a greater focus on mortgages, but providing a safe and secure home for members to save with us in order to fund the mortgages we provide to our borrowers.

Our aim is to provide prospective borrowing members with a choice of mortgage propositions that suits their needs, through our mortgage broker network or via our mortgage originator partnership.

Branches

We provide traditional branch services to serve those who prefer face to face propositions, offering branch based savings accounts alongside financial planning, estate planning and whole of market mortgage advice through our partnership with the Mortgage Advice Bureau. We strive to provide members with a higher quality of service and advice, to ensure their needs are met.

Beehive Money

The Beehive Money proposition also provides a website/mobile offering for those savers that prefer to manage their savings themselves, as and when they need to, wherever they are.

The core product offering within the Beehive savings platform has historically been the Lifetime ISA savings product (LISA). At the end of 2022 there are over 63,000 LISA customers who are saving with Beehive Money and during the year 4,405 used their LISA funds to purchase a home. Throughout the year the proposition set within Beehive was expanded beyond easy access savings and LISAs to include fixed term bonds. Building on the Mortgage Advice Bureau whole of market mortgage advice partnership, accessible on the Beehive platform, a number of new partnerships have been developed to further help first time buyers achieve their home purchase goals including access to conveyancing services and ways to help manage and improve their credit scores.

Overall Business performance

There are no material differences between the Group and Society balance sheet, and therefore this section is presented on a group basis only.

The Chair's and Chief Executive's reviews include a summary of factors affecting our performance in 2022 and should be read in conjunction with this report.

The Society as a mutual has no shareholders and does not need to maximise profits but looks to ensure sufficient profits are generated to maintain a strong capital position and enable continued investment to ensure that the Society is sustainable over the longer-term in order to help more members in the future.

The Board monitors both reported and underlying profit before tax.

Reported profit before tax is a commonly used comparative measure of profit. However, it includes a number of items which the Board does not believe fully reflect underlying business performance and therefore underlying profit is also used to measure performance.

Underlying profit before tax equates to reported results, adjusted to exclude:

- movements in respect of fair value gains or losses from derivatives and hedge accounting;
- net strategic investment costs, which support the reinvention of the Society; and
- costs which are non-recurring.

The presentation of underlying profit remains consistent with that in prior years. Further information is provided in this strategic report and a reconciliation of the underlying profit to statutory profit can be found on page 10.

The Nottingham has delivered a strong level of profit in 2022 during turbulent economic conditions, with an underlying profit before tax of £15.2m (2021: £7.4m) and a statutory profit before tax of £18.9m (2021: £15.1m).

The positive results have been significantly aided by the rising interest rate environment and the impact on the Society's net interest income. The impacts of the increases in the future expectations of interest rates have generated material gains on derivative instruments during the year, the majority of which should be considered to be a timing difference and will unwind over time.

These positive impacts on income have partially been offset by increases in costs associated with the continued support for colleagues during the increasingly difficult and uncertain economic times as well as targeted investment throughout the year in the creation of the Society's new purpose and the initial deployment of its new strategy including the costs associated with the difficult decision to reduce the Branch Network.

In light of the macroeconomic conditions, the continuation of the cost-of-living crisis and the potential impact on mortgage affordability, the Society increased its provision for expected losses on loans to customers, recognising the increasing risk of credit deteriorating in a recessionary environment.

Financial highlights

INCOME STATEMENT

INCOME STATEMENT TOTAL GROUP BASIS	Group 2022 £m	Group 2021 £m
Net interest income	62.8	45.9
Net fees & commissions receivable	1.6	3.1
Net underlying income	**64.4**	**49.0**
Administrative expenses	(39.3)	(36.2)
Depreciation & amortisation	(7.7)	(6.8)
Underlying management expenses	**(47.0)**	**(43.0)**
Impairment (charge)/release – loans & advances	(2.2)	1.4
Underlying profit before tax	**15.2**	**7.4**
Gains from derivative financial instruments	10.2	7.9
Net strategic investment costs	(5.0)	(0.2)
Change in accounting estimate	(1.5)	-
Reported profit before tax	**18.9**	**15.1**
Tax charge	(3.1)	(2.5)
Reported profit after tax	**15.8**	**12.6**
Represents:		
Profit after tax – continuing operations	**15.8**	**12.4**
Profit after tax – discontinued operations	**-**	**0.2**

STATEMENT OF FINANCIAL POSITION

STATEMENT OF FINANCIAL POSITION	Group 2022 £m	Group 2021 £m
Mortgages	2,922.8	3,010.9
Liquid assets	719.3	562.5
Other assets	170.4	61.4
TOTAL ASSETS	**3,812.5**	**3,634.8**
Retail & wholesale funding	3,528.1	3,370.7
Other liabilities	52.8	45.0
Reserves	231.6	219.1
TOTAL LIABILITIES & RESERVES	**3,812.5**	**3,634.8**

Key performance indicators

TOTAL GROUP BASIS

Net interest margin **1.69%** 2021: 1.24%

Group management expenses ratio **1.44%** 2021: 1.19%

Profit after tax ratio **0.42%** 2021: 0.34%

Profit before tax **£18.9m** 2021: £15.1m profit

Underlying management expenses ratio **1.26%** 2021: 1.12%

Underlying cost income ratio **73.0%** 2021: 87.8%

CET 1% **16.8%** 2021: 16.5%

Arrears ratio **0.20%** 2021: 0.21%

Liquidity Coverage Ratio **192%** 2021: 216%

2022 Financial review and key performance indicators

INCOME STATEMENT REVIEW

	2022	2021
Net interest income	**£62.8m**	£45.9m
Net interest margin	**1.69%**	1.24%

Net interest income increased by £16.9m in 2022, predominantly driven by the higher interest rate environment resulting from the increase in the Bank of England base rate from 0.25% to 3.50% during the year.

Whilst the average customer interest rate receivable on mortgages increased, average lending margins narrowed during the year as the Society chose to price more competitively and increase new business volumes. However, as the Society uses interest rate swaps, which are linked to SONIA, to hedge a large proportion of its fixed rate mortgages, the interest it received from these was significantly higher than in 2021.

During the year, the Society increased the rate it paid on its administered rate products as the Bank of England increased rates. Alongside this it has increased the rates it has offered savers on Fixed rate ISAs and Fixed Term Bonds. The average interest rate paid to savers across the year was 0.81% compared to 0.52% in 2021, and, by the end of 2022 the average interest rate payable had increased to 1.76%.

	2022 £m	2021 £m
Building Society fees receivable	3.1	3.0
Total continuing fees receivable	**3.1**	**3.0**
Building Society fees & commissions payable	(1.5)	(0.9)
Net continuing fees receivable	**1.6**	**2.1**
Mortgage Broking – discontinued	-	1.0
Net total fees & commissions receivable	**1.6**	**3.1**

Net total fees & commissions receivable have reduced by £1.5m predominantly driven by the cessation of mortgage broking fees following the sale of the mortgage advice business in 2021.

Society fee income consists of commission from mortgage-related insurance products, financial planning and protection, rental income, along with estate agency and mortgage advice referrals.

Society fees and commissions payable relates to various banking charges and mortgage related charges, which are payable whether or not a mortgage completes, an example of which is valuation fees.

During 2022, the number of mortgage applications increased significantly resulting in a greater level of mortgage valuation fees payable.

	2022	2021
Management expenses	**£53.5m**	£44.1m

The Group's management expenses include administrative expenses, project expenditure, depreciation & amortisation, and strategic investment costs.

	2022 £m	2021 £m
Underlying administrative expenses	39.3	36.2
Depreciation and amortisation – underlying	7.7	6.8
Management expenses – underlying	**47.0**	**43.0**
Strategic investment costs	5.0	1.1
Change in accounting estimate	1.5	-
Management expenses – strategic	**6.5**	**1.1**
Total management expenses	**53.5**	**44.1**
Represents:		
Administrative expenses	42.8	37.3
Depreciation & amortisation	10.7	6.8
	53.5	**44.1**
Underlying management expenses – continuing	47.0	42.2
Underlying management expenses – discontinued	-	0.8

Underlying management expenses increased by £4.0m.

Underlying administrative expenses have increased by £3.1m as a result of staff recruitment across the Society in 2022, the impacts of the pay award made in early 2022 and the cost-of-living support payments made in August and November to support colleagues. Higher project related spend, driven in part by the costs associated with the establishment of a new partnership relationship, has also contributed to the increase in costs in the year.

Strategic investment costs increased by £3.9m to £5.0m. The 2022 cost reflects the costs associated with the Branch closure programme, including redundancy costs, fixed asset write-offs, onerous lease costs and dilapidation costs of locations that were exited. Also included are non-recurring costs associated with the costs of the development and creation of the Society's new purpose, strategic blueprint and strategy.

During the year a full review of the current fixed asset valuations were undertaken. As a result of the formation of the future strategy and anticipated future enhancements in mortgage systems and processes, the average useful lives of the Society's mortgage technology assets have been reduced, resulting in a £1.5m amortisation charge.

	2022	2021
Impairment (charge)/release	**(£2.2m)**	£1.4m

An impairment charge of £2.2m has been recognised in the year under the forward-looking requirements of the IFRS 9 accounting standard for expected credit losses.

During 2022 the UK economy saw Consumer Price Inflation of 10.5% for the 12 months to 31 December 2022 driven by a number of issues, particularly the war in Ukraine. The impacts on costs of goods and services and wholesale energy prices have resulted in a cost of living crisis in the UK and other countries around the world, which is reducing household disposable incomes. The Bank of England has increased interest rates to combat inflation and prevent it becoming embedded, which is in turn increasing the borrowing costs for households across the UK. A period of higher interest rates and a potentially extended UK recession is now highly likely over the medium-term horizon.

The Nottingham always seeks to ensure that customers can afford to meet their mortgage repayments from the outset and the Society's arrears ratio (number of accounts in three months or more arrears) has continued to remain at low levels, with the ratio at the end of 2022 standing at 0.20% (2021: 0.21%), with no properties in possession at the end of the year.

However, the combined impact of these worsening macroeconomic factors will more than likely create significant strain on the ability of borrowers to repay their mortgages in the future and will potentially increase the Society's credit losses. There are already signs of a housing market slowdown with falling house prices, despite ongoing government intervention in the form of Stamp Duty cuts. In light of these changing economic conditions, the Society has increased its provisions for expected credit losses.

The Society will continue to work proactively and support its borrowers if they experience financial difficulty.

The Society's total overall impairment provisions as at 31 December 2022 is £5.3m (2021: £3.1m), which equates to 0.17% of the total book.

	2022	2021
Derivative financial instruments gain	**£10.2m**	£7.9m

The Nottingham offers a range of fixed rate mortgage products. The resulting interest rate risk is carefully managed using a mix of fixed term funding and derivative instruments. The use of derivative instruments to manage exposure to changes in interest rates that arise from fixed rate mortgage lending and fixed rate retail savings products leads to volatility in income statement gains and losses; these would only be realised if we chose to sell the derivatives before they reach maturity.

As a result of the increase in the Market's expectations of future interest rates during 2022, the Society has recorded £10.2m of derivative financial instrument gains in the year. The gains have been predominantly recorded as a result of valuation differences between when the swaps are transacted as mortgage/savings products are launched, to manage interest rate risk and when the assets or liabilities are generated and enter a matched relationship. Any gains or losses in the value of the swaps during the pre-matching period are recorded in the P&L and amortised over the life of the instrument. The Nottingham has no need, or intention, to sell these derivatives that are transacted to manage interest rate risk and therefore expects that any gains or losses unwind over the remaining lives of the derivatives.

As this volatility arises primarily due to timing differences, the Board excludes its impact from underlying performance.

STATEMENT OF OTHER COMPREHENSIVE INCOME REVIEW

	2022 £m	2021 £m
(Loss)/gain on pension assets	(24.9)	1.9
Gain/(loss) on pension liabilities	25.0	(1.9)
Deferred tax (expense)/credit	(0.1)	0.3
Net gain on defined benefit pension scheme	**-**	**0.3**

The defined pension scheme's liabilities are suitably hedged by the pension scheme's assets due to the hedging strategy undertaken by the Society. This can be observed in both 2022 and 2021, where gains / (losses) on the pension scheme's liabilities have been appropriately offset by (losses) / gains on the pension scheme's assets.

	2022 £m	2021 £m
Fair value loss on treasury assets	(4.1)	(0.3)
Deferred tax credit	0.8	0.2
Net loss on treasury assets held at FVOCI	**(3.3)**	**(0.1)**

As a result of the increase in the Market's expectations of future interest rates during 2022, the Society has recorded losses on the fair value of its treasury assets held at fair value through other comprehensive income.

As the Society's policy is to hold these assets to maturity (with the ability to sell if liquidity is required), these losses are anticipated to result in future fair value gains as they progress towards maturity.

STATEMENT OF FINANCIAL POSITION REVIEW

There is no material difference between the Group and Society balance sheet, and therefore this section is presented on a Group basis only.

The Group balance sheet grew by 4.9% in the year to £3.8bn driven by an increase in liquid and other non-mortgage assets.

MORTGAGE LENDING

	2022 £m	2021 £m
Residential	2,702.6	2,800.2
SBL	334.7	232.6
Total	**3,037.3**	**3,032.8**

Overall, total mortgage balances held flat during the year. The book declined in H1 2022 as a result of a reduction in mortgage applications during Q4 2021, however, following strong performance during 2022, the mortgage book has grown by 3.0% since half year and the mortgage pipeline (offered and pre-offer) stands at £280m, with the Society in a good position for continued growth into 2023.

The Society received over £1bn of mortgage applications during the year, up 25% on 2021, with gross new lending totalling £659m in 2022, compared against £557m in 2021.

During H2 the Society agreed a forward flow agreement with a fintech mortgage provider, with £10m of loans purchased in 2022 and a mortgage pipeline of future purchases of £108m at 31 December 2022. Under this agreement, the Society purchases the beneficial interest in the cash flows from the mortgages originated whilst the third party retains the legal charge.

Mortgage lending remains concentrated in prime high quality mortgage assets. Residential mortgages, excluding buy-to-let, account for 67% of the total lending book at 31 December 2022.

The Secured Business Lending (SBL) book increased to £334.7m, with £141.9m of gross lending for the year, predominantly driven by continued origination of Limited Company Buy to Let lending, which is secured against the same high quality residential property as Residential and traditional BTL lending but called SBL lending as the loans are made to limited companies as opposed to individuals.

During the year we launched broker product transfers capability, which is available from most other lenders in the market. If brokers advise their customers to transfer to another product with The Nottingham at the end of their current product maturity, they are paid a procuration fee in the same way they would be if they advised their customers to take a mortgage with another mortgage provider.

The mortgage portfolio is well distributed throughout England and Wales and is predominantly focused in the three broad areas of East Midlands, Yorkshire & Humberside and London & the South East.

RETAIL AND WHOLESALE FUNDING

The Society funds its mortgages through a combination of retail savings and wholesale funds.

	2022 £m	2021 £m
Branch savings	2,508.0	2,519.8
Non-branch savings	502.7	355.7
Retail savings	**3,010.7**	**2,875.5**
Secured wholesale	346.9	470.3
Unsecured wholesale	89.0	24.9
Collateral liabilities	81.5	-
Retail & Wholsale funding	**3,528.1**	**3,370.7**

The Group operates a diverse funding strategy to ensure an optimum mix and duration of retail and wholesale funding.

Retail savings continue to be the cornerstone of our funding requirement, with the remainder obtained from the secured and unsecured wholesale funding markets.

Retail savings grew just under 5% to £3.0bn. Branch balances have reduced marginally during the year, with some members choosing to withdraw their funds following the announcement of branch closures in H2. We have continued to see growth in our non-branch savings primarily in the Beehive channel where we have seen LISA balances grow by £112m.

The Society continues to hold funding from The Bank of England's Term Funding Schemes, providing the Group with access to secured funding at low rates of interest, with £315m (2021: £343m) drawn down under the schemes as at 31 December 2022. The Society repaid £28m of TFS in the same period.

The Society also has £91m (2021: £127m) outstanding as at 31 December 2022 borrowed through a secured bilateral funding agreement, which was extended and upsized to a total of £200m of available funding during 2022.

The wholesale funding ratio reduced from 14.7% to 12.6% in 2022.

LIQUID ASSETS

The Society maintains a prudent level of liquid resources, of an appropriate level and quality, to meet its financial obligations as they fall due under normal and stressed conditions.

The Group's liquidity resources comprise a combination of 'on-balance sheet' liquid assets and 'off-balance sheet' liquidity held with the Bank of England secured against approved mortgage portfolios. The Group is able to exchange these assets for cash as required.

The Group's on-balance sheet liquidity is made up as follows:

	2022 £m	2021 £m
Bank of England	289.0	284.6
Multilateral Development Banks	106.0	104.7
UK Gilts & T'Bills	126.7	39.6
Mortgage backed securities	63.3	61.5
Covered Bonds	54.2	54.5
Other	80.1	17.6
Liquid assets	**719.3**	**562.5**

By holding liquid resources of the highest quality, which can be turned readily into cash, termed 'buffer' assets, the Group is able to manage the on-balance sheet liquidity it holds at a lower level. During the year, the Group continued to maintain a level well in excess of the regulatory minimum.

The Society supplements on-balance sheet liquidity with access to the Bank of England's Sterling Monetary Framework facilities supported by prepositioned collateral. When taking into account both on- and off-balance sheet liquidity, total liquid resources were 27.3% (2021: 30.3%), with prepositioned assets in addition.

The two key measures of liquidity are the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). These are being reported in accordance with the finalised CRR/CRD rules, which came into force on 1 January 2022. The Society was in excess of the minimum levels required for both measures at the end of the year with the LCR being 192% (2021: 216%) and the NSFR being 144% (2021: 144%).

STRATEGIC REPORT (CONTINUED)

CAPITAL

The Society continues to focus on maintaining strong capital ratios to protect members' interests.

Common Equity Tier 1 (CET1) capital is the strongest form of capital and comprises the Society's general reserves. Overall CET1 resources have increased by £18.7m in the year. This is driven by the profit for the year and other comprehensive income movements, offset by unfavourable changes in fair value reserves and an increase in regulatory adjustments driven by the capitalisation of intangible assets. The Society also continues to benefit from a positive IFRS 9 regulatory adjustment, as part of the Government's response to the Covid-19 pandemic.

Alongside the increase in resources outlined above, there has been a 7.4% increase in risk weighted assets, reflecting the increase in mortgage assets and operational risk exposure requirements. This resulted in an overall increased CET1 ratio of 16.8% compared against the 2021 position of 16.5%, emphasising our capital strength.

Regulatory adjustments include deductions for intangible assets and valuation adjustments on fair value financial instruments, offset by an addback for the IFRS 9 transitional arrangements.

The leverage ratio, which is calculated as Tier 1 capital divided by total balance sheet exposure, has increased marginally to 5.7%. This is being reported as per the transitional CRD V rules. This is driven primarily by higher capital resources and asset exposures.

The Regulator requires that the Society holds a certain amount of capital against the assets it holds. This is referred to as its Total Capital Requirement. As at 31 December 2022, the Society's Total Capital Requirement was set at 8.60% of risk weighted assets or £114.0m.

All the Society's capital ratios remained comfortably in excess of regulatory requirements throughout the year.

Further information regarding the Society's capital management can be found in the Pillar 3 report available at www.thenottingham.com.

The following tables show the composition of The Nottingham's regulatory capital as at 31 December 2022 under CRR/CRD final and transitional rules, and details of key ratios.

CAPITAL RESOURCES	2022 Final CRR/CRD Rules £m	2021 Final CRR/CRD Rules £m	2022 Transitional CRD V £m	2021 Transitional CRD V £m
COMMON EQUITY TIER 1 CAPITAL				
General reserves	235.0	219.2	235.0	219.2
Fair value reserves	(3.4)	(0.1)	(3.4)	(0.1)
Regulatory adjustments and deductions	(11.8)	(17.2)	(9.4)	(15.6)
TOTAL COMMON EQUITY TIER 1 CAPITAL	**219.8**	**201.9**	**222.2**	**203.5**
ADDITIONAL TIER 1 CAPITAL				
Permanent Interest Bearing Shares	-	-	-	2.4
TOTAL ADDITIONAL TIER 1 CAPITAL	**-**	**-**	**-**	**2.4**
TIER 2 CAPITAL				
Permanent Interest Bearing Shares	23.9	23.8	23.9	21.4
TOTAL TIER 2 CAPITAL	**23.9**	**23.8**	**23.9**	**21.4**
TOTAL REGULATORY CAPITAL	**243.7**	**225.7**	**246.1**	**227.3**
RISK WEIGHTED ASSETS	**1,324.8**	**1,233.5**	**1,324.8**	**1,233.5**

CAPITAL RATIOS	%	%	%	%
Common Equity Tier 1 (CET1) ratio	16.6	16.4	16.8	16.5
Total Tier 1 ratio	16.6	16.4	16.8	16.7
Total Capital ratio	18.4	18.3	18.6	18.4
Leverage ratio	5.6	5.5	5.7	5.6

Principal risks and uncertainties

The Nottingham is a low-risk, UK-based organisation and, in common with other financial institutions, the nature of the business results in a number of unavoidable or inherent risks. These inherent risks are continuously monitored and managed by the Board, as noted in the risk management report on pages 28 to 32. They are categorised as principal risks within the risk management framework and are defined as follows:

Principal Risk Category	**Definition**
Strategy	The risk that The Nottingham does not have an appropriate strategy and corporate plan to deliver sustainable long-term value to members and/or fails to effectively implement and execute the strategy.
Capital	The risk that The Nottingham does not have sufficient capital or allocates it ineffectively. This includes The Nottingham's ability to manage its capital effectively in a range of business and economic environments.
Transformation & Change	The risk that The Nottingham is adversely affected due to the failed or ineffective implementation of change or programmes of change.
Market & Interest Rate	The risk to The Nottingham's net interest income and economic value arising from changes in market interest rates and mismatches in The Nottingham's balance sheet.
Retail Credit	The risk of loss stemming from a borrower's failure to repay a loan or otherwise meet a contractual obligation.
Liquidity	The risk that The Nottingham, although solvent, does not have sufficient financial resources available to meet its obligations as they fall due.
Model Governance	The risk of having an inadequate or ineffective framework for managing model risk.
Legal, Regulatory & Conduct	**Legal:** Risks associated with the failure to meet the contractual obligations of The Nottingham resulting in financial liability or litigation and risks associated with the failure to put in place appropriate insurance policies to mitigate legal liability. **Regulatory:** Risks associated with failure of The Nottingham to comply with statutory and regulatory requirements. **Conduct:** Risks associated with failure to deliver fair outcomes for The Nottingham's customers.
Operational	The risk of loss resulting from human factors, inadequate or failed internal processes and systems or from external events. This includes operational resilience, cyber and health and safety.

In recent times, the Covid-19 pandemic has dominated the risk landscape, impacting all principal risk categories. Despite the impacts of the pandemic diminishing, a high degree of uncertainty remains. Economic uncertainty and affordability pressures, created by a number of external factors, including: inflation, the war in Ukraine, the energy crisis, the government's financial policy and 'mini budget' in Q4, along with base rate movements, are now key factors. This uncertainty is reflected in the principal risks facing the Society and is discussed below, along with the controls and mitigations that have been put in place to manage the risks and minimise their impacts.

Economic uncertainties

Inflationary pressures, the 'cost of living crisis' and return to a higher interest rate environment create a heightened level of uncertainty in the macroeconomic environment. How customers will respond, following such an extended low interest rate environment, is challenging to predict, although a slower mortgage market and the need to exercise more forbearance is expected, with increased credit losses a possibility.

Recent communications from the Bank of England have indicated that they expect interest rates to continue to rise in the short/medium-term to tackle inflation, likely placing increasing pressure on borrowers as mortgage rates increase across the sector, and high levels of volatility in swap rates make it extremely difficult for lenders to confidently price mortgage products.

In addition, potential house price reductions as a result of a less active mortgage market and more conservative consumer behaviour, in light of the cost of living crisis and recession, could reduce market buoyancy and further increase competition.

The Nottingham's historically low levels of arrears and defaults continue but the need to remain prudent is recognised, with the sector anticipating an increase in mortgage defaults and repossessions. Processes to support customers through financial hardship are well established and embedded. In addition, the provisions for credit losses have been increased this year.

The Nottingham has considered the credit losses that may arise from a significant shock to house prices, increased unemployment and any subsequent increase in arrears and defaults, which may arise as a result of the economic uncertainty and affordability squeeze. The Society undertakes regular stress-testing, conducts an annual Internal Capital Adequacy Assessment Process (ICAAP), regularly assesses the levels of provisions held against bad debts and sets a capital appetite requirement at a level that is designed to be more than adequate to absorb credit losses should they arise. The Society maintains a strong capital position relative to its Overall Capital Requirement (OCR).

Lending decision-making is supported by models which are constantly reviewed and overseen as part of the governance framework to ensure they remain relevant and accurate in the unprecedented macroeconomic environment. The Society is aware that many models were created at a time when the current trading environment was not envisaged thereby presenting a heightened level of model risk. The Society's model governance framework is primarily overseen by the Model Governance Committee, supported by other governance committees, with key models subject to external development and review by specialist third parties.

The Nottingham will continue to take a prudent approach both in its assessment of house prices and in its forecast of arrears levels. In response to the crisis, the level of provisions held against future mortgage defaults were significantly increased to ensure that the Society effectively manages the risk of future defaults.

The Nottingham will also continue to closely monitor all relevant economic forecasts to ensure that it incorporates emerging risks.

STRATEGIC REPORT (CONTINUED)

The trading environment

Mortgage trading

Mortgage conditions remain challenging, with fierce competition continuing across all segments. As a result, margin compression remains an active issue for all building societies as they try to balance the needs of savers and borrowers, while earning sufficient margin to run the society, invest for the future, build capital reserves and remain sustainable.

In this environment, it is likely to be challenging for The Nottingham to maintain its recent level of earnings in the shorter-term. In response, the Society is considering a number of initiatives in the medium-term that will enable it to expand its lending, within current risk appetite, whilst generating required higher returns.

Strategic review

Longer-term prospects and the need to maintain and promote a sustainable future for the Society underpinned the strategic review undertaken in 2022. It was recognised that established ways of attracting, retaining and interacting with members had changed and that the Society needed to modernise its proposition in order to remain relevant in a world where traditional customer behaviours were changing.

The proposed plans are ambitious and will impact all principal risk categories. Of particular note is the pressure on colleagues that is naturally created through the need to continue to run the business whilst transforming it. Significant support will be required from existing and new partners to aid successful execution of the change activity and these alliances will need to be carefully managed to ensure delivery and commercial targets are preserved.

Transitioning from the Society's traditional mortgage activities to fighting for Extra Ordinary Borrowers represents a shift and will require data-driven insight which can be used to inform a robust and ongoing assessment of lending risks as well as an excellent service proposition.

Extensive plans are in place to address these risks and others, to manage execution risks throughout the implementation of the new strategy.

People risk

Following the pandemic, hybrid working practices have been successfully adopted by the Society. Colleagues have been receptive to a more modern way of working which provides greater flexibility to accommodate employee needs. The work undertaken to support colleagues' physical and mental wellbeing has continued.

Financial assistance has also been provided, in the form of two cost of living crisis payments, as The Nottingham seeks to support its colleagues through challenging economic conditions.

Levels of employee turnover during 2022 have remained elevated but significant hires have been secured into key roles, such as the Chief Technology and Transformation Officer and Chief Lending Officer.

Navigating the fiercely competitive recruitment market to attract talent has been a challenge, with additional costs incurred as a result of inflated salary requirements and the use of interim resource solutions to bridge gaps. In order to remain competitive and an attractive employer, work to enhance the appeal of the Society must continue. Investment has been undertaken in recruitment technology and performance management processes and tools.

Cyber risk

Cyber risk has remained heightened following the Covid-19 pandemic, with the war in Ukraine contributing to an increase in reported incidents of phishing and similar activities in the UK. The Nottingham's Information Security and Financial Crime teams have responded by launching a variety of initiatives to further raise awareness across both colleagues and customers in the methods used by cyber-criminals to gain access to information or money.

In all areas, managing cyber risk remains a key focus of the Society's management to safeguard the business and protect members' data and savings. This includes remote working solutions. The Society continues to invest in technology to prevent and detect cyber-attacks, whilst specialists maintain an awareness of prevailing threats and are able to respond proactively to events. Strengthening of the Society's security in systems, is a constant focus, with a comprehensive programme of technology upgrades and the implementation of enhanced security tools to keep our members safe and secure.

Technical expertise is complemented with education and awareness activities to ensure that employees are equipped to recognise and manage the risks associated with cyber activity. The capability to respond to and recover from cyber events is kept under continuous review including contingency planning, crisis management and disaster recovery plans.

Retail funding

The strategic decision to close 17 branches impacted 72 colleagues. A programme of redeployment was undertaken and enhanced redundancy offered to those affected. Colleagues across the organisation responded professionally to the news and support was provided.

Following a period of low and benign interest rates, the transition to an increasing interest rate environment poses a number of challenges for The Nottingham and other financial services providers. Volatile markets and elevated interest rates have resulted in increases to costs of funds and balancing the reward of saving customers with margin management will need continued careful consideration.

The Society possesses a diverse mix of funding options to allow it to secure retail funding at competitive rates, including the digital capability provided by the Beehive Money app. Liquidity is assessed as part of the Internal Liquidity Adequacy Assessment Process (ILAAP) which includes robust stress testing.

Strategic Partnerships

The Nottingham works closely with key partners who provide services to members on its behalf. As the Society explores new ways of meeting the needs of its members it is likely that the number of key strategic partners will increase.

During 2022, the Society entered into a strategic partnership with a fintech mortgage provider and are targeting to fund up to £600m of new mortgage originations over the next two years. The partnership reflects a shared commitment to boost home ownership and transform the housing market. The Nottingham performed rigorous due diligence activities and was supported by a number of advisors when setting up the arrangement which is underpinned by comprehensive legal contracts.

STRATEGIC REPORT (CONTINUED)

In recent years, The Nottingham has simplified its business operations, moving to a partner-based model for the delivery of estate agency services and expert mortgage advice. This has enabled the Society to maintain its proposition offering by partnering with specialist providers of these services. As such, the Society relies on certain key partners for the delivery of important elements of its proposition and for the generation of related fee income.

The Society recognises that working with external parties requires close and continuous oversight. It is a key objective of The Nottingham that selected partners manage their relationships with members to exactly the same high standards that are applied internally. Many of the Society's partners have also been affected by the Covid-19 pandemic, inflation and recessionary pressures, both financially and operationally.

Strategic partners also support the Nottingham in other ways, providing important back-office and technology services.

The Society continues to manage such relationships closely by rigorous contractual requirements and strict service delivery standards. All partners are monitored to ensure that their services meet the Society's high standards at all times and, where applicable, ensuring that they meet defined financial adequacy requirements. Metrics on service delivery are reviewed regularly at management committees. The Nottingham is committed to ensuring that its trusted partners provide the highest level of service to members and, on the rare occasions where this doesn't happen, the Society acts in the best interests of customers to ensure good, regulatory compliant, customer outcomes are achieved.

Regulatory Change

The regulatory environment continues to develop, with a number of new initiatives coming into force in 2023 and beyond. The new regulations cover a wide range of categories and have all required significant resource to be applied to ensure that the Society remains able to meet all regulatory requirements.

The key elements of regulatory change under consideration include:

- Consumer Duty (FCA);
- Basel 3.1 requirements;
- Model Risk Management Requirements for Banks; and
- Strong & Simple prudential framework (PRA).

The Society actively monitors the regulatory environment to ensure that it is able to comply fully with all new and changing regulatory requirements. Horizon scanning is a key process that supports the work of the Legal, Regulatory & Conduct Risk Committee, which oversees the Society's approach to developing new processes in line with regulatory changes.

Paul Astruc
Chief Financial Officer

2 March 2023

CORPORATE RESPONSIBILITY REPORT

Our community commitment

As a building society, our mutual ethos means being responsible and giving back is part of our DNA. Since our inception, we have strived to do the right thing for our members, our people, and our wider communities. In 2021 the Society committed over £100,000 to our charitable foundation that was founded with the aim of helping inspire the futures of young people, as well as supporting those most impacted by the cost-of-living crisis throughout 2022. We also entered the new year with the aim of encouraging wider engagement in our volunteering programme that allow our colleagues two paid days leave for supporting their communities.

In conjunction with the journey, we have been on through the strategic review process to unlock our purpose, we also took the opportunity to review and reflect on our community programmes. In recent years, our programmes have been agile and responsive to the needs within our communities created by the pandemic and its aftermath. In 2022, we continued some of the relationships started during the previous year, reacted to developing needs coming to the fore and ended the year carefully considering the building blocks needed to create the strong foundations of a purpose-led community approach for 2023 and beyond.

Charitable giving and volunteering

We sought to support local charities to help them to benefit from over £100,000 in donations from our Samuel Fox Foundation throughout the year. Named after our founder, the foundation was launched in 2021 in partnership with Nottinghamshire Community Foundation. The first beneficiary of support in 2022 came as we responded to the humanitarian crisis emerging in Ukraine as war was declared. A donation was made to Operation Orphan, a Nottingham-based charity working in bordering Moldova to respond to young people and their families fleeing Ukraine. We were also able to support by collecting donated items in our branches, with 111 hours of volunteer time sorting through donations and boxing to be sent over to Moldova, as well as a financial contribution for transportation costs.

Although we started the year with an ambition to increase engagement in our volunteering programme, with Government restrictions and coronavirus rules still in place amid rising case rates fuelled by the Omicron variant, we needed to pivot our first volunteering campaign of the year. This meant adapting our original plans and conducting virtual career insight sessions with Nottingham-based young person's charity, Think Forward. This was a continuation of the work we started with the charity in 2021. Think Forward exists to empower young people to create better and brighter futures. We want them to be able to identify, realise and shape their aspirations and be ready to make a successful transition into work.

As the year progressed and restrictions relaxed, we were able to evolve our Think Forward partnership and launch a business mentoring programme with students face-to-face at our head office in Nottingham. This programme played to our strengths as it leans into the talent and expertise of our colleague to help inspire and inform young people's careers decisions and options.

Alongside these volunteering-led opportunities, we also continued to invest in our flagship employability programme, Career Academy. We support teachers to deliver career guidance to young people aged 16-24. Since its launch in 2021, this free to use material has been accessed by 10,000 students in over 200 schools.

Understanding it is not just the career prospects of a generation that have been impacted by the pandemic, but also their mental health and wellbeing, we continued to support The Wolfpack Project. This local charity, based in Sherwood, is dedicated to tackling loneliness and social isolation within the community. It seeks to break down the stigma of loneliness and provide a forum where everyone affected can reach out and have the social connections and support, they want. Support included a monetary donation from the Samuel Fox Foundation as well as our people dedicating their time so events could be held for their service users covering social media presence, fraud prevention and scam awareness.

In addition to our people using their skills and knowledge to support local communities and causes, we extended the options available to team members when using their two paid days volunteer time and encouraged people to follow their passions whilst making a difference. Activities like helping local schools, charity board work, running soup kitchens and much more make up the diverse collection of causes helped in 2022 through volunteer time. We truly appreciate the value this time demonstrates not only to the causes they support, but also from a team building and engagement point of view. From food banks and local schools to litter picking and much more, we collectively accumulated 841 volunteer hours, with almost 25% of our team participating at least once.

As we closed out 2022, we recognised Christmas should be a time of great celebration, but we were acutely aware that would not be the case for lots of families in 2022, with so many struggling to make ends meet. With this in mind, the Samuel Fox Foundation ramped up giving throughout December with colleague-nominated charities benefitting from almost £50,000 worth of donations to causes doing great work to ease the cost-of-living crisis at Christmas time. The fund also supported an alternative giving project being run by Nottingham Voluntary Community Action Group with the aim of tackling homelessness and provided early intervention to those at risk of homelessness. In December we donated a further £150,000 to the Samuel Fox Foundation so our good work supporting charitable causes from the fund can continue in 2023.

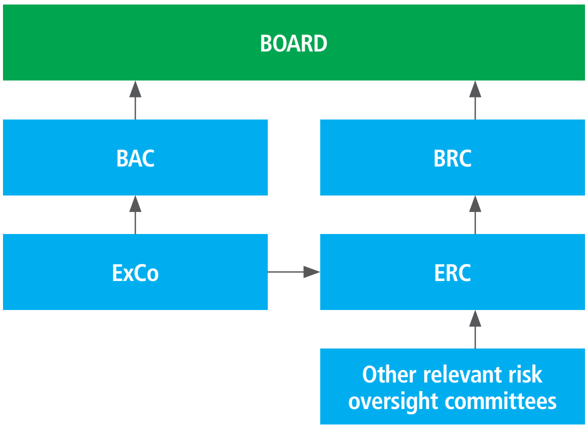
As we look to the months ahead, we are excited at the prospect of launching a purpose-led community engagement strategy that will demonstrate our commitment to helping people own their own home, as we seek to find more ways to support the extra ordinary and causes which matter to our communities.

SUSTAINABILITY REPORT

The Financial Stability Board created the Task Force on Climate-Related Financial Disclosures (TCFD) to improve and increase consistent reporting of climate-related financial information. The following sustainability report presents the Society's climate-related disclosures under the TCFD requirements.

Governance

The Nottingham's Board is ultimately accountable for all climate change related matters. The Executive Committee is responsible for deriving the Society's strategic response to climate change and overseeing day to day management of climate-related activities. It provides the focal point for climate-related decision-making and is supported by Subject Matter Experts from across the Society. The Board Risk Committee and the Executive Risk Committee are responsible for oversight of climate-related risks.



Risk oversight committees include the Asset & Liabilities Committee, Retail Credit Committee, Operational Risk & Resiliency Committee, Model Governance Committee, Legal, Regulatory & Conduct Committee and Reinvention Committee. These committees have primary responsibility for identifying, managing, and reporting of climate-related and other risks. The Executive Committee (ExCo) has ultimate responsibility for co-ordinating all climate-related risks and assessing them collectively as part of the quarterly review of the Strategy Risk dashboard, of which climate risk is a component.

The Executive Risk Committee (ERC) is chaired by the Chief Risk Officer & General Counsel. It meets at least quarterly and reviews risk dashboards for all principal risk categories. On a quarterly basis, risk dashboards are presented to the Board Risk Committee (BRC). Climate change is presented within the risk dashboard for strategy risk.

The Board Risk Committee (under delegated authority from the Board) has been fully engaged with the Society's response to climate change. During 2022, a number of sessions have been held with the Board, including the reporting of climate-related risk assessments.

The Nottingham operates a three lines of defence model for risk management, in common with many financial sector firms. Responsibility for identifying, managing and reporting risks, including climate-related risks, resides with the first line of defence. The second line of defence is responsible for providing challenge and oversight over the first line, the risks being assessed and modelled and oversight of the reporting of them to ensure it remains comprehensive. The third line of defence is responsible for providing independent assurance and assessment of the impacts of climate-related risks.

In addition, The Nottingham has a number of policies and procedures in place, which define the Society's approach to climate change and ensure that activities are performed consistently and in accordance with the Board's stated objectives and goals.

Strategy

Throughout 2022 we have targeted the reduction in our Scope 1 and 2 emissions as a priority underpinned with a commitment to reduce our overall tC02e by a minimum 10% over the year versus 2021. As detailed in our 2021 report this approach was agreed due to Scope 1 and 2 being more within our direct control and we have committed to be Carbon Neutral through offsets for the 2022 reporting period.

During 2022 we have focused on continued deployment of LED lighting throughout the business, and this is now completed in-house through our Facilities Team as part of scheduled maintenance visits rather than through contractors. We expect the whole business to be fully LED by the end of 2023, supporting further improvements in our Scope 1 and 2 energy usage.

During 2022 we removed all gas usage from our estate and are now exclusively using green electricity to power our business. Additionally, we have rolled out smart meters across the entire estate. We have integrated this increased quality data with an energy analysis portal that allows us to identify where we have spikes in usage, which we can then take steps to address.

In 2023 we are seeking to continue to reduce our tCO2e Scope 1 and 2 further by a total of 10%. Whilst we will continue to focus on Scope 1 and 2 emissions in support of this target, we will also look to develop our understanding of the Scope 3 drivers and identify actions we can take to reduce our footprint in this regard. We also plan to set a target for Net Carbon Zero status for Scope 1 and 2.

In the meantime, we will also continue to develop our understanding and risk assessment that ongoing climate change poses to our business assets, the risks to our business model and to our members – particularly to their homes as a consequence of increasingly unpredictable weather patterns. We will also continue to fully meet our regulatory obligations in this area.

SUSTAINABILITY REPORT (CONTINUED)

Climate Change Scenario Analysis

The Nottingham assesses climate change risk across two main categories. Physical risk considers the impact of physical effects of climate change or weather-related events such as flooding. Transitional risk assesses the transition to a low-carbon and climate resilient future such as changes in policy and regulation.

In order to ensure strategic decisions are informed appropriately, a range of scenario analysis is performed in relation to climate change. These include the impact of flooding across the mortgage portfolio as well as transitional risks of an increase in minimum Energy Performance Certificate (EPC) ratings and the potential costs this could incur.

Analysis is considered across three potential lenses, in line with the Climate Biennial Exploratory Scenario (CBES) published in 2021 and updated in 2022. These include:

- **Early Policy Action**: Transition to net zero starts early with global warming limited to 2 degrees;
- **Late Policy Action**: Policy delayed until 2031 and is more sudden and disorderly. Global warming limited to 2 degrees; and
- **No Policy Action**: Mitigation is either absent or unsuccessful and global warming increases to 3 degrees.

Outputs of the scenario analysis are used to inform the ICAAP assessment and are also considered across the risk categories in The Nottingham's risk management framework. The conclusion from the ICAAP assessment is that no additional capital is required to cover climate change risk at this point in time.

Risk Management

Identification

The Nottingham recognises that climate change is far reaching across its business and in order to capture all the material touchpoints, climate change is embedded within the Society's enterprise-wide risk management framework. Alongside the scenario analysis, The Nottingham recognises that climate change risks manifest across a broad range of risk categories.

The Nottingham has nine principal risk categories and climate change risk is included within the Society's strategy principal risk category. This provides an elevated and centralised view of climate related risks, which is informed by the Society's other principal risk categories via formal assessment at risk oversight committees.

The risk appetite statement states that The Nottingham has a low-risk appetite for not meeting the statutory requirements of climate change and our own stated climate change related goals.

A number of targets and metrics have been developed, which support the risk appetite. These have been informed by several factors, including scenario analysis. The targets considered in 2022 include:

- Short-term physical measures taken to reduce emissions;
- Reduction in overall energy usage by 10% in 2022;
- Carbon neutral for scope 1 and 2 emissions in 2022; and
- Net Zero by 2050.

The metrics and risk appetite are formally assessed by risk oversight committees (at least quarterly). In addition, climate-related risks are assessed as part of the half-year forecast and corporate planning processes, to ensure that the current assessment of climate-related risks and strategic objectives are aligned and activities co-ordinated. The risk assessments performed via risk oversight committees at half and full year points are presented to the Executive Risk Committee and the Board Risk Committee as part of the strategic and corporate planning cycle.

The Nottingham recognises that the identification, measurement and forecasting of climate-related risks present unique challenges, not least because of the longer-term nature of the risks, the uncertainty around when and how they will manifest and challenges around accessing reliable data and modelling it effectively, all of which are common, to a lesser or greater extent, to organisations. The Nottingham's approach to climate change and the effective management of associated risks will inevitably evolve, as internal and external understanding and approaches develop.

The most material climate-related risks identified are as follows:

- **Credit risk** and the impact of climate change on The Nottingham's existing and future lending books from both a physical and transitional risk perspective.
- **Operational risks**, including impacts on how The Nottingham and its third parties and strategic partners operate and conduct business.
- **Legal, Regulatory & Conduct risks** arising from the need to comply with challenge laws and regulations and the impacts of them on our business operations.

As the most material risks, these will form the focus of The Nottingham's response to climate change risk management in the short-term.

Management and Integration

The risk assessment has informed the Society's risk appetite statement for climate change risk, which has been approved by the Board and is reported upon as part of the regular risk reporting monthly to the Executive Risk Committee and quarterly to the Board Risk Committee.

Metrics and Targets

Carbon Footprint

We have strengthened our relationship with our long standing utilities partner, Inspired Energy, during 2022 and they will continue to support us in developing our carbon strategy.

Deliverables as a direct result of our work with Inspired are as follows:

- Quarterly assessment of our Scope 1 and 2 emissions;
- Completion of selected site surveys to understand our current emissions and opportunities for reduction;
- Options for carbon offset projects;
- Integration of an energy analysis portal within Estates and Facilities Team; and
- Annual review of our performance against targets.

During 2022 we set a target to reduce our tCO2e by a minimum of 10% against 2021 against 2021 full year. Using like for like methodologies we have achieved an overall reduction in tCO2e of 18% in 2022.

SUSTAINABILITY REPORT (CONTINUED)

We also set a target in 2022 to reduce our electricity usage by a minimum of 10% against 2021 performance. We have beaten this target by achieving a 25% reduction through a number of measures including the continued rollout of LED lighting across our estate and the increased analysis of our energy usage via the data portal that we now utilise, which has supported us in taking localised actions where anomalies have been identified.

Whilst our core objective will be to ensure that the business meets the Government's Net Zero target date of 2050, we will be seeking to understand our pathway and whether we can deliver aspects ahead of that date. The current targets are outlined in the Strategy section.

Key to that understanding has been the establishment of our carbon balance sheet, which details our emissions against Scope 1, 2 and 3. This has been updated and we now have 3 years' data to support us in order to monitor trends and performance against targets.

Our internal data has been married with Government approved BEIS greenhouse gas emission conversion factors for calculating carbon emissions for a range of activities and processes.

Results of the 2022 data analysis show that we continue to generate over 98% of our emissions due to Scope 3 which covers indirect emission sources. Within our Scope 3 emissions over 87% are in relation to the carbon generated by properties where the mortgages that we have granted provide part of the funding, but where we do not have direct control over the carbon neutrality or otherwise of those buildings.

In the short-term we have continued to focus on addressing our Scope 1 and 2 emissions and we will be Carbon Neutral in this regard through offsets for 2022.

Details of the data included in our carbon balance sheet are shown in the table below.

Carbon Emission Data

C02 in tonnes	2022		2021 (Baseline)	
Scope 1 emissions[1] Direct emissions from owned or controlled sources				
Gas	22		54	
Travel	12		-	
Scope 2 emissions[2] Indirect emissions from purchased energy				
Electricity	277		370	
TOTAL DIRECTLY ATTRIBUTABLE EMISSIONS	**311**	**1%**	**424**	**1%**
Scope 3 emissions Other indirect emissions that occur in an entity's value chain				
Investments (mortgage portfolio)[3]	38,240		47,198	
Purchased Goods and Services	4,474		4,240	
Capital Goods	410		1,192	
Other[4]	664		693	
TOTAL INDIRECT EMISSIONS	**43,788**	**99%**	**53,323**	**99%**
TOTAL EMISSIONS	**44,099**		**53,747**	

[1] Scope 1 emissions exclude grey fleet emissions as these have been included within Scope 3.

[2] Scope 2 emissions are presented here on a Location Based approach, presenting the average carbon intensity of the local electricity grids.

[3] Scope 3 indirect emissions associated with the Society's mortgage portfolio have been calculated by estimating energy usage and resultant emissions at mortgaged properties and these have been allocated to the Society, based on its proportional share of the investment property.

[4] Other includes the impacts of business travel (including grey fleet), employee comuting and leased assets.

SUSTAINABILITY REPORT (CONTINUED)

Physical Risk Metrics

Key metrics of physical risk are potential surface water risk, river and sea flood risk and the risk of subsidence within the lending portfolio.

This is assessed based on publicly available flood risk data published by the Environment Agency and subsidence data available from the British Geological Survey. The data below categorises our mortgage exposures by annual flood and subsidence probability as at 31st December 2022.

		Balance by annual flood probability	
		Total £m	**%**
High	(>3.3%)	62.0	2.0
Medium	(>1.1%-3.3%)	98.3	3.2
Low	(0.1%-1.1%)	348.0	11.5
Negligible	(<0.1%)	2,518.5	82.9
Unable to categorise	N/A	10.5	0.3
TOTAL		**3,037.3**	**100**

	Balance by subsidence risk 2030	
	Total £m	**%**
Probable	221.0	7.3
Possible	268.4	8.8
Improbable	2,539.1	83.6
Unavailable	8.8	0.3
TOTAL	**3,037.3**	**100**

Transitional Risk Metrics

As part of understanding transition risks, The Nottingham's lending portfolio has been broken down by EPC rating. This will also allow the Society to work closely with its members in order to help manage any impact as potential policy and regulatory changes occur. The table below reflects current EPC ratings taken from the England and Wales EPC register across the Residential and BTL portfolios (including Ltd Co BTL).

Energy Performance Certificate Data as at 31 December 2022		
	Number	**Exposure £m**
EPC Rating A-C	6,264	960.9
EPC Rating D-E	10,016	1,387.1
EPC Rating below E	386	51.2
No EPC available	4,487	535.2
Total	**21,153**	**2,934.4**

Energy Performance Certificate (EPC) data provides an understanding of the energy efficiency of properties, with an A rating denoting the most energy efficient. This information also informs the Society's scenario analysis for transitional risks.

YOUR BOARD OF DIRECTORS

Non-Executive Directors

Andrew Neden

Chair

Andrew joined the Board in 2014. He is a Chartered Accountant with over 40 years' experience in financial services in the UK and overseas. After a number of years running KPMG's UK financial sector transaction services team, he was the global Chief Operating Officer for KPMG's financial services business. Current directorships include the Wesleyan Assurance Society and ABC International Bank plc; he chairs the Audit Committee for both organisations. He also chairs Aetna Insurance Company Ltd and a couple of small charities.

Kerry Spooner

Senior Independent Director

Kerry joined the Board in September 2016. Kerry had 10 years of financial services experience in the building society sector before joining the Board. She acted as a Non-Executive Director at two other building societies and has experience as Vice Chair, Senior Independent Director, Chair of Remuneration Committee and Chair of Nomination Committee. Prior to that Kerry worked as a solicitor for 20 years, the last nine years as a corporate finance partner of the international law firm Allen & Overy LLP. Kerry is also a Non-Executive Director of Scotiabank Europe plc and Non-Executive chair of the Remuneration Committee of ANZ Banking Group UK Branch.

Simon Baum

Risk Committee Chair

Simon joined the Board in June 2018. Simon has spent over 35 years specialising in risk management within the financial services arena, holding several senior positions at Experian, Alliance & Leicester and Santander, both within the UK and overseas. His previous roles include Director of Mortgage Risk at Santander.

Simon Linares

Remuneration Committee Chair

Simon joined the Board in 2019. Simon is also an Executive Mentor and Coach and Chairman of the charity Dreams Come True. He brings a wealth of commercial and people and development experience spanning a range of sectors, including FMCG, telecommunications and financial services. His most recent position was Group HR Director at Direct Line, where he led the HR, communications, public affairs and corporate social responsibility strategies. Prior to Direct Line, Simon headed up human resources for O2 Europe, Telefonica's digital businesses and Diageo, covering different geographies and cultures, including Africa, Spain and Portugal. Simon is a fellow of the Chartered Institute of Personnel Development and in 2018 was ranked amongst the top five most influential HR Practitioners in the UK.

Peter O'Donnell

Audit Committee Chair

Peter joined the Board in January 2021. Peter has over 30 years' experience in financial services and worked in a variety of senior finance roles at Prudential, RSA and Aviva. His most recent position was Executive Vice President at Unum, a Fortune 500 company where he was also CEO of its UK business and Chairman of Unum Poland. Since 2016, Peter has been a Trustee and Chair of Audit Committee for Cardiac Risk in the Young. Peter has a Bachelor of Commerce Degree from University College Dublin, is a fellow of CIMA and has significant experience of both international and UK markets.

Kavita Patel

Kavita joined the Board at the beginning of 2017. She is a partner and Head of Investment Funds at the law firm, Shakespeare Martineau. Kavita has a wealth of experience advising clients in the financial services arena both in the retail and institutional space on corporate, regulatory and governance matters.

YOUR BOARD OF DIRECTORS (CONTINUED)

Executive Directors

Sue Hayes

Chief Executive (appointed 1 March 2022)

Sue joined NBS in January 2022 and was appointed as Chief Executive in March. Sue has focused her career in Retail and Business Banking and has held senior positions at Lloyds, HBOS, Natwest, Santander and Barclays. Sue joined challenger bank Aldermore in 2018 and more recently was CEO at GB Bank, a new entrant challenger which she took through to the first stage of the banking licence and raised additional funding. Sue previously sat on the UK Finance mortgage board as Deputy Chair and has been nominated to UKF Mortgage Board again as a Mutual representative for 2023. Sue holds an Executive MBA from Cranfield Business School.

Paul Astruc

Chief Financial Officer (appointed 21 June 2022)

Paul brings over 25 years of financial services experience after qualifying as an accountant with Shell International. During that time, Paul has worked at a number of leading UK and international banks, including most recently 9 years as a Finance Executive at Lloyds Banking Group, leading Finance teams and driving strategic and transformation agendas. Paul has been the CFO at The Nottingham since April 2021 with responsibility for Finance and also leading on Technology during 2022. Paul joined the Board as an Executive Director in June. Paul is also a Corporate Treasurer (AMCT) and holds an Executive MBA from Bayes Business School.

Changes to the Board in the year to 31 December 2022

Sue Hayes was appointed to the Board as an Executive Director on 1 March 2022.

Michael Brierley resigned from the Board of Directors on 25 April 2022.

David Marlow resigned from the Board of Directors on 25 April 2022.

Paul Astruc was appointed to the Board as an Executive Director on 21 June 2022.

Board Committees

Risk

Simon Baum (Chair)
Simon Linares
Peter O'Donnell
Kavita Patel
Kerry Spooner

Audit

Peter O'Donnell (Chair)
Simon Baum
Kavita Patel
Kerry Spooner

Nominations

Andrew Neden (Chair)
Simon Linares
Kerry Spooner

Remuneration

Simon Linares (Chair)
Andrew Neden
Kavita Patel
Kerry Spooner

DIRECTORS' REPORT

The Directors' report should be read in conjunction with the Chair's statement, the Chief Executive's review and the Strategic report on pages 8 to 17.

Business objectives and activities

The Nottingham is a strong and successful mutual building society, which builds upon its strong regional foundations, and has a track record of serving members for over 170 years. At The Nottingham, together we fight for the extra ordinary to own their own home.

Information on the Group's business objectives and activities are provided in the Strategic report on pages 8 to 17.

Business review, future developments and key performance indicators

The Group's business activities and future plans are reviewed in the Strategic report section of the Annual Report and Accounts on pages 8 to 17. Additionally, within the Strategic report, we comment upon the financial (and other) key performance indicators used by the Board during the year to assist its control, direction and drive for business results.

Principal risks and uncertainties

The principal risks and uncertainties faced by the Group are outlined on pages 15 to 17, and our approach to managing these risks can be found in the Risk management report on pages 28 to 32.

Financial risk management objectives and policies

As a result of its normal business activities, the Group is exposed to a variety of risks, including credit, market and liquidity risk. The Group's objective is to minimise the impact of these risks, as well as financial risk, upon its performance. The risk management report on pages 28 to 32 considers this in detail. A further explanation of the financial risks and the controls in place to manage them (including the use of derivatives), is given in note 31 to the Annual Report and Accounts. Derivatives, including the impact on the 2022 results, are disclosed in the strategic report on page 12.

Results

Group reported profit before tax for the year was £18.9 million (2021: profit of £15.1 million). The Group profit after tax for the year transferred to general reserves was £15.8 million (2021: profit of £12.6 million). As at 31 December 2022, total Group reserves and equity were £231.6 million (2021: £219.1 million).

Capital

Group gross capital as at 31 December 2022 was £255.6 million, (2021: £243.1 million) being 7.24% (2021: 7.21%) of total shares and borrowings. Free capital, as at the same date, amounted to £235.1 million (2021: £213.4 million) and 6.66% (2021: 6.33%) of total shares and borrowings.

The annual business statement on page 114 gives the explanation of these ratios. The Board remains committed to maintaining a strong capital position.

Loans and advances

During 2022, total lending was £659 million (2021: £557 million) with the average advance being £197,321 (2021: £170,921), and the average debt at the end of the year being £138,255 (2021: £133,504). As at 31 December 2022, there were four cases (2021: six cases) of properties being 12 or more months in arrears or in possession. The total amount of balances outstanding in those cases was £131,151 (2021: £770,954), with arrears of £17,354 (2021: £113,237).

Mortgage losses realised during the year totalled £14,060 (2021: £nil). Provisions for potential mortgage losses total £5.3 million (0.17% of mortgage balances).

The Group offers a number of different forbearance options to customers including reduced payment concessions, payment plans, capitalisations and mortgage term extensions. As at 31 December 2022, the Group had 87 loans (2021: 105) subject to some form of forbearance.

Property, plant and equipment

Freehold premises owned by the Group are shown in the Annual Report and Accounts at cost less depreciation. An estimate of the value of those properties, prepared in late 2022 by the Group's professional services team, indicates that market value is £3.2 million (2021: £2.9 million) higher than book value. During the prior year, three of the Society's freehold properties were sold with a total gain on sale of £0.4m recognised in the financial statements.

Supplier payment policy

The Group is committed to deal responsibly with suppliers. The policy is that payment will be made 30 days from the receipt of the invoice, provided that the supplier has complied with all relevant terms and conditions. Variation of the 30 day policy can be agreed at the time an order is placed.

As at 31 December 2022, the total amount owed to suppliers was equivalent to 17 days' credit (2021: 6 days).

Charitable and political donations

During the year, the Group made charitable donations of £150,000 (2021: £209,000). No contributions were made for political purposes.

Country-by-country reporting

The Capital Requirements (Country-by-Country Reporting) Regulations place certain reporting obligations on financial institutions within scope of the Capital Requirements Directive.

The nature of the activities of the Society are set out under business objectives of this report and for each of the Society's subsidiaries in note 16 to the Annual Report and Accounts. All of the activities of the Society and its subsidiaries are conducted in the United Kingdom and therefore 100% of the total income, profit before tax and tax shown in the Income Statement as well as employee figures disclosed in note 7, are related to the United Kingdom. The Society and its subsidiaries have not received any public subsidies.

DIRECTORS' REPORT (CONTINUED)

Environment and sustainability

The environmental policy is set out in the Corporate responsibility report on page 18. The Sustainability report on page 19 outlines the Society's position in line with the requirements of the Financial Stability Board's Taskforce on Climate-related Disclosures (TCFD).

Our people

Our people focus during 2022 was on ensuring that our leadership structure and capabilities are aligned with our new purpose: extensive executive level recruitment and internal development took place over the year to ensure we have a skilled senior team in place to deliver on our plans. We also introduced permanent hybrid working for Head Office team members, enabling us to attract new talent from regions beyond our traditional geographic boundaries while also engaging our existing team members, who enjoy the benefits of collaborating in the office, balanced with focused time at home. We have sought team member feedback through different channels, including the annual engagement survey. Our engagement score was 81%, which increased slightly from the previous year's results and remains above our financial services sector benchmark. We had an extensive communication drive on our new purpose with all team members and following these sessions, team member engagement on the new purpose was 85%. We also continue working with our Colleague Council at which senior members of the leadership team attend on a quarterly basis.

With the current cost of living crisis, we focused on financial wellbeing for our team members, including providing a cost of living payment of £1,000 as well as offering grants to those team members needing additional financial support.

Our people experience is also a key element in attracting and engaging the talent we need to deliver on our strategy. We aim to build and maintain a positive culture around performance management. A culture that is clear, transparent, breeds accountability and allows our team members to maximise their performance and grow their career within the Society. This year we implemented our new cloud-based performance management system that encourages continuous performance conversations. We also introduced a new recruitment and onboarding system to streamline our selection processes and onboarding experience.

Our diversity and inclusion journey continues. We know the importance of diversity in organisations to achieve good outcomes and that more work needs to be done in the financial services sector, and in our Society, to have greater diversity and be representative of the communities we serve. We remain a signatory to the Women in Finance charter and exceeded our diversity target of 35% with 38% women in senior management for this year. We have also set ourselves an ambitious target of gender parity by 2025.

We had to make some difficult decisions around the size of our retail network as a result of our changing customer behaviours with increased online banking and a decreased number of customers coming into the branch. 17 branches were closed in December, following a 12 week consultation period with impacted colleagues. We were also mindful to support our colleagues throughout and provided financial package support including career coaching through our specialist outplacement provider.

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 are required to prepare the Group annual accounts in accordance with UK adopted international accounting standards (IAS) and applicable law and have elected to prepare the Society annual accounts on the same basis.

The Group and Society annual accounts are required by law and UK adopted IAS to present fairly the financial position and the performance of the Group and the Society; the Act provides in relation to such annual accounts that references in the relevant part of that Act to annual accounts giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the Group and Society annual accounts, the Directors are required to:

- select suitable accounting policies in accordance with International Accounting Standard 8: Accounting Polices, Changes in Accounting Estimates and Errors and apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- state whether they have been prepared in accordance with UK adopted IAS and those parts of the Building Societies Act 1986 and Building Societies (Accounts and Related Provisions) Regulations 1998 applicable to societies reporting under UK adopted IAS; and
- prepare the annual accounts on the going concern basis unless it is inappropriate to presume that the Group and Society will continue in business.

In addition to the annual accounts, the Act requires the Directors to prepare, for each financial year, an annual business statement and a directors' report, each containing prescribed information relating to the business of the Group.

Directors' responsibilities for accounting records and internal control

The Directors are responsible for ensuring that the Group:

- keeps proper accounting records that disclose with reasonable accuracy, at any time, the financial position of the Group and Society, in accordance with the Act; and
- 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 the Prudential Regulation Authority under the Financial Services and Markets Act 2000.

The Directors 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 financial statements may differ from legislation in other jurisdictions.

DIRECTORS' REPORT (CONTINUED)

The Directors who held office at the date of approval of this Directors' report confirm that, so far as each of them is aware, there is no relevant audit information of which the Group's auditor is unaware, and each Director has taken all the steps that they ought to have taken as directors to make themselves aware of any relevant information and to establish that the Group's auditor is aware of that information.

Directors' statement pursuant to the disclosures and transparency rules

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware:

- the annual accounts, prepared in accordance with UK adopted IAS, give a true and fair view of the assets, liabilities, financial position and profit of the Group and Society; and
- the management report contained in the Chair's statement and Chief Executive's review includes a fair review of the development and performance of the business and the position of the Group and Society, together with a description of the principal risks and uncertainties that they face.

Directors' statement pursuant to the UK Corporate Governance Code

As required by the UK Corporate Governance Code, the Directors confirm their opinion that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for members to assess the performance, strategy and business model of the Society. Details of the governance procedures that have been implemented to support this can be found in the Board Audit Committee report on page 37.

Going concern and viability

Going concern

In preparing the annual accounts the Directors must satisfy themselves that it is reasonable to adopt the going concern basis.

The Directors have considered the risks and uncertainties discussed on pages 15 to 17 and 28 to 32, and the extent to which they might affect the preparation of the Annual Report and Accounts on a going concern basis. Key to this consideration were the risks associated to regulatory capital, liquidity and financial performance, and the impact on these risks arising from the higher interest rate and high inflationary environment as well as climate-related considerations.

The Group's business activities and future plans are reviewed in the Chair's statement and Chief Executive's review on pages 4 to 7. In addition, note 31 to the Annual Report and Accounts includes the Group's policies and processes for managing financial instrument risk such as liquidity risk, interest rate risk and credit risk.

As with many other financial institutions, the Group meets its day-to-day liquidity requirements through prudent management of its retail and wholesale funding sources. It ensures it maintains sufficient liquidity to meet both normal business demands and those that may arise in stressed circumstances. The Society has a surplus to regulatory capital requirements and is forecasting this to remain across the going concern assessment period. Furthermore, the Group's forecasts and plans, taking account of current and possible future operating conditions, including stress tests and scenario analysis, which have considered income, expenses and overall quality of the mortgage portfolio, indicate that the Group has sufficient operating liquidity and capital for the foreseeable future, and specifically for the going concern assessment period to 31 March 2024 – twelve months from the date of the approval of the Annual Report & Accounts.

As such, the Directors are satisfied that the Group has adequate resources to continue in business and to use the going concern basis in preparing the accounts.

Viability statement

In accordance with the 2018 revision of the UK Corporate Governance Code, the Board has also assessed the prospects of the Society over a period longer than the 12 months required by the going concern provision. The Board has conducted this review for a period of four years. This is shorter than the planning horizon used for corporate planning but considered appropriate given the level of uncertainty and variability increases towards the outer years.

The corporate plan considers the Group's profitability, cash flows, liquidity and capital requirements as well as other key financial ratios over the period. These ratios are subject to sensitivity analysis and stress testing, which involves varying a number of the main assumptions underlying the forecast both individually and in unison. Where appropriate, this stress testing is carried out to evaluate the potential impact of the Group's principal risks, outlined on pages 15 to 17 of the Strategic report and the Risk management report on page 28, actually occurring. This includes the associated risks as a result of the higher interest rate and high inflationary environment as well as the consideration of climate-related risks. Based on the reviews completed, the Board considers that the Society is viable over the medium-term.

Directors

The names of the Directors of the Society who served during the year and up to the date of signing the accounts, their roles and membership of Board committees are detailed in the governance section on pages 23 to 24. Other business interests are shown in the annual business statement. None of the Directors have any beneficial interest in, or any rights to subscribe for shares in, or debentures of, any connected undertaking of the Society, as at 31 December 2022.

In accordance with the agreement made by the Board and in line with the rules for re-election outlined on page 34, all Directors who wish to continue in role will stand for re-election at the next Annual General Meeting.

Auditor

A resolution to reappoint Ernst & Young LLP as auditors of the Society will be proposed at the Annual General Meeting.

On behalf of the Board,

Andrew Neden
Chair

2 March 2023

RISK MANAGEMENT REPORT

For the year ended 31 December 2022

The Nottingham recognises risk as a natural consequence of its business activities and environment. It endeavours, through positive risk strategies, to manage these in a manner that ensures delivery of its strategic objectives and business plan, whilst protecting members' interests and its financial resources.

The Board is responsible for ensuring that an effective framework is in place to promote and embed a risk-aware culture that identifies, appropriately mitigates and manages the risks the Group and Society face in the course of delivering its strategic objectives. This includes both current risks and those associated with the implementation of future strategy.

The Board reviews and approves key risk management policies annually, including the Board Risk Policy, ICAAP, ILAAP and the Recovery and Resolution Plan.

In pursuing its strategy, the Board ensures there are appropriate capabilities and resources available, along with sufficient capital strength to succeed. This includes focusing on risk and reward to ensure both remain at an acceptable level.

The Society operates a committee governance structure which enables focused oversight and has clear lines of accountability and alignment to responsibilities allocated under the Senior Managers & Certification Regime (SMCR).

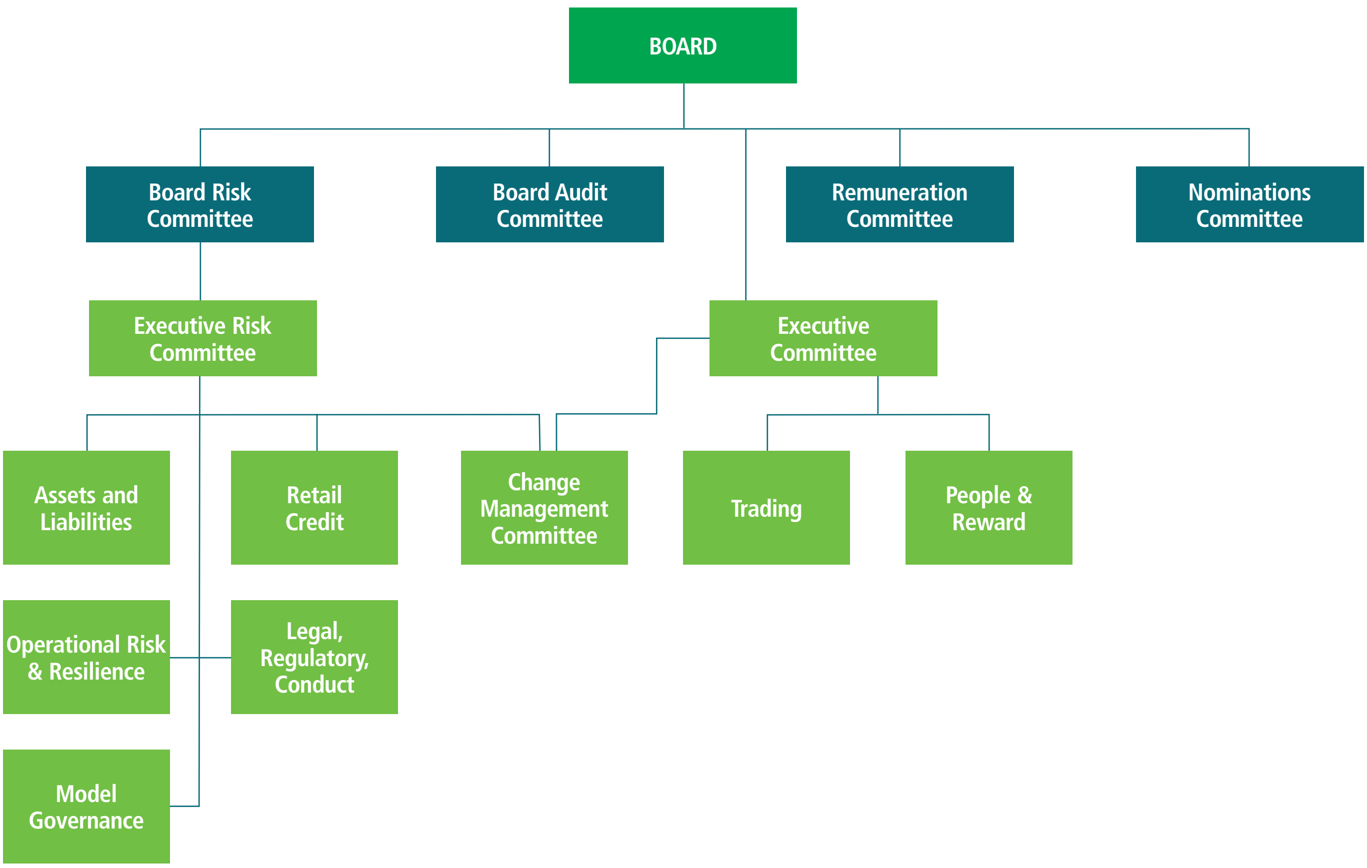
The Board Risk Framework

The Board Risk Committee is an integral part of the Group's formal structure, assisting the Board in overseeing all aspects of risk management. It regularly reviews and approves policy statements, risk appetite statements, and management committee terms of reference. It receives summary management information and minutes from the individual management committees.

The risk management framework is approved annually by the Board Risk Committee and is based on the three lines of defence model (described on page 35) and focuses on:

- clear accountability and ownership;
- defined roles and responsibilities;
- the identification of business objectives;
- identification of the risks arising from these objectives;
- an assessment of the identified risks and controls using the Board approved risk framework;
- assessing the effectiveness of the documented controls;
- monitoring the risks and controls on an ongoing basis; and
- reporting risks to the relevant committees.

Day-to-day risk management is the responsibility of the Executive Risk Committee which oversees the Society's risk committees, as detailed in the diagram below.



GOVERNANCE

RISK MANAGEMENT REPORT (CONTINUED)

Board Risk Committee

As detailed on page 24, the membership of the Board Risk Committee comprises all of the Non-Executive Directors other than the Chair. It is responsible for ensuring:

- key risks are identified and appropriate steps taken by management to mitigate them;
- new and emerging risks are identified and reviewed through the horizon scanning process;
- due consideration is given to all significant matters relating to governance, control, regulatory and compliance issues;
- adequate capital and liquidity are maintained to address the Group's key risk exposures, both to ensure regulatory compliance and to support the achievement of strategic goals;
- all conduct risks (including Consumer Duty) are properly considered, again to ensure regulatory compliance and the achievement of fair and proper outcomes for all our members;
- The Nottingham has considered the risks to operational resiliency and mitigated them to within approved tolerances;
- the climate related financial risks have been appropriately identified, managed and mitigated; and
- the effective monitoring of the Group's key risks and controls.

The Board Risk Committee meets at least four times per year to review risk management activities and consolidated management information regarding existing and emerging areas of risk.

The scope of the Board Risk Committee extends to all types of risk faced by the Group with the management of certain risks delegated to the Executive Risk Committee, Executive Committee and relevant management committees. The responsibilities of these committees are described below.

Executive Committee

The Executive Committee is responsible for acting on behalf of the Board in formulating strategy, the business plan and for organising the Society's assets and resources to deliver value to members in a fair and appropriate manner.

The Committee is chaired by the Chief Executive and comprises all Executive team members.

Strategic risk

When discussing future strategy, the Executive Committee and ultimately the Board takes care to ensure that risks associated with maintaining a sustainable Society are evaluated and that plans are in place to effect any required risk mitigation. These include risks associated with changes to the external and economic environment, regulatory and statutory developments, people and resources, strategic partnerships and alliances and change execution. The Executive Committee oversees the detailed evaluation and monitoring of these risks.

The Committee also oversees the management of risks relating to changes in the external environment, which have the potential to affect the Group's business model either through the level of demand for products and services and/or its ability to meet that demand. This includes responsibility for monitoring the macroeconomic environment and formulating The Nottingham's strategic response to regulatory changes such as climate change, operational resilience and Consumer Duty.

The Committee looks to mitigate this exposure through regular review of its Group corporate plan, ensuring activities remain within risk appetites.

Executive Risk Committee

The Executive Risk Committee is responsible for acting on behalf of the Board and the Board Risk Committee in the management and oversight of The Nottingham's principal risks. It reviews relevant policies to ensure that the Society acts in such a way as to organise, manage and protect the Society's assets to deliver value to members through the provision of savings and mortgages, whilst remaining within law, regulation and agreed Board risk appetites.

The Committee enables the Board Risk Committee to fulfil its role by ensuring that:

- there is executive level oversight of the risk management framework;
- the accountability and responsibility for managing risk is clearly defined;
- the risk culture of the Society is defined and embedded;
- the nature and extent of the top risks of The Nottingham are determined and understood, including the nine risk categories and any thematic risks;
- appropriate risk appetites are defined and documented;
- The Nottingham, at all times, operates within stated risk appetites;
- processes are in place to consistently identify, measure, assess, monitor and control risks;
- the risk event process is effectively capturing and reporting on operational failures;
- the horizon scanning process is identifying emerging risks and regulatory themes;
- The Nottingham is compliant with regulatory requirements, including the ICAAP and ILAAP process;
- The Nottingham operates within its impact tolerance statements for its Important Business Services and remains operationally resilient;
- The Nottingham maintains an up to date and adequate Recovery & Resolution Plan which fully reflects the requirements of the Board and regulators;
- Conduct related risks are appropriately identified, managed and reported up to the Board Risk Committee; and
- The Nottingham has identified climate-related risks and has embedded them within its risk management framework, to facilitate effective mitigation and oversight.

The Committee is provided with regular updates on the principal risk categories by first line management.

To ensure the effective monitoring and reporting of risk, The Nottingham maintains a number of risk registers, including a Top Risk register, functional risk registers and project risk registers. These risk registers help management assess the probability and impact of the risks identified, and the effectiveness of mitigating controls.

The Committee is chaired by the Chief Risk Officer & General Counsel and includes all Executive Directors, certain members of the Executive Committee and other senior colleagues.

Assets and Liabilities Committee

The Assets and Liabilities Committee (ALCO) is responsible for overseeing The Nottingham's liquidity risk, market and interest rate risk, wholesale credit risk and its capital risk. In addition, ALCO reviews treasury activity for compliance with approved treasury policies and procedures. The Committee is chaired by the Chief Financial Officer and the membership is made up of relevant senior managers.

Market and interest rate risk

The Society defines market and interest rate risk as the risk to net interest income and economic value arising from changes in market interest rates and mismatches in the Society's balance sheet. Economic value is the present value of the Society's future cash flows.

As the uncertain economic environment persists, the Society continues to actively monitor its position against its interest risk appetite to mitigate the impact that any future change to interest rates might have in adversely affecting the Society's interest margin.

The Society's limits for the management of market and interest rate risk are documented in the Market and Interest Rate Risk Policy, which is developed, defined and recommended by ALCO and considered and approved ultimately by the Board Risk Committee.

Basis, gap and repricing risk are all elements of interest rate risk captured by the market and interest rate risk category.

The Treasury Risk team measures the levels of interest rate risk inherent in the Society's balance sheet, as well as subjecting the balance sheet to monthly stress tests designed to measure the likely impact of a sudden change in interest rates. This is assessed and monitored against the Board approved risk appetite.

The Treasury team is responsible for day-to-day management of the Society's interest rate risk exposures within the approved risk appetites. Typically interest rate risk is managed by taking advantage of natural hedging opportunities within our balance sheet or through the use of appropriate hedging instruments.

ALCO is responsible for reviewing Treasury activity, performance and compliance with the approved policy and risk appetites.

Liquidity risk

The Society defines liquidity risk as the risk that the Society, although solvent, does not have available sufficient financial resources to enable it to meet its obligations as they fall due. This risk is managed through holding cash and other high quality liquid assets and maintaining wholesale funding facilities.

ALCO develops, defines and recommends the liquidity risk appetite, which is considered and approved by the Board and documented in the Liquidity Risk Policy. The liquidity risk appetite helps to ensure that the management of the liquidity portfolio by the Treasury team supports the corporate plan.

The liquidity policy sets the framework for the day-to-day activities of the Treasury team to ensure that all liquidity management activities are conducted within approved risk appetites. The Society maintains a diverse funding base and ensures compliance with applicable regulatory requirements. Defined control limits determine the overall level of liquidity to be maintained. The base level and composition of the Society's liquidity is subject to PRA guidance and regular stress testing and is also documented as part of its Internal Liquidity Adequacy Assessment Process (ILAAP), as required by the PRA.

The Society is required to be compliant with the Liquidity Coverage Ratio (LCR), which measures the amount of high quality liquid assets relative to modelled net stressed cash outflows within a 30 day period.

The Society also maintains a funding profile in line with a longer-term funding measure, the Net Stable Funding Ratio (NSFR), which requires financial institutions to hold sufficient stable funding to cover the duration of their long-term assets.

Based on our current and forecast liquidity positions, the liquidity portfolio held by the Society comfortably exceeds the minimum requirements of the LCR. Similarly, the funding profile exceeds the future requirements under the NSFR.

The Society has documented a Recovery and Resolution Plan, which describes those metrics that would indicate an emerging market-wide or Society-specific stress event. The Plan includes a range of options available to the Society should such a stress event crystalise in order to ensure adequate levels of liquidity and capital are maintained.

Regular stress testing is performed to confirm that the Society's available liquidity is adequate, within risk appetite and is sufficient to support extreme levels of net cash outflows.

Responsibility for the day-to-day operational management of liquidity risk lies with the Society's Treasurer, with operational oversight provided by the Treasury Risk team and reported to ALCO. A detailed analysis of the Society's liquidity profile can be found in note 31 to the annual accounts.

Wholesale credit risk

Wholesale credit risk arises from counterparties who may be unable to repay loans and other financial instruments that the Society holds as part of its liquidity portfolio.

The Society's risk of counterparty default is relatively low due to the high proportion of total liquidity held in UK Sovereign debt securities and the Bank of England reserve account. The composition of the treasury loans can be found on page 95.

The Society's liquidity policy sets out the amounts, products and counterparties under which Treasury liquid assets can be held. Credit worthiness of counterparties is assessed using a number of factors including minimum acceptable credit ratings approved by the Board Risk Committee, together with lending limits. The policy also allows for investments in multilateral development banks, covered bonds and residential mortgage backed securities (RMBS), subject to criteria set by the Board Risk Committee. The Board does not permit any lending directly to sovereign states, other than the UK Government, and all lending is in Sterling.

The Board, via the approved policy, further restricts the level of risk by placing limits on the amount of exposure that can be taken in relation to one counterparty or group of counterparties, and to industry sectors and geographical regions.

The Society's Treasury team has day-to-day responsibility for operating within Board approved credit limits. Monitoring and oversight, including assessment of counterparty credit worthiness, is undertaken by the Treasury Risk team to ensure all exposures remain within risk appetite. This information is shared with ALCO.

RISK MANAGEMENT REPORT (CONTINUED)

Capital risk

The Nottingham conducts timely evaluations of its capital adequacy and financial resources to determine the level of capital required to support current and future risks contained within its strategic plan. This process, which is a regulatory requirement, is known as the Internal Capital Adequacy Assessment Process (ICAAP).

The ICAAP assesses The Nottingham's future capital requirements by considering changes to business volumes, the type and mix of assets, and business activities within the context of current and future anticipated risks and stress scenarios. The ICAAP also incorporates the Capital Requirement Directive requirements.

The PRA uses the ICAAP during its Supervisory Review and Evaluation Process (SREP) through which it determines the amount of capital it requires The Nottingham to hold against its Total Capital Requirement (TCR).

The Board monitors the current and future level of capital held by the Society in relation to its TCR on a regular basis. The Society's current and future capital levels remain well in excess of the PRA requirements. An analysis of the components of The Nottingham's current capital position can be found in the Strategic report on page 14.

Retail Credit Committee

The Retail Credit Committee is comprised of relevant senior managers and chaired by the Chief Financial Officer. It is responsible for oversight of the Society's retail credit risks, which includes exposures to residential and buy-to-let (BTL) mortgages, limited company buy-to-let mortgages and Secured Business Loans (SBL).

Retail credit risk

The Society defines retail credit risk as the risk that a financial loss arises from the failure of a customer to meet their contractual obligations. As a building society, this is most likely to arise through the inability of borrowers to repay a mortgage. The Society's exposure to retail credit risk is limited to the provision of loans secured on property within England and Wales.

A Retail Credit Risk Policy (incorporating the credit risk appetites) is developed and proposed by the Retail Credit Committee, reviewed by Executive Risk Committee and considered and approved by the Board Risk Committee. The Society manages the level of credit risk it undertakes by applying various control disciplines, the objectives of which are to maintain asset quality in line with approved risk appetite. The Board receives monthly information on key risk appetite limits.

Exposure to retail credit risk is carefully monitored by the Retail Credit Committee. Day-to-day retail credit risk is managed through the application of prudent lending policies, which are aligned to the stated risk appetites. This ongoing monitoring provides assurance that current and future exposures, such as LTV levels, geographic concentration and probability of default, are managed within the risk appetite limits set by both the Board and regulators.

The Society remains committed to promoting home ownership and its risk appetite allows lending to first time buyers, but it restricts the overall level of high loan-to-value lending to ensure the risk is managed sufficiently. Similarly, the Society continues to follow our long-term policy of also offering interest-only products to a small number of borrowers, which are covered by strict policies and monitoring procedures.

The Society regularly stress tests the mortgage portfolio to detect any signs of potential payment stress or sensitivity for our borrowers to the impact of future rate rises. The mortgage portfolio shows resilience to the impact of rate rises, but the Society ensures adequate monitoring and analysis is in place to detect any signs of potential deterioration. In light of recent regulatory developments, the Society has also designed a stress testing framework for the potential effects of climate change on property values. This will be an area of increased focus in future years for the Society, the wider sector and the regulators.

All mortgage loan applications are reviewed by an individual underwriter supported by the use of application scorecards. Credit reference bureau data is obtained on all applications, which in turn supports our responsible lending requirements. The Society also shares account performance data with the selected bureaux. The Society's lending has become increasingly geographically diversified throughout England and Wales over the last few years with no one area dominating the portfolio.

The Society continues to be a responsible lender and its approach to lending is based on making sure that customers can afford to meet their mortgage repayments from the outset, through the use of a prudent affordability calculator, as well as our manual underwriting processes. Should customers find themselves in financial difficulty, the Society responds with appropriate forbearance and collections activities to ensure fair customer outcomes. It also supports customers who experience temporary financial difficulties by providing the assistance they require to enable them to regularise their financial arrangements. Only as a matter of last resort does the Society seek to take the property into possession.

The Society is committed to providing support to those members who are experiencing difficulties in meeting their mortgage payments due to the impacts of the cost of living crisis. We will continue to treat all customers fairly and to offer appropriate forbearance activities throughout the cost of living crisis and beyond.

Residential, BTL and SBL loans are granted only against the 'bricks and mortar' value (i.e. loans are provided only for the purchase or re-mortgaging of a property and not for working capital or machinery etc). A Commercial Lending policy is used to manage levels of business lending risk with loans manually underwritten. To ensure appropriate management of lending risk, the Society maintains watchlists to monitor those loans that are a possible cause for concern in order that risk mitigating action can be taken as appropriate. Primarily, SBL loans are made available to Small and Medium-sized Enterprises (SMEs) for either owner-occupied or investment property purposes. The regulatory limit for SBL lending was extended to 20% during the year and the Society was comfortably within this limit, at 11.0% as at 31 December 2022.

The Society does not have any exposure to the sub-prime mortgage market, it lends only to 'prime' customers and has never written 'self-certified' lending business.

Model Governance Committee

The Model Governance Committee (MGC) assists the Executive Risk Committee in the oversight of computer-based models and End User Computing (EUC) applications that are used throughout The Nottingham's strategic and operational activities. A model is defined as "a quantitative method (including the complex manipulations of expert judgements) or system that applies theories to process input data into quantitative estimates, repeatedly used for decision making".

RISK MANAGEMENT REPORT (CONTINUED)

The Committee, which is made up of relevant senior managers and is chaired by the Chief Risk Officer & General Counsel, oversees the management of risks related to models to ensure that models are included within the Society's governance framework and are robustly designed, developed, documented and reviewed.

The Committee provides oversight ensuring that models and EUC applications are managed in line with the Model Governance Risk Policy, both on an ongoing basis and during model development. It ensures that models and EUC applications are compliant with applicable regulation and remain fit for purpose.

Legal, Regulatory & Conduct Risk Committee

The Society, being a provider of mortgage, savings and insurance products, is regulated by both the FCA and the PRA.

The Legal, Regulatory & Conduct Risk Committee (LRC) is responsible for overseeing how The Nottingham conducts its business, ensuring that all customer-impacting activities are conducted in a clear, transparent and fair manner, delivering fair outcomes for customers.

The Committee is chaired by the Head of Compliance & DPO, supported by relevant senior managers.

Each business area is responsible for ensuring that all regulatory and statutory requirements are complied with on a day-to-day basis. Formal oversight is provided by the Compliance Function through a programme of compliance monitoring.

The Nottingham has a very low appetite for breaches of regulation or for any activity that may lead to an unfair outcome for our customers.

Accordingly, The Nottingham carefully chooses the products and services it is willing to offer to its customers and ensures the appropriate level of expertise exists in the organisation to ensure good customer outcomes, compliant sales processes and clear oversight of third party providers.

Operational Risk and Resilience Committee

The Operational Risk and Resilience Committee (ORRC) is responsible for actively overseeing the management of operational risk across The Nottingham. It is also responsible for ensuring that the Society maintains sufficient operational resilience to ensure the ongoing delivery of key services to customers.

The Committee is chaired by the Chief Customer Officer supported by relevant senior managers.

In order to allow the Committee to focus on the key elements of operational risk (which includes 'people risk' in respect of our own colleagues and 'third party risk' in respect of reliance on third parties and partners to deliver key elements of our proposition and our operational resilience framework), the Committee meets eight times a year with agendas alternating between the following:

- A formal quarterly ORRC meeting, covering the full range of operational risks including review and approval of the operational risk dashboard and oversight of operational resilience.
- An information risk focused meeting, largely focused on matters relating to the management of information security, information management and technology risks, as well as providing specialist oversight of the Society's defences against cyber-attack.

The Nottingham defines operational risk as the risk of loss resulting from human factors, inadequate or failed internal processes and systems, or from external events. Operational risk exists in every aspect of The Nottingham's business activities. Proactive management of operational risk is essential in helping The Nottingham achieve both short-term operational objectives and longer-term strategic goals.

To ensure that The Nottingham's services are operationally resilient, the Committee is also responsible for ensuring that processes are in place to prevent, adapt, respond to, recover and learn from operational disruptions. The Committee oversees the process by which the Society identifies its important business services, understands and remediates any potential weaknesses in the supporting processes, ensures that appropriate business continuity plans are in place and verifies that third party suppliers are able to meet our customers' needs at all times.

One of the key processes that support the effective identification and management of operational risk is the risk event process, which provides a mechanism for operational incidents to be reported, their impacts assessed, remediation to be performed and root cause analysis to be undertaken, thereby reducing the risk of recurrence.

The Committee also continues to work on embedding the Society's approach to operational resilience, in response to the Regulator's increased focus in this area.

Change Management Committee

The Change Management Committee is responsible for the oversight and management of the Transformation and Change risk category; for which it reports to Executive Risk Committee. It is also responsible for ensuring that transformation and change activity supports the effective delivery of the Society's strategy. In this second role, the Committee reports to Executive Committee. The Change Management Committee acts on behalf of the Executive Committee and Executive Risk Committee monitoring delivery execution and operational tolerance impact of transformational, large and small business change for the Society through the effective control of a portfolio of change activity. The Change Management Committee is informed by the Group corporate plan and specifically owns the change execution plan on behalf of the Executive Committee, ensuring effective delivery, balancing risk and benefit in the achievement of the Society's strategy.

The Nottingham's change activity is underpinned by the project risk management framework, which champions clear responsibilities, regular and transparent status reporting and a high level of oversight and scrutiny by members of the Executive team and the Board. All significant projects must be approved by the Executive Committee and the Board.

Risk Oversight

The risk management framework is supported by a series of control documents and risk reporting and is overseen by both the second and third lines of defence working through the Committee structure detailed above and undertaking independent oversight and assurance activity on key areas of risk for the Society.

This framework enables the Board and senior management to maintain effective supervision of the level of risk within The Nottingham and to ensure that appropriate controls and mitigating activities are in place.

On behalf of the Board,

Simon Baum
Chair of the Board Risk Committee

2 March 2023

CORPORATE GOVERNANCE REPORT

Nottingham Building Society is committed to best practice in corporate governance and has considered the requirements of the UK Corporate Governance Code.

The Board has reviewed the Society's corporate governance practices against the revised UK Corporate Governance Code (July 2018) (the 'Code'), which is intended to apply to listed companies, to the extent that it is relevant to a building society. In the interest of transparency, each building society is encouraged to explain in its Annual Report and Accounts whether, and to what extent, it adheres to the Code. The Board is committed to complying with best practice in corporate governance.

This report sets out how the Board has operated in 2022 and complied with the provisions of the Code and the Board has identified that it is fully compliant with the provisions of the Code.

Leadership

The Board

As at 31 December 2022, the Board consisted of six Non-Executive Directors (including the Chair) and two Executive Directors, providing a complementary balance of skills and expertise.

The Board held eight meetings, four strategy review meetings and one business planning meeting during 2022. In addition, the Non-Executive Directors meet regularly, without the Executive Directors present, and consider all aspects of Board responsibilities, governance and performance.

In line with Code principles, the Board operates effectively and is collectively responsible for the long-term success of the Group and ensuring that the necessary resources are in place for the Group to meet this objective. It has a schedule of reserved matters and its principal function is to focus on how it has considered and addressed the opportunities and risks to the future success of the Group, and the sustainability of the Group's business model and how its governance contributes to the delivery of its strategy. Additionally, it ensures the appropriate financial and business systems and controls are in place to safeguard members' interests, maintain effective corporate governance and measure business performance. All Executive and Non-Executive Directors are able to obtain independent professional advice, at the Society's expense, should that be necessary in the fulfilment of their duties, and have access to the services and advice of both the Chief Risk Officer & General Counsel and the Company Secretary.

Division of responsibilities

The roles of the Chair of the Board and the Chief Executive are held by different people and are distinct in their purpose, with division of responsibility set out in writing.

The Chief Executive has direct charge of the Group on a day-to-day basis and is accountable to the Board for the financial and operational performance of the Group, as well as for the formation of its strategy.

The Chair

The Chair, who is elected by the Board annually, leads the Board in approving its strategy and in the achievement of its objectives. The Chair is responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda. Following a review by the Board to validate that the Chair could continue to be regarded as independent, and approval of that status at a meeting of the Board of Directors, the tenure of the Chair has been extended to September 2024, to provide time for a robust recruitment process to be undertaken to appoint a new Chair.

Non-Executive Directors

Independent Non-Executive Directors play a vital role in challenging and helping develop strategy for The Nottingham, whilst providing independent judgement, knowledge and experience.

The Board considers all Non-Executive Directors to be independent in character and judgement and free of any relationship or circumstances that could interfere with the exercise of their independent judgement.

One of the independent Non-Executive Directors is appointed as the Senior Independent Director, to provide a sounding board for the Chair and to serve as an intermediary for the other Directors, as necessary. The Senior Independent Director is identified on page 23.

Effectiveness

Composition of the Board

The names of the Directors together with brief biographical details are set out on pages 23 and 24.

The Board has four committees (Risk, Nominations, Remuneration, and Audit) to help it discharge its duties. The terms of reference for these committees are reviewed annually.

The four committees meet regularly and current membership of these committees is shown on page 24.

The table below shows the attendance of each Director at the relevant Board and Board committee meetings. The number to the left is the number of meetings actually attended; the number to the right is the number of meetings the Director was eligible to attend during 2022.

Director	Board	Risk	Nominations	Remuneration	Audit
P Astruc	5/5	-	-	-	-
S Baum	8/8	5/5	-	-	4/4
S Hayes	6/6	-	-	-	-
S Linares	8/8	5/5	3/3	4/4	-
A Neden	8/8	5/5	4/4	4/4	-
P O'Donnell	8/8	5/5	-	-	5/5
K Patel	8/8	5/5	-	4/4	5/5
K Spooner	8/8	5/5	4/4	4/4	5/5
M Brierley	2/2	2/2	-	-	1/1
D Marlow	2/2	-	1/1	-	-

GOVERNANCE

CORPORATE GOVERNANCE REPORT (CONTINUED)

The minutes of committee meetings are reviewed by the Board. The Board also receives reports from the chair of each of the committees and recommendations arising. The terms of reference for these four committees are available on the Society's website.

In addition to the four Board committees identified above, the Board has the Executive Committee and Executive Risk Committees to support the Board in managing the day-to-day operations of the Group. The Executive and Executive Risk Committees generally meet once a month and the membership of both committees is made up of both Executive Directors and senior leaders. Together, both committees are responsible for acting on behalf of the Board in organising, managing and protecting the Society's assets to deliver value to members, whilst ensuring the Society operates within the law, regulation and clear, agreed Board risk appetites. Together they are therefore responsible for ensuring the management and delivery of four key areas on behalf of the Board: Strategy, Risk Management, Business Planning, and Operational Oversight. The Risk Management Report on page 28 covers these committees in further detail.

Appointments to the Board

Specialist third party recruitment consultants are engaged to assist with all Board recruitment activities, whether Executive or Non-Executive appointments.

The Nominations Committee assists the Board by making timely recommendations on the Board and executive succession plan, Board recruitment and composition and other relevant matters. The Committee considers annually the competence and suitability of those directors seeking election or re-election at each annual general meeting.

The Committee meets at least twice a year. Additional meetings may be convened if necessary.

Appointments to the Board are made on merit and against objective criteria balancing skills, experience, independence and knowledge on the Board. The Society gives consideration to diversity in respect of gender and other measures, both at Board level and in recruitment throughout the business; however, it is not thought to be in the interests of the business to set measurable objectives in this regard. Candidates for both Executive and Non-Executive Directorships are recommended by the Nominations Committee to the Board for approval, with the assistance of external consultants.

All directors must meet the requirements of the Senior Managers and Certification Regime prescribed by the Financial Conduct Authority and Prudential Regulation Authority including, where appropriate, receiving regulatory approval.

Commitment

Prior to appointment, Non-Executive Directors are required to disclose their other significant commitments. Before appointment, Non-Executive Directors undertake that they will have sufficient time to meet what is expected of them, recognising the need for availability in the event of crises. In addition, throughout their tenure with the Society, directors are required to inform the Board in advance of any other positions they wish to take up so the time commitment and any potential conflicts of interest can be considered.

Development

Upon appointment, new directors receive a formal and tailored induction and throughout their tenure all directors receive timely and appropriate training to enable them to properly fulfil their roles. The information and training requirements of all directors are reviewed annually.

Information and support

The Chair ensures that all directors receive accurate, timely and clear information.

The Society has in place appropriate insurance cover in respect of the directors.

Evaluation

Executive directors are evaluated using the performance management framework for all employees. The Chief Executive is appraised by the Chair. The performance of the Non-Executive Directors is reviewed annually by the Chair. The Senior Independent Director conducts interviews with each Director in order to appraise the performance of the Chair, the results of which are discussed with the Chair.

Each year the Board and each of its Committees undertake an assessment of the effectiveness of their performance during the year. The Corporate Governance Code prescribes that this review should be undertaken by an independent external party at least every three years and as a result the Board appointed consultant and board evaluator, Ian White, to undertake that review in 2022. As a pre-cursor to that review being undertaken, an assessment was undertaken to ensure that Ian does not have any other connection either with the Society or any of the individual directors. The results of that review confirmed that the Board and its Committees operated effectively. The effective operation of the Board and its Committee was supported by an inclusive working methodology amongst members of the Board which offered an appropriate balance between challenge and support and ultimately enabled it to act as an effective decision making body which considered the interest of principal stakeholders of the Society in making its decisions. The review also noted some areas where the Board and its Committees could enhance its effectiveness and these will be a focus for the Board throughout 2023 and beyond.

Re-election

In 2023, all Directors will submit themselves for election at the annual general meeting (the AGM) in accordance with the Code.

Non-Executive Directors can serve up to a maximum of three three-year terms, although the tenure of the Chair has, during this year, been extended for two years beyond that period to allow the Chair to provide his assistance in the roll out of the new strategy and then to allow the necessary time for a robust recruitment process to be undertaken. Any extension must be approved annually, subject to rigorous review, and be explained giving due consideration to the continuing independence and objectivity of the Non-Executive Director and these requirements will continue to be applied to the Chair until his tenure ends.

The Nominations Committee makes recommendations for the Board concerning the re-appointment of any Non-Executive Director at the conclusion of their specified term of office, having due regard to their performance and ability to continue to contribute to the Board in light of knowledge, skills and experience required.

Accountability and audit

Financial and business reporting

The Directors' report on pages 25 to 27 details the responsibilities of the directors in preparing the Group's accounts.

This includes ensuring suitable accounting policies are followed, that a true and fair view of the Group's financial position is given and that the Group's business is a going concern.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The Board has responsibility to present a fair, balanced and understandable assessment of the Group's performance and financial position, business model and strategy, consideration of which is contained within the Chief Executive's review on pages 6 and 7, the Strategic report on pages 8 to 17 and within the report and accounts taken as a whole.

Viability statement

In accordance with the requirements of the Code, the Board has assessed the prospects of the Society over a period longer than the 12 months required by the going concern provision. The viability statement is considered on page 27 within the Directors' report.

Risk management and internal control

The Board Risk Committee overseas the entire risk management framework of the Group. It advises the Board on determination of risk appetite and setting of risk limits. The Committee fulfils its obligations through two approaches. Firstly, it is responsible for monitoring risks to ensure they are in line with the Group's prudent policies and with its agreed Group risk appetite statement. In doing so, the Committee considers any emerging risks and ensures significant changes in exposures to existing risks are promptly identified and addressed by management.

This includes overseeing the identification and management of project risks across the Group.

The second approach involves the Committee focusing its attention on the risks within the Group's strategy and the management of these risks.

The Board has carried out a robust assessment of the principal risks facing the Group, including those that would threaten the business model, future performance, solvency and liquidity. These principal risks are detailed on pages 15 to 17 of the Strategic report and further information on risk management is given in the report commencing on page 28.

In accordance with the Code, the Board is committed to maintaining a sound system of internal controls to safeguard both its own assets and those of its members and there is an annual review of risk management and internal control systems.

1st Line:
Focus: Control
Day-to-day management and control of risk by the business. Results reported to management and Board Risk Committee

2nd Line:
Focus: Oversight
Maintenance of coherent risk frameworks with regular validation and challenge of first line controls. Results reported to management and Board Risk Committee

3rd Line:
Focus: Assurance
Independent assurance of effectiveness of risk control and risk oversight. Results reported to management and Board Audit Committee.

The operation of these three lines of defence is embodied in the terms of reference of the Society's risk committees. The Board Risk Committee has a range of policies and procedures that relate to the identification, assessment, monitoring and control of all the main areas of risk that the Group faces.

The information received and considered by the risk committees provided reasonable assurance that during 2022 there were no material breaches of control or regulatory standards and that the Society maintained an adequate system of internal control. Where weaknesses in controls are identified by the three lines of defence, the Board monitors the steps taken to remedy the issues and to ensure that the Society responds to changing external threats and economic circumstances and to the changing regulatory environment.

Remuneration

Policy and procedures

The level and make-up of director remuneration and the procedure for developing policy on executive remuneration, (including fixing the remuneration packages of individual directors), is considered by the Remuneration Committee.

The Remuneration Committee's work and the Society's compliance with the Code principles relating to remuneration is covered in the Directors' remuneration report on pages 39 to 43.

Membership

The Committee consists of four Non-Executive Directors and met on four occasions during the year.

The Remuneration Committee reviews employment terms for the Group's employees, reporting recommended changes to the Board.

Relations with members

Dialogue with members

The Society's members are all customers of the Society. Engagement with customers is undertaken in various ways including member events, social media, customer panels, regular literature and mainstream media.

The Society is keen to find out its members' views so that it can continually improve. It provides them with a number of ways and opportunities to give their feedback. It surveys a selection of its members on a regular basis through its customer satisfaction survey. The results of this feedback are shared in Board meetings. In more normal times, members of the Board visit branches and meet with members as part of their role. The Society also encourages its members to attend its AGM where they are able to ask questions and voice their opinions. During 2022, owing to a desire to protect the health and well-being of members, members were invited to attend the meeting virtually and invited to pre-submit questions.

Furthermore, each year, the Society produces a Members' Newsletter, including the summary financial statement, which provides an abridged version of information contained within the Annual Report and Accounts. The Members' Newsletter is provided to all members as part of its annual AGM documentation.

Constructive use of the AGM

Each year, notice of the AGM is given to all members who are eligible to vote. Members are sent voting forms and are encouraged to vote online, by post, at a local branch or by person or proxy at the AGM.

All postal and proxy votes are counted using independent scrutineers.

All members of the Board are present at the AGM each year (unless, exceptionally, their absence is unavoidable) and the Chair of the Audit, Nominations, Risk and Remuneration Committees are, therefore, available to answer questions.

During 2022, all Non-Executive Directors and one Executive Director attended the meeting in person. All pre-submitted questions were provided with an answer from the relevant Board member and members were invited to ask any questions outside of the meeting.

The Notice of the AGM and related papers are sent at least 21 days before the AGM in accordance with the Building Societies Act 1986.

On behalf of the Board,

Andrew Neden
Chair

2 March 2023

BOARD AUDIT COMMITTEE REPORT

Board Audit Committee

The principal role of the Board Audit Committee is providing support to the Board in its oversight of financial reporting and the financial control environment across the Society. The Committee's primary functions are:

- to monitor the integrity of the financial statements of the Society and any formal announcements relating to the Society's financial performance, reviewing any significant financial reporting judgements which they contain, including that of the Society's going concern status;
- to keep under review the Society's financial control systems and processes that manage and monitor financial risks. Review and approve the statements to be included in the Annual Report and Accounts concerning internal control, financial risk management and the viability statement;
- to review the Society's procedures for detecting fraud and its systems and controls for the prevention of bribery;
- to monitor and review the effectiveness of the internal audit function;
- approve and review progress of the annual Internal Audit Plan;
- prior to the members vote at the Annual General Meeting, to make recommendations to the Board for appointment, re-appointment and removal of the external auditor;
- to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK law, regulation and applicable ethical standards;
- to approve the remuneration and terms of engagement of the Society's external auditor;
- to develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; and
- to report to the Board on how the Committee has discharged its responsibilities.

Membership and attendance

The Board Audit Committee consists of four Non-Executive Directors. The members of the Committee are Peter O'Donnell, Kavita Patel, Kerry Spooner and Simon Baum (who joined the Committee in April 2022), who have a broad range of skills, experience and knowledge relevant to the building society and financial services sector. The Company Secretary acts as Secretary to the Committee.

Other individuals such as the Chief Executive, Chief Financial Officer, Chief Risk Officer, Head of Internal Audit and Director of Finance, may be invited to attend all or part of any meeting as and when appropriate. The external auditor was invited to attend all of the Committee's meetings held in 2022.

Private meetings are held at least once a year with the external auditor and with the Head of Internal Audit in the absence of management to enable issues to be raised directly if necessary. The Committee Chair meets with the Head of Internal Audit and the external auditor on a regular basis.

Following each Committee meeting, the minutes of the meeting are distributed to the Board and the Committee Chair provides an update to the Society's Board at the next Board meeting on key matters discussed by the Committee.

Meeting frequency and reporting

The Committee met five times in 2022 and during the year:

- reviewed the results and draft Annual Report and Accounts for the year ending 31 December 2021;
- challenged the key loan provision assumptions and judgements, underlying the analysis of expected credit losses proposed by management;
- reviewed the going concern and viability statement assumptions and all key issues and areas of judgement relating to the financial statement reporting;
- reviewed reports from the external auditor, including the management letter highlighting system and control recommendations, key accounting and audit issues and conclusions for the interim and full year financial statement reporting;
- reviewed the year end and interim financial statements and draft press releases, with consideration of the fair, balanced and understandable requirements of the UK Corporate Governance Code;
- approved the risk-based 2023 internal audit plan;
- received and reviewed reports from internal audit;
- reviewed and approved (working with Board Risk Committee) the statements to be included in the Annual Report and Accounts concerning internal control, financial risk management and the viability statement; and
- carried out a review of the Committee's own effectiveness and terms of reference.

Significant matters in relation to the financial statements

The Committee considers a wide range of matters in relation to the financial statements, which relate mainly to key judgements, accounting policies and estimates which management have to make during the preparation of the statements, particularly in respect of large or unusual transactions. During 2022, the significant matters considered by the Committee included:

- **Expected credit loss provisioning**
  The Society reviews the IFRS 9 model outputs to estimate the level of impairment provision required across the mortgage portfolio, which uses historical default and loss experience as well as applying judgement. The Committee reviewed and challenged the approach to calculating the provisions, including the impact of the worsening macroeconomic environment, inflation and affordability stresses.
- **Carrying value of intangible assets**
  The Society has an increased intangible asset balance as a result of its continued investment in new technology and digitalisation. The Committee reviewed the carrying value of intangible assets, representing capitalised software, implementation and internal development costs, along with the remaining lives of those assets, and approved changes to the duration of those lives.
- **Effective Interest Rate (EIR) methodology**
  The Society recognises interest income using a constant level of interest over the expected behavioural life of the loan. The Committee reviewed the basis of the EIR calculations.

- **Calculation of the defined benefit pension plan position**
  The Society has a defined benefit pension scheme which was closed to new entrants in 1997 and closed to future service accrual from 31 January 2009. The Committee reviewed the methodologies and assumptions used in calculating the latest estimate of the scheme's assets and liabilities. This review was supported by a report provided by the Society's pension advisors.
- **Fair value of derivative financial instruments**
  In light of the significant market volatility seen in the external markets in the year and resulting impact on derivative fair values, the Committee considered the income statement position.
- **Going concern assumption**
  The Committee evaluated whether the going concern basis of accounting was appropriate by considering forecast profitability liquidity position, funding availability and regulatory capital positions. The review also considered the external environment as a result of the impact of the worsening macroeconomic environment, inflation and affordability stresses.
- **Fair, balanced and understandable**
  The Committee reviewed the integrity of the financial statements and any formal announcements. The content of the Annual Report and Accounts was reviewed and the Committee advised the Board that, in its view, and taken as a whole, it is fair, balanced and understandable and provides the information necessary for members to assess the Society's performance, business model and strategy. The Committee therefore recommended that the Board approve the Annual Report and Accounts.
- **Viability statement**
  The Committee reviewed the requirements of the UK Corporate Governance Code to provide the medium-term viability statement in the Annual Report and Accounts and agreed the definition of the medium-term period.
- **Corporate Governance Code**
  The Committee reviewed the impacts on the financial statements of the Corporate Governance Code.
- **Changes to accounting standards and other relevant developments**
  The Committee is kept up to date with changes to Accounting Standards and relevant developments in financial reporting and applicable law. In addition, as appropriate members attend relevant seminars and conferences provided by external bodies.

Independence and effectiveness of external auditor

In 2014, the Society tendered its external audit relationship in line with best practice and Ernst & Young LLP were engaged during 2015 and have therefore been in post for eight years as at 31 December 2022.

In advance of the commencement of the annual audit, the Committee reviewed a report presented by the external auditor detailing the audit plan, planning materiality, areas of audit focus, terms of engagement and fees payable. Following the review of the interim financial statements and the audit of the annual financial statements, the Committee received a report detailing the work performed in areas of significant risk, and a summary of misstatements and internal control related issues identified. The Committee considered the matters set out in these reports as part of recommending the interim and annual financial statements for approval.

In order to monitor and assess any threats to the independence of the auditor, the Committee reviews a report on the level of spend with the auditor on audit and non-audit services. The Committee has a framework on the Society's use of the external auditor for non-audit work, to ensure their continued independence and objectivity. The external auditor undertook a six-monthly review of the Society's interim results, an audit related assurance service, conducted in accordance with this policy, and details of any fees paid for these services are outlined in note 6 to the accounts.

The Committee considered the performance of Ernst & Young LLP as external auditor for 2022, and is satisfied with their objectivity, independence and effectiveness and therefore recommended that they be re-appointed at the AGM for the current year.

Oversight and effectiveness of internal audit

The Committee receives regular reports from the Head of Internal Audit setting out the results of assurance activity, proposed changes to the approved audit plan and the level of resource available. Significant findings and themes identified were considered by the Committee, alongside management's response and the tracking and completion of outstanding actions. In addition to approving the annual plan and budget throughout the year, the Committee reviewed and approved amendments to the Internal Audit plan and resources. The effectiveness of the Internal Audit function was also subject to an external review during the year which identified a number of areas for minor improvement and the implementation of those findings is now being undertaken.

The Committee therefore regularly monitors whether internal audit has delivered its reports in accordance with the agreed plan and to the expected standard. The Head of Internal Audit also carries out an annual review of the effectiveness of the Society's system of internal control and reports on the outcome of this review to the Committee. The Head of Internal Audit reported an adequate level of assurance in relation to the Group's arrangements for risk management, control infrastructure, governance and fraud prevention controls. The Committee therefore regards the Internal Audit function to be effective.

Audit committee performance and effectiveness

As outlined in the Corporate governance report on page 33, the Board and each of the committees formally evaluate their own performance and effectiveness annually. The Committee discussed the results of the 2022 review in February 2023 and concluded that, overall, the Committee continued to be effective and was adequately discharging its responsibilities.

On behalf of the Board,

Peter O'Donnell
Chair of the Board Audit Committee

2 March 2023

DIRECTORS' REMUNERATION REPORT

For the year ended 31 December 2022

Statement by the Chair of the Remuneration Committee

On behalf of the Committee, I am pleased to present the annual directors' remuneration report, which sets out the remuneration policy and details of the directors' remuneration in the year ended 31 December 2022.

Nottingham Building Society is committed to best practice in its remuneration of directors. This report explains how The Nottingham applies the relevant principles and requirements of the remuneration regulations and Codes. The report has two sections:

- the Remuneration Policy, which sets out the Society's remuneration policy for directors; and
- the Annual Remuneration Report, which outlines how the policy was implemented in 2022.

In 2022, the Remuneration Committee membership was made up as follows:

Simon Linares	Non-Executive Director and Chair of the Remuneration Committee from 28th July 2022
Kerry Spooner	Non-Executive Director Chair of the Remuneration Committee to 28th July 2022 and Senior Independent Director
Andrew Neden	Non-Executive Director and Chair of the Board
Kavita Patel	Non-Executive Director and Chair of Conduct sub-Committee within Board Risk Committee

2022 performance and awards

The Chair's statement, Chief Executive's review and Strategic report on pages 4 to 17 describe 2022 as a period of strong performance during a period of turbulent economic conditions. The strong results have been aided by the rising interest rate environment which positively impacted the Society's net interest income. The Nottingham continues to be a top ten building society with total assets of £3.8 billion. During the year the Society has revitalised its purpose placing a greater focus on mortgages whilst continuing to provide a safe and secure home for our members to save with us. We have ensured that our regulatory capital requirements continue to be maintained at appropriate levels, whilst continuing to invest in the Society, and supporting both our savings and mortgage customers.

It is in this context that the payments to Executive Directors have been determined and are detailed in this report.

The Directors' variable pay is through the Annual Bonus Plan only. The Nottingham was pleased to be able to operate an Annual Bonus Plan in 2022. The deferred element of the 2017 Bonus Plan was not paid out in 2021 as originally due. The Remuneration Committee reviewed and approved these deferrals for payment during 2022 along with the 2018 bonus plan deferred amounts.

Remuneration Committee

The primary objective of the Remuneration Committee, under delegated authority from the Board, is to make recommendations to the Board on the general remuneration policy of The Nottingham and specifically on the remuneration of Executive Directors. The Committee also has oversight of the remuneration of both the Leadership team and Remuneration Code staff, ensuring that remuneration is in line with The Nottingham's business drivers, values and ambitions and adheres to the Remuneration Policy. In addition, the Committee is responsible for approving the variable pay and reward principles and compliance with the Remuneration Code and policy statement.

The Committee met four times in 2022 and is made up of a minimum of three Non-Executive Directors, as detailed opposite. The Chief Executive, Chief People Officer, Senior Legal Counsel & Company Secretary attend the meetings.

The Nottingham adheres to the requirements of the Remuneration Code applicable to a level 3 firm as defined by the Regulator. The Non-Executive Directors do not receive variable remuneration. Information on The Nottingham's other Remuneration Code Staff is set out in the Pillar 3 disclosures published on our website www.thenottingham.com, along with the Committee terms of reference.

The Remuneration Committee's activities in 2022 also included:

- agreeing a new annual bonus plan for 2022;
- reviewing regulatory updates and assessing the impact on The Nottingham;
- review of the Remuneration Policy for 2022 and recommending it to the Board for approval;
- reviewing and approving the Remuneration Policy Statement ensuring its compliance with the Remuneration Code;
- oversight of the activities undertaken by the Executive Committee in relation to reward;
- agreeing the terms for any appointments and leavers for executive level roles, other Material Risk Taker roles; and
- considering the annual pay review for all eligible employees.

Remuneration policy

The Nottingham's remuneration policy reflects its objectives for good governance, appropriate risk management and acting in the long-term best interests of members.

The policy is there to ensure that:

- remuneration should be sufficient to attract, reward, retain and motivate high quality leaders and employees to run The Nottingham successfully, delivering value for our members whilst avoiding paying more than is necessary for this purpose in line with our mutual ethos; and
- remuneration is structured to strike the right balance between fixed and variable pay. Variable pay schemes are designed to incentivise and reward appropriate behaviour and performance, aligned with The Nottingham's position on risk; rewards are only attributed to the delivery of success and achievement of objectives.

The Nottingham is classified as a level 3 firm and seeks to apply appropriate remuneration best practice for all Remuneration Code and other staff.

All pay is benchmarked using externally provided data and the approach to pay reviews is consistently applied to all colleagues across the Society, regardless of position.

DIRECTORS' REMUNERATION REPORT (CONTINUED)

Recruitment policy for Executive Directors

The Nottingham's approach to recruitment is to pay no more than is necessary to attract appropriate candidates to roles across the business, including Executive roles. Any new Executive Director's remuneration package will be consistent with our remuneration policy as outlined in this report. Any payments made to Executive Directors on joining The Nottingham to compensate them for forfeited remuneration from their previous employer will be compliant with the provisions of the Remuneration Code and will be approved by the Remuneration Committee.

Service contracts

All Executive Directors, in line with best practice, have service contracts outlining their duties and terms and conditions of employment.

Payment for loss of office of Executive Directors

Any compensation in the event of early termination is subject to Remuneration Committee recommendation and Board approval. Pension contributions cease on termination under the rules of the pension scheme.

Other directorships

None of the Executive Directors currently hold any paid external directorships. David Marlow remained a member of the FCA Small Business Practitioners Panel until April 2022 for which he received a fee of £10,000 per annum.

Executive Director's total remuneration

Executive Directors' emoluments comprise a basic salary, variable pay, pension entitlement and other taxable benefits as outlined on page 41.

The total remuneration received by Executive Directors is detailed on page 42. The information has been audited and shows remuneration for the years ending 31 December 2021 and 31 December 2022 as required under the Building Societies (Accounts and Related Provisions) Regulations 1998.

The remuneration of Executive Directors is considered annually by the Remuneration Committee attended by The Nottingham's Chief Executive, who (except in respect of their own remuneration) makes recommendations regarding executive pay and agreed recommendations are referred to the Board.

The Chief Executive is the Society's most highly paid employee and no employee earns more than any Executive Director.

The salary of Executive Directors increased by 4% in 2022. This is in line with the wider Society, with the basic salary increase for colleagues ranging from 4% to 4.5% depending on grade, with minimum salaries implemented.

Chief Executive Officer (CEO) pay ratio

The CEO pay ratio is presented as follows to promote transparency and encourage good governance. The Chief Executive is the highest paid person within the organisation, and this is compared with the 25th, 50th and 75th percentile employees in the organisation to calculate the CEO pay ratio. This uses a single total figure of remuneration which includes total salary, variable pay, pension and taxable benefits.

The Society has chosen to publish the CEO pay ratio using the recommended and Government preferred approach (Option A). Option A involves calculating the actual Full Time Equivalent remuneration for all relevant employees for the financial year in question.

These values are then listed in order from lowest to highest and the values at the three percentile points identified as disclosed below.

Year	25th percentile	Median	75th percentile
2022	20:1	15:1	9:1
2021	23:1	17:1	10:1

Year	25th percentile	Median	75th percentile
2022			
Total remuneration	£22,357	£30,186	£48,504
Salary	£19,174	£25,937	£42,272
2021			
Total remuneration	£19,545	£25,409	£43,517
Salary	£17,635	£22,378	£37,757

Employee data includes full time equivalent total remuneration for Society employees as at 31 December 2022.

Non-Executive Directors

The Chair and other Non-Executive Directors each receive an annual fee reflective of the time commitment and responsibilities of the role. Fees for Non-Executive Directors are set by reference to benchmark information from a building society comparator group, agreed with the Board and take into consideration the principles underpinning the annual Society salary review.

The Non-Executive Directors' fees are reviewed by the Chair together with the Executive Directors before recommendations are referred to the Board. Remuneration of the Chair is considered by the Remuneration Committee, together with the Society's Chief Executive, without the Chair being present.

Non-Executive Directors do not receive variable pay or pensions in order to encourage their independence.

Non-Executive Directors are reimbursed for reasonable expenses incurred during the course of their work on the Society's business.

Remuneration Code staff (Material Risk Takers)

The remuneration of all Remuneration Code staff is overseen directly by the Remuneration Committee. Fixed and variable pay decisions (including appointment packages) for Code Staff (excluding the Head of Internal Audit where the decision is made by the Chair of the Board Audit Committee and approved by the Remuneration Committee), are proposed by the Executive and all decisions are recommended to the Remuneration Committee for approval.

The Society's Remuneration Code staff are informed of their status through written communication. This communication includes the implications of their status including the potential for remuneration that does not comply with certain requirements of the Remuneration Code to be rendered void and recoverable by the Society.

Executive Directors

The table below provides a summary of the different components of remuneration for Executive Directors:

Component	Purpose	Operation	Performance measures	Opportunity
Basic salary	Fixed remuneration set to attract and retain executives of appropriate calibre and experience. Basic salary is assessed by reference to roles carrying similar responsibilities in comparable organisations. A comparator group is used that consists of executive director positions within banks and building societies of a similar size and complexity.	Reviewed annually and linked to personal performance and market sector benchmarking, including Willis Towers Watson benchmark data.	Increases based on: • Overall employee pay increases in the Group; • Benchmarking comparisons; • Personal performance; and • Role and experience.	The base salaries of Executive Directors are reviewed as for any other employee in accordance with the reward matrix, except in circumstances where: • Market peer benchmarking indicates that remuneration is moving out of line of the appropriate peer group; and/or • There has been a material increase in scope or responsibility to the Executive Director's role.
Variable pay Annual Bonus Plan	Linked to the delivery of the Society and personal objectives. Used to reward Executive Directors within the context of achieving the Society's goals and objectives. Payments under the variable pay schemes are not pensionable.	The bonus will only be awarded if the threshold criteria and Society and individual performance targets are met and a payment is triggered in the Annual Bonus Plan. 50% (60% for 2018 financial year and earlier) of the bonus is deferred for three years and payment is subject to meeting Society and individual performance threshold criteria in each of the years from award to payment. The Committee has the discretion to reduce or withhold the deferred element if it becomes apparent that the basis on which the variable pay award was made was wrong or that financial performance has deteriorated materially since the award. The deferred payment, prior to the 2022 performance period, is subject to clawback for a period of three years after payment. For performance periods from 2022 onwards, the deferred payment is subject to clawback for a period of 7 years after payment.	The scheme is based upon three elements: • **Financial Adequacy** - Achievement of a minimum level of adjusted Profit Before Tax before any bonus is payable. • **The Annual Bonus Plan** measures Society performance against four strategic pillars: - Growing & rewarding membership; - Responsible Society; - Strategic Reinvention; - Safe & Secure. • **Individual performance** including achievement of strategic objectives. Personal performance objectives, appropriate to the responsibilities of the Executive Director, including the achievement of appropriate strategic progress are set at the start of each year. Objectives are set within board risk appetite and regulatory requirements.	The maximum award possible is 50% of basic salary, payable with 50% of the award deferred over a three year period.
Pension or pension allowance	A part of fixed remuneration to attract and retain executives of appropriate calibre and experience.	Executive Directors are invited to join the Society's defined contribution pension plan, or, as an alternative, be provided with an equivalent cash allowance.	Not applicable.	Pension contributions for new Executive Directors appointed post 1 January 2020 will be aligned with the contribution matrix for all employees.
Benefits	A part of fixed remuneration to attract and retain executives of appropriate calibre and experience.	The benefits received by Executive Directors are private medical insurance and a car allowance.	Not applicable.	Set at a level considered appropriate for each Executive Director by the Committee in line with market practice.

DIRECTORS' REMUNERATION REPORT (CONTINUED)

Annual report on remuneration

Executive Director remuneration

Audited Society	2022 David Marlow £000	2022 Sue Hayes £000	2022 Paul Astruc £000	2022 Total £000	2021 David Marlow £000	2021 Sue Hayes £000	2021 Paul Astruc £000	2021 Total £000
Fixed remuneration								
Salary[1]	55	300	137	**492**	327	-	-	**327**
Benefits	2	9	5	**16**	10	-	-	**10**
Variable remuneration								
Annual bonus[2]	127	49	20	**196**	54	-	-	**54**
	184	358	162	**704**	391	-	-	**391**
Pension contribution	8	22	10	**40**	49	-	-	**49**
	192	**380**	**172**	**744**	**440**	**-**	**-**	**440**

The Directors are able to sacrifice elements of their salary and variable pay. All figures disclosed in the table above are presented pre-sacrifice.

[1] David Marlow ceased to be an Executive Director on 9th March 2022, Sue Hayes became an Executive Director with effect from 1st March 2022 and Paul Astruc became an Executive Director with effect from 21st June 2022 (earnings included above are for the period as an Executive Director, not for the whole year).

[2] The annual bonus figure reflects the amounts awarded in the year, which are not subject to deferral, and any deferred amount from previous financial years, paid in year. The remaining element, which is subject to deferral and the achievement of threshold criteria, will be disclosed in the year of payment. The bonus amounts included are for the period as an Executive Director, not the whole year.

The unpaid deferred elements of the annual bonus scheme are as follows:

Executive Directors	Performance Year	Due 2023 2019 £000	Due 2025[1] 2021 £000	Due 2026[1] 2022 £000	Total Deferred £000
Sue Hayes		-	-	49	49
Paul Astruc		-	-	20	20
David Marlow		37	54	7	98
		37	**54**	**76**	**167**

[1]Deferred bonus included is for the period as an Executive Director, not for the whole year.

Daniel Mundy (who ceased to be an Executive Director on 31 December 2020), has a deferred payment outstanding of £30,000 for 2019 due in 2023. This is subject to the achievement of the threshold criteria and Remuneration Committee approval.

DIRECTORS' REMUNERATION REPORT (CONTINUED)

Annual report on remuneration (continued)

Non-Executive Director remuneration

Audited Society		2022 £000	2021 £000
Simon Baum		64	60
Michael Brierley	(Resigned 25th April 2022)	21	60
Simon Linares		58	45
Andrew Neden (Chair)		98	90
Peter O'Donnell		59	45
Kavita Patel		53	45
Kerry Spooner		70	55
TOTAL EMOLUMENTS FOR SERVICES AS DIRECTORS		**423**	**400**

On behalf of the Board,

Simon Linares
Chair of the Remuneration Committee

2 March 2023

INDEPENDENT AUDITOR'S REPORT

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

Opinion

In our opinion:

- the Group financial statements and the Society's financial statements (the 'financial statements') give a true and fair view of the state of the Group's and the Society's affairs as at 31 December 2022 and of the Group's and the Society's income and expenditure for the year then ended;
- the financial statements have been properly prepared in accordance with UK adopted international accounting standards; and
- the financial statements have been prepared in accordance with the requirements of the Building Societies Act 1986.

We have audited the financial statements of Nottingham Building Society (the 'Society') and its subsidiaries (the 'Group') for the year ended 31 December 2022 which comprise:

Group	Society
Income statements for the year ended 31 December 2022	Income statements for the year ended 31 December 2022
Statements of comprehensive income for the year ended 31 December 2022	Statements of comprehensive income for the year ended 31 December 2022
Statements of financial position as at 31 December 2022	Statements of financial position as at 31 December 2022
Statements of changes in members' interests for the year ended 31 December 2022	Statements of changes in members' interests for the year ended 31 December 2022
Cash flow statements for the year ended 31 December 2022	Cash flow statements for the year ended 31 December 2022
Related notes 1 to 36 to the financial statements, including a summary of significant accounting policies, except for tables in note 31 labelled as "unaudited"	
Directors' remuneration report tables as identified as "audited"	

The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards.

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 financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group and the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group and Society's ability to continue to adopt the going concern basis of accounting included:

- We obtained the directors' going concern assessment, which is for a period of 12 months from approval of the financial statements.
- We compared the historical budgeted financial information with historical actual results, in order to form a view on the reliability of the forecasting process.
- We assessed the reasonableness of the Group and Society's funding plans and considered the associated risks with the maturity of significant debt obligations, and the Group and Society's planned funding schedule to offset maturities and fund operational activity.
- We considered the analysis of key relevant going concern assumptions, including those relating to financial performance, regulatory capital and liquidity, and performed independent reverse stress testing and sensitivity analysis, including considering the impact of current macroeconomic uncertainty.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

- We considered whether there were other events subsequent to the balance sheet date which could have a bearing on the going concern conclusion.
- We reviewed regulatory correspondence, committee and board meeting minutes, and met with the Prudential Regulation Authority, in order to identify events or conditions that may impact the Group and Society's ability to continue as a going concern.
- We reviewed the going concern disclosures included in the annual report in order to assess that the disclosures were appropriate and in conformity with the reporting standards.

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 and Society's ability to continue as a going concern for a period to 31 March 2024 – twelve months from the date of the approval of the Annual Report and accounts.

In relation to the Group and Society's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

Overview of our audit approach

Audit scope	• We performed an audit of the complete financial information of two components of the Group. • The components where we performed audit procedures accounted for 100% of Profit before tax, 100% of Total net income and 100% of Total assets.
Key audit matters	• Expected credit loss provisions. • Risk of fraud in relation to revenue recognition of mortgage related income.
Materiality	• Overall Group materiality of £0.9m which represents 0.4% of total members' interests.

An overview of the scope of the Society and the Group audits

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group-wide controls, changes in the business environment, the potential impact of climate change, and other factors such as recent internal audit results when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the two reporting components of the Group (2021: six reporting components), we selected both of these components which are both entities within the United Kingdom. We performed an audit of the complete financial information of these two components ("full scope components") which were selected based on their size or risk characteristics.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Changes from the prior year

Following changes in the group structure during the year to 31 December 2022 the number of reporting components has reduced to two from six in the year to 31 December 2021. Both of the components selected as full scope in the prior year relate to the remaining two components in the current year.

Involvement with component teams

All audit work performed for the purposes of the audit was undertaken by a single Group audit team based in the United Kingdom.

Climate change

Stakeholders are increasingly interested in how climate change will impact the Group and Society. The Group and Society have determined that the most significant future impacts from climate change on their operations will be from Credit risk, Operational risks and Legal, Regulatory & Conduct risks. These are explained on pages 19 to 22 in the Sustainability report, in the required Task Force for Climate related Financial Disclosures, including their commitments to achieve net zero emissions by 2050. All of these disclosures form part of the "Other information," rather than the audited financial statements. Our procedures on these unaudited disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated, in line with our responsibilities on "Other information".

In planning and performing our audit we assessed the potential impacts of climate change on the Group's and Society's business and any consequential material impact on its financial statements.

The Group and Society have explained in the note 1, Accounting policies (page 57), how they have reflected the impact of climate change in their financial statements, including how this aligns with their climate change commitments. These disclosures explain where governmental and societal responses to climate change risks are still developing, and where the degree of certainty of these changes means that they cannot be taken into account when determining asset and liability valuations under the requirements of UK adopted international accounting standards.

Our audit effort in considering the impact of climate change on the financial statements was focused on evaluating Management's assessment of the impact of climate risk, physical and transition, their climate commitments, the effects of climate risks disclosed in note 1 and whether these have been appropriately reflected in asset values, where these are impacted by future cash flow forecasts, following the requirements of UK adopted international accounting standards. As part of this evaluation, we performed our own risk assessment, supported by our climate change internal specialists, to determine the risks of material misstatement in the financial statements from climate change which needed to be considered in our audit. We also challenged the Directors' considerations of climate change risks in their assessment of going concern and associated disclosures. Where considerations of climate change were relevant to our assessment of going concern and viability, these are described above.

Based on our work we have not identified the impact of climate change on the financial statements to be a key audit matter or to impact a key audit matter.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included 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 financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Expected credit loss provisions Group and Society – 31 December 2022: £5.3m (2021: £3.1m)		
Refer to the Audit Committee Report (page 37-38); Accounting policies (page 59); and Note 15 of the Consolidated Financial Statements (page 71) Valuation and completeness of expected credit loss (ECL) provisions is an area of estimation that requires Management judgement. The current inflationary pressures and resulting cost of living crisis in the United Kingdom has a significant impact on the level of uncertainty in the valuation of expected credit loss provisions, particularly in relation to the application of macro-economic scenarios and the estimation of the probability of default of customers in the future. Key judgements and estimates include: • Accounting interpretations and modelling assumptions used to build the credit models and calculate the ECL. • The appropriateness of staging criteria selected to determine whether a significant increase in credit risk ("SICR") has occurred. • The application of multiple macro-economic scenarios including the appropriateness of the probability weightings assigned to the various scenarios. • The completeness and valuation of post model adjustments. • Accuracy and adequacy of the financial statement disclosures.	We understood and evaluated the design effectiveness of key controls over the ECL process and adopted a substantive approach. We tested the assumptions, inputs and calculations used in the ECL models with the involvement of our credit risk modelling specialists. This included assessing the appropriateness of the model design, model implementation and model performance along with model assumption testing and sensitivity analysis. We considered the key data points in the ECL models and performed appropriate testing procedures to establish their completeness and accuracy. We independently assessed the valuation of collateral for a sample of commercial properties with support from EY real estate valuation specialists. With the support of EY economic specialists, we assessed the base case and alternative macro-economic scenarios, including challenging the probability weightings and comparing to other scenarios from external sources. We assessed whether the forecasted macro-economic variables for unemployment, interest rates and property price indices were appropriate. We critically assessed the methodology for determining the SICR criteria. We independently tested staging allocation with the support of EY credit risk modelling specialists. We assessed the completeness of post-model adjustments using our knowledge and experience across the UK lending sector and with the involvement of our credit risk modelling specialists we independently recalculated the additional ECL provision adjustment that management had applied. On completion of our procedures we performed a stand back analysis to assess the overall adequacy of the ECL provisions. This included an analytical review, assessing whether any contradictory evidence had been obtained from other parts of the audit and considering the Group and Society's provision coverage ratios in comparison to other similar lenders using available benchmarking data. We corroborated the adequacy and appropriateness of the disclosures made within the financial statements for compliance with both IFRS 9 and IFRS 7.	We communicated that we were satisfied that expected credit loss provisions were reasonable and in compliance with the requirements of IFRS 9. We considered that the model's construction and implementation, the significant assumptions within the models and data inputs were materially appropriate. The basis and calculation of the post model adjustment was considered to be materially appropriate. We considered the multiple economic scenarios incorporated in the IFRS 9 models to be materially appropriate. We concluded that disclosures relating to loan impairments were in compliance with the requirements of IFRS.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Risk of fraud in relation to revenue recognition of mortgage related income Group and Society – 31 December 2022, income included within Interest receivable and similar income: £98.8m (2021: £64.4m), and Fees and commissions receivable: £3.1m (2021: £3.0m)		
Refer to the Audit Committee Report (page 37-38); Accounting policies (page 58); and Note 3 of the Consolidated Financial Statements (page 65) The majority of mortgage and fee income recorded within interest income and fees and commissions receivable on the income statement is low value and with a calculation based on contractual terms. Mortgage income and fees are a significant balance and the recognition of income on financial instruments using the effective interest rate involves accounting assumptions and complexity. As a result, the recording of interest income and fees on mortgage products represents a significant risk of fraud in revenue recognition.	We understood and evaluated the design effectiveness of key controls over the mortgage income process and adopted a substantive approach. We critically assessed the accounting policies in relation to revenue recognition under IFRS 9 and IFRS 15, including effective interest rate accounting. We independently recalculated mortgage interest recorded for the year and recalculated the element of fees to be deferred under effective interest rate accounting. We agreed, on a sample basis, the initial mortgage fees charged to supporting evidence.	We communicated that we were satisfied that the selection and application of accounting policies, including the application of effective interest rate accounting, was appropriate under IFRS 9 and IFRS 15. We communicated that our independent recalculation of mortgage interest and deferred mortgage fees did not identify any material differences.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £0.9 million (2021: £0.8 million), which is 0.4% of total members' interests (2021: 4% of total members' interest).

We consider total members' interests provides us with an appropriate measure of materiality given this is a key focus area for the Society's members and regulators and is more relevant to users in an uncertain economic environment where profitability and the temporary impact of matters impacting financial reporting is less predictable.

We determined materiality for the Society to be the same as the Group materiality.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2021: 75%) of our planning materiality, namely £0.68m (2021: £0.60m). We have set performance materiality at this percentage after considering our experience in the prior year, our assessment of an effective control environment and including our perspectives from the current year audit. As a result, we determined that the higher of our permissible thresholds for our performance materiality was appropriate.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. All components were allocated Group performance materiality of £0.68m.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.05m (2021: £0.04m), which is set at 5% of materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the Annual Report and Accounts set out on pages 3 to 43 and 114 to 119, including Key highlights, Chair's statement, Chief Executive's review, Strategic report, Corporate responsibility report, Sustainability report, Your Board of directors, Directors' report, Risk management report, Corporate governance report, Board Audit Committee report and Directors' remuneration report and Glossary, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of 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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Opinion on other matters prescribed by the Building Societies Act 1986

In our opinion:

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

Matters on which we are required to report by exception

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

- Proper accounting records have not been kept by the Society; or
- The Group or Society's financial statements 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.

Corporate Governance Statement

We have reviewed the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group and Society's voluntary compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement are materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 27;
- Directors' explanation as to its assessment of the Society's prospects, the period this assessment covers and why the period is appropriate set out on page 27;
- Directors' statement on fair, balanced and understandable set out on page 27;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 26;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 26; and
- The section describing the work of the audit committee set out on page 37.

Directors' remuneration report

The Society voluntarily prepares a Report of the directors on remuneration in accordance with the provisions of the Companies Act 2006. The directors have requested that we audit the part of the Report of the directors on remuneration specified by the Companies Act 2006 to be audited as if the Society were a quoted company.

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 26, the directors are responsible for the preparation of the financial statements 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group 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 the Society or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements 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 financial statements.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined below, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Society and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are the regulations, licence conditions and supervisory requirements of the Prudential Regulation Authority (PRA), the Financial Conduct Authority (FCA) and the Building Societies Act 1986.
- We understood how the Group and the Society are complying with those frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance matters. We also reviewed correspondence between the Group and UK regulatory bodies; reviewed minutes of the Board and Board Risk Committee; and gained an understanding of the Group's approach to governance, demonstrated by the Board's approval of the Group's governance framework and the Board's review of the Group's Operational Risk Framework and internal control processes.
- We assessed the susceptibility of the Group and Society's financial statements to material misstatement, including how fraud might occur by considering the controls that the Group and Society have established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiries of legal counsel, executive management, internal audit, and focused testing as referred to in the Key Audit Matters section above.
- The Group and the Society operate in the financial services sector which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

Following the recommendation from the Audit Committee, we were appointed by the Society on 24 March 2015 to audit the financial statements for the year ending 31 December 2015 and subsequent financial periods.

The period of total uninterrupted engagement, including previous renewals and reappointments is 8 years, covering the years ending 2015 to 2022.

The audit opinion is consistent with the additional report to the Audit Committee.

Use of our 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.

Stephen Littler (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Manchester
2 March 2023

INCOME STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
CONTINUING OPERATIONS					
Interest receivable and similar income					
Calculated using the effective interest rate method	3	97.7	65.4	99.3	67.2
Other	3	1.1	(1.0)	(0.1)	(0.7)
Interest receivable and similar income		98.8	64.4	99.2	66.5
Interest payable and similar charges	4	(36.0)	(18.5)	(36.3)	(20.6)
NET INTEREST INCOME		**62.8**	**45.9**	**62.9**	**45.9**
Fees and commissions receivable		3.1	3.0	3.1	3.0
Fees and commissions payable		(1.5)	(0.9)	(1.5)	(0.9)
Other income		-	-	-	-
Net gains from derivative financial instruments	5	10.2	7.9	5.7	5.4
TOTAL NET INCOME		**74.6**	**55.9**	**70.2**	**53.4**
Administrative expenses	6	(42.8)	(36.5)	(42.7)	(36.5)
Depreciation and amortisation	17,18 ,19	(10.7)	(6.8)	(10.7)	(6.8)
Operating profit before impairment and fair value movement		21.1	12.6	16.8	10.1
Impairment (charge)/release – loans and advances	15	(2.2)	1.4	(2.2)	1.4
Fair value movement of intercompany balances	16	-	-	-	1.1
Profit on disposal of subsidiary undertaking		-	0.5	-	0.7
Profit on disposal of property, plant and equipment	17	-	0.4	-	0.4
PROFIT BEFORE TAX		**18.9**	**14.9**	**14.6**	**13.7**
Tax charge	8	(3.1)	(2.5)	(3.1)	(2.5)
PROFIT AFTER TAX FOR THE FINANCIAL YEAR FROM CONTINUING OPERATIONS		**15.8**	**12.4**	**11.5**	**11.2**
DISCONTINUED OPERATIONS					
Profit after tax for the financial year from discontinued operations		**-**	**0.2**	**-**	**-**
PROFIT AFTER TAX FOR THE FINANCIAL YEAR		**15.8**	**12.6**	**11.5**	**11.2**

A reconciliation from profit before tax for the financial year to underlying profit used by management can be found on page 10.

The 2022 income statement only includes income and expenditure from continuing operations. The 2021 Group income statement has been presented on a continuing and discontinued operations basis following the sale of a subsidiary undertaking in 2021.

The notes on pages 57 to 113 form part of these accounts.

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Profit for the financial year		15.8	12.6	11.5	11.2
Items that will not be re-classified to the income statement					
Remeasurements of defined benefit obligation	28	0.1	-	0.1	-
Tax on items that will not be re-classified	8	(0.1)	0.3	(0.1)	0.3
Items that may subsequently be re-classified to the income statement					
FVOCI reserve					
Valuation losses taken to reserves	12	(4.1)	(0.3)	(4.1)	(0.3)
Tax on items that may subsequently be re-classified	8	0.8	0.2	0.8	0.2
Other comprehensive (expense)/income for the period net of income tax		**(3.3)**	**0.2**	**(3.3)**	**0.2**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**12.5**	**12.8**	**8.2**	**11.4**

Both the profit for the financial year and total comprehensive income/(expense) for the period are attributable to the members of the Society.

The notes on pages 57 to 113 form part of these accounts.

ACCOUNTS

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022

	Notes	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
ASSETS					
Cash in hand and balances with the Bank of England	9	290.1	286.1	290.1	286.1
Loans and advances to credit institutions	10	16.0	16.1	8.4	8.1
Debt securities	12	413.2	260.3	413.2	260.3
Derivative financial instruments	13	142.6	26.1	136.1	24.0
Loans and advances to customers	14	2,922.8	3,010.9	2,922.8	3,010.9
Amounts due from subsidiary undertakings	16	-	-	26.6	26.6
Other assets		4.4	3.9	4.4	3.9
Current tax asset		0.7	-	0.7	-
Property, plant and equipment	17	8.3	10.0	8.3	10.0
Right of use assets	18	1.1	2.9	1.1	2.9
Intangible assets	19	11.1	16.8	11.1	16.8
Deferred tax assets	20	2.2	1.7	2.2	1.7
TOTAL ASSETS		**3,812.5**	**3,634.8**	**3,825.0**	**3,651.3**
LIABILITIES					
Shares	21	3,009.7	2,874.6	3,009.7	2,874.6
Amounts owed to credit institutions	22	419.0	346.1	419.0	346.1
Amounts owed to other customers	23	8.4	22.9	8.4	22.9
Amounts owed to subsidiary undertakings	24	-	-	109.4	145.2
Debt securities in issue	25	91.0	127.1	-	-
Derivative financial instruments	13	14.4	6.5	14.4	6.5
Other liabilities and accruals	26	9.3	6.3	9.3	6.3
Lease liabilities	18	2.2	3.2	2.2	3.2
Current tax liabilities		-	0.6	-	0.6
Retirement benefit obligations	28	2.9	4.4	2.9	4.4
Subscribed capital	29	24.0	24.0	24.0	24.0
TOTAL LIABILITIES		**3,580.9**	**3,415.7**	**3,599.3**	**3,433.8**
RESERVES					
General reserves		235.0	219.2	229.1	217.6
Fair value reserves	30	(3.4)	(0.1)	(3.4)	(0.1)
Total reserves attributable to members of the Society		**231.6**	**219.1**	**225.7**	**217.5**
TOTAL RESERVES AND LIABILITIES		**3,812.5**	**3,634.8**	**3,825.0**	**3,651.3**

The notes on pages 57 to 113 form part of these accounts.

These accounts were approved by the Board of directors on 2 March 2023 and signed on its behalf:

Andrew Neden
Chair

Sue Hayes
Chief Executive

Paul Astruc
Chief Financial Officer

STATEMENTS OF CHANGES IN MEMBERS' INTERESTS
FOR THE YEAR ENDED 31 DECEMBER 2022

	General reserves £m	FVOCI reserve £m	Total £m
GROUP 2022			
Balance as at 1 January 2022	219.2	(0.1)	219.1
Profit for the year	15.8	-	15.8
Other comprehensive expense for the period (net of tax)			
Net losses from changes in fair value	-	(3.3)	(3.3)
Total other comprehensive expense	-	(3.3)	(3.3)
Total comprehensive income/(expense) for the period	15.8	(3.3)	12.5
BALANCE AS AT 31 DECEMBER 2022	**235.0**	**(3.4)**	**231.6**
GROUP 2021			
Balance as at 1 January 2021	206.3	-	206.3
Profit for the year	12.6	-	12.6
Other comprehensive income/(expense) for the period (net of tax)			
Net gains/(losses) from changes in fair value	0.3	(0.1)	0.2
Total other comprehensive income/(expense)	0.3	(0.1)	0.2
Total comprehensive income/(expense) for the period	12.9	(0.1)	12.8
BALANCE AS AT 31 DECEMBER 2021	**219.2**	**(0.1)**	**219.1**

	General reserves £m	FVOCI reserve £m	Total £m
SOCIETY 2022			
Balance as at 1 January 2022	217.6	(0.1)	217.5
Profit for the year	11.5	-	11.5
Other comprehensive expense for the period (net of tax)			
Net losses from changes in fair value	-	(3.3)	(3.3)
Total other comprehensive expense	-	(3.3)	(3.3)
Total comprehensive income/(expense) for the period	11.5	(3.3)	8.2
BALANCE AS AT 31 DECEMBER 2022	**229.1**	**(3.4)**	**225.7**
SOCIETY 2021			
Balance as at 1 January 2021	206.1	-	206.1
Profit for the year	11.2	-	11.2
Other comprehensive income/(expense) for the period (net of tax)			
Net gains/(losses) from changes in fair value	0.3	(0.1)	0.2
Total other comprehensive expense	0.3	(0.1)	0.2
Total comprehensive income/(expense) for the period	11.5	(0.1)	11.4
BALANCE AS AT 31 DECEMBER 2021	**217.6**	**(0.1)**	**217.5**

The notes on pages 57 to 113 form part of these accounts.

CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before tax from continuing operations		18.9	14.9	14.6	13.7
Profit from discontinued operations		-	0.2	-	-
Depreciation and amortisation		10.7	6.8	10.7	6.8
Profit on disposal of property, plant and equipment		-	(0.4)	-	(0.4)
Profit on disposal of subsidiary undertaking		-	(0.5)	-	(0.7)
Interest on subscribed capital		2.0	2.0	2.0	2.0
Interest on lease payments		0.1	0.1	0.1	0.1
Net gains on disposal and amortisation of debt securities		0.4	0.3	0.4	0.3
Increase/(decrease) in impairment on loans and advances		2.2	(1.4)	2.2	(1.4)
		34.3	**22.0**	**30.0**	**20.4**
CHANGES IN OPERATING ASSETS AND LIABILITIES					
Increase in prepayments, accrued income and other assets		(117.2)	(23.0)	(148.6)	(82.0)
Increase/(decrease) in accruals, deferred income and other liabilities		10.9	(25.9)	10.9	(24.8)
Decrease in loans and advances to customers		85.9	118.5	85.9	118.5
Increase in shares	21	135.1	80.4	135.1	80.4
Increase/(decrease) in amounts owed to other credit institutions and other customers	22,23	58.4	(122.5)	58.4	(122.5)
Decrease in loans and advances to credit institutions		1.3	42.4	1.3	42.4
Decrease in debt securities in issue	25	(36.1)	(66.6)	-	(2.5)
Decrease in retirement benefit obligation	28	(1.4)	(1.5)	(1.4)	(1.5)
Taxation (paid)/received		(4.1)	1.4	(4.1)	1.4
NET CASH GENERATED FROM OPERATING ACTIVITIES		**167.1**	**25.2**	**167.5**	**29.8**
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of debt securities		(286.5)	(168.5)	(286.5)	(168.5)
Disposal of debt securities		129.1	60.4	129.1	60.4
Purchase of property, plant and equipment		(0.3)	(1.4)	(0.3)	(1.4)
Disposal of property, plant and equipment		-	0.6	-	0.6
Consideration on disposal of subsidiary undertaking or trade and assets		-	0.3	-	0.7
Purchase of intangible assets		(1.5)	(8.6)	(1.5)	(8.6)
NET CASH USED IN INVESTING ACTIVITIES		**(159.2)**	**(117.2)**	**(159.2)**	**(116.8)**
CASH FLOWS FROM FINANCING ACTIVITIES					
Interest paid on subscribed capital	34	(1.9)	(1.9)	(1.9)	(1.9)
Principal element of lease payments		(0.8)	(0.9)	(0.8)	(0.9)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**5.2**	**(94.8)**	**5.6**	**(89.8)**
Cash and cash equivalents at 1 January		287.2	382.0	279.2	369.0
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	11	**292.4**	**287.2**	**284.8**	**279.2**

The notes on pages 57 to 113 form part of these accounts.

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

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

Basis of preparation

Both the Society and Group annual accounts are prepared and approved by the directors in accordance with UK adopted international accounting standards (IAS) and those parts of the Building Societies Act 1986 and Building Societies (Accounts and Related Provisions) Regulations 1998 applicable to societies reporting under UK adopted IAS. The annual accounts are prepared under the historical cost convention as modified by the fair value of FVOCI assets and derivatives.

The financial statements are prepared in pounds sterling, which is the functional currency of the Group, and have been rounded to the nearest one hundred thousand pounds.

Governmental and societal responses to climate change risks are still developing, and are interdependent upon each other, and consequently financial statements cannot capture all possible future outcomes as these are not yet known nor capable of reasonable estimation. The degree of uncertainty of these changes may also mean that they cannot be conclusively taken into account when determining asset and liability valuations and the timing of future cash flows under the requirements of applicable accounting standards. At 31 December 2022, the Group considers its present financial exposure to climate-related risk to the best of its knowledge to be low, including with respect of the climate change commitments made in the Sustainability Report on pages 19 to 22. As such, no material adjustments have been made to the valuation of assets and liabilities in these financial statements.

The Directors have considered the risks and uncertainties discussed on pages 15 to 17 and 28 to 32, and the extent to which they might affect the preparation of the Annual Report & Accounts on a going concern basis. Key to this consideration were the risks associated to regulatory capital, liquidity and financial performance, and the impact on these risks arising from the continuing uncertainties created by the higher interest rate and high inflationary environment. As with many other financial institutions, the Group meets its day-to-day liquidity requirements through prudent management of its retail and wholesale funding sources. It ensures that it maintains sufficient liquidity to meet both normal business demands and those that may arise in stressed circumstances. The Group has a surplus to regulatory capital requirements and is forecasting this to remain across the going concern assessment period. Furthermore the Group's forecasts and plans, taking account of current and possible future operating conditions, including stress tests and scenario analysis, which have considered income, expenses and overall quality of the mortgage portfolio, indicate that the Group has sufficient operating liquidity and capital for the foreseeable future, and specifically for the going concern assessment period to 31 March 2024 – twelve months from the date of the approval of the Annual Report and Accounts. As such, the Directors are satisfied that the Group has adequate resources to continue in business and to use the going concern basis in preparing the accounts.

The accounting policies for the Group also include those for the Society unless otherwise stated.

The preparation of accounts in conformity with UK adopted IAS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates.

Changes in accounting policy and future accounting developments

There have been no changes to accounting standards in the period that have an impact on the Group's accounting policies.

A number of amendments and improvements to accounting standards have been issued by the International Accounting Standards Board (IASB) with an effective date of 1 January 2023 and beyond. They are not expected to have a material impact on the financial statements of the Group.

Basis of consolidation

Subsidiary companies are defined as those in which the Society has the power over relevant activities, has exposure to the rights of variable returns and has the influence to affect those returns.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and de-consolidated from the date that control ceases. The Group accounts consolidate the assets, liabilities and results of the Society and all of its subsidiaries, eliminating intercompany balances and transactions. All entities have accounting periods ending on 31 December. The results of subsidiary undertakings acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date that ownership ceases.

Special purpose funding vehicles

The Society has transferred the beneficial interest in certain loans and advances to customers to special purpose funding vehicles (SPV). These SPVs enable a subsequent raising of debt to investors who gain the security of the underlying assets as collateral. The SPVs are fully consolidated into the Group accounts in accordance with IFRS 10 as the Society is deemed to have control over the SPV because it has power and exposure to variable returns. The transfer of the beneficial interest in these loans to the SPVs are not treated as sales by the Society. The Society continues to recognise these assets within its own Statement of Financial Position after the transfer because it retains substantially all the risk and rewards of the portfolio through the receipt of the majority of profits of the structured entity. In the accounts of the Society, the proceeds received from the transfer are accounted for as a deemed loan repayable to the SPV, which is held at amortised cost.

1. ACCOUNTING POLICIES (CONTINUED)

Business combinations between mutual organisations

Identifiable assets and liabilities are measured at fair value. Intangible assets are amortised through the income statement over their estimated useful lives, being between one and ten years. A deemed purchase price is calculated by measuring the fair value of the acquired business. Goodwill is measured as the difference between the adjusted value of the acquired assets and liabilities and the deemed purchase price. Goodwill is recorded as an asset; negative goodwill is recognised in the income statement.

Interest income and expense

Interest income and interest expense for all interest-bearing financial instruments are recognised in 'interest receivable and similar income' or 'interest payable and similar charges'.

The effective interest rate (EIR) method is applied for all financial assets or liabilities recorded at amortised cost or FVOCI. The effective interest rate is the rate that discounts the expected future cash flows, over the expected life of the financial instrument, to the net carrying amount of the financial asset or liability. This may include fees and commissions if they are an integral part of the effective interest rate of a financial instrument.

Interest income on financial assets is calculated by applying the EIR to the gross carrying amount of the financial asset, unless considered credit impaired. When a financial asset becomes credit impaired, and therefore considered as Stage 3, interest income is calculated by applying the EIR to the net amortised cost of the financial asset. If the financial asset cures and is no longer credit impaired, interest income is reverted to being calculated on a gross basis.

Interest income and expense also includes interest on derivatives measured at FVPL, where hedge accounting is not applied, using the contractual interest rate.

Fees and commissions

Fees receivable are generally recognised when all performance obligations of the contract have been fulfilled, with fees earned on the sale of properties recognised on the date contracts are exchanged.

Commission receivable from the sale of third party products is recognised upon fulfilment of contractual performance obligations, that is the inception date of the product or on completion of a mortgage.

If the fees are an integral part of the effective interest rate of a financial instrument, they are recognised as an adjustment to the effective interest rate and recorded in interest receivable/payable.

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.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash, treasury bills and other eligible bills and loans and advances to credit institutions.

Derivative financial instruments and hedge accounting

The Group uses derivatives only for risk management purposes. It does not use derivatives for trading purposes. Derivatives are measured at fair value in the statement of financial position. Fair values are obtained by applying quoted market rates to a discounted cash flow model. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The Group has elected to continue to apply the hedge accounting requirements of IAS 39 on adoption of IFRS 9.

The Group looks to designate derivatives held for risk management purposes as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Group documents formally the relationship between the hedging instruments 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 the inception of the hedge relationship as well as on an ongoing basis, as to whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value 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 percent.

If derivatives are not designated as hedges, then changes in their fair values are recognised immediately in the income statement in the period in which they arise.

Fair value hedges

Portfolio fair value hedges are used to hedge exposures to variability in the fair value of financial assets and liabilities, such as fixed rate mortgages and savings products. Changes in the fair value of derivatives are recognised immediately in the income statement together with changes in the fair value of the hedged item that are attributable to the hedged risk (in the same line in the income statement as the hedged item).

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, hedge accounting is discontinued prospectively. Any adjustment up to that point to a hedge item, for which the effective interest method is used, is amortised to the income statement over its remaining life.

Financial assets

Classification and Measurement

Financial assets comprise cash, loans and advances to credit institutions, debt securities, derivative financial instruments and loans and advances to customers. The Group classifies non-derivative financial assets as either amortised cost, FVOCI or FVPL depending on the business model for managing the assets and the contractual cash flow characteristics. The Group determines its business model at the level that best reflects how it manages groups of assets to achieve its business objective. In making this assessment it considers how the performance of the business model is evaluated and reported within the Group, how the risks of the business model are managed and the expected frequency, value and timing of sales of assets. The contractual terms of the financial assets are assessed to determine whether their cash flows represent solely payments of principal and interest or expose the Group to other risks. Management determines the classification of financial assets under IFRS 9 at the later of 1 January 2018 or initial recognition.

NOTES TO THE ACCOUNTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

Amortised cost

Financial assets whose business model is to hold for collection of contractual cash flows where those cash flows represent solely payments of principal and interest (SPPI) are measured at amortised cost. Interest income from these financial assets is included in net interest income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss. The carrying value of these assets is adjusted by any expected credit loss allowance recognised.

The Society classifies the following financial instruments as amortised cost:

- cash in hand and balances with the Bank of England;
- loans and advances to credit institutions; and
- loans and advances to customers.

Loans and advances to customers

The initial value of loans and advances to customers may, if applicable, include certain upfront costs and fees such as procuration fees, legal fees, mortgage indemnity guarantee premiums and application fees, which are recognised over the expected life of mortgage assets. Mortgage discounts are also recognised over the expected life of mortgage assets as part of the effective interest rate.

Throughout the year and at each year end, the mortgage life assumptions are reviewed for appropriateness. Any changes to the expected life assumptions of the assets are recognised through interest receivable and similar income and reflected in the carrying value of the mortgage assets.

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

Fair value through other comprehensive income (FVOCI)

The Society recognises its debt securities as FVOCI assets. The business model for these financial assets is to hold for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest and are measured at FVOCI. Movements in the carrying amount are taken through Other Comprehensive Income (OCI). When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from reserves to the income statement. Interest income from these financial assets is included in net interest income using the effective interest rate method. The expected credit loss for these assets does not reduce the carrying amount in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were at amortised cost, is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss.

Fair value through profit or loss (FVPL)

Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. Interest income from these financial assets is included in net interest income. The Society recognises its derivative financial instruments and some of its balances with subsidiary entities as FVPL assets.

Impairment of financial assets not carried at fair value through profit or loss

Under IFRS 9, the Group assesses on a forward-looking basis the expected credit losses (ECL) associated with its financial assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments. The allowance is based on the ECLs associated with the probability of default in the next 12 months unless there has been a significant increase in credit risk since origination and the measurement of ECL reflects:

- An unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- **Stage 1**: A financial instrument that is not credit-impaired on initial recognition and its credit risk has not significantly increased since origination. ECL is measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months.
- **Stage 2**: If a significant increase in credit risk (SICR) since initial recognition is identified, the financial asset is moved to 'Stage 2' but is not yet deemed to be credit impaired. The definition of a significant increase in credit risk is detailed below. ECL for Stage 2 assets are measured based on expected credit losses on a lifetime basis.
- **Stage 3**: If the financial asset is credit-impaired, it is moved to 'Stage 3'. The definition of credit-impaired and default is outlined below. ECL for Stage 3 assets is also measured on expected credit losses on a lifetime basis.

Forward-looking information is taken into account in the measurement of ECL with its use of economic assumptions such as inflation, unemployment rates, house price indices and Gross Domestic Product.

The Group has no purchased or originated credit impaired assets and has not applied any simplified approaches.

NOTES TO THE ACCOUNTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

Significant increase in credit risk (SICR)

The Group considers a financial instrument to have experienced a significant increase in credit risk when one of more of the following criteria has been met:

Financial instrument	Definition of significant increase in credit risk
Loans and advances to customers – Retail	• Over 30 days past due on contractual repayments; • Change in PD exceeds relative threshold of 100% AND absolute threshold of 0.5%; or • In forbearance.
Loans and advances to customers – SBL	• Over 30 days past due on contractual repayments; • Change in PD exceeds relative threshold of 100% AND absolute threshold of 0.5%; or • In forbearance.
Wholesale liquidity instruments	• Any arrears or receipt of adverse information

Definition of default and credit-impaired

The Group defines a financial asset as in default, which is fully aligned with the definition of credit-impaired, when it is more than 90 days past due on contractual repayments.

It is the Society's policy to consider a financial instrument as 'cured' and therefore reclassified out of Stage 3 when none of the default criteria have been present for at least twelve consecutive months for forbearance defaults and nine months for any other defaults. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated position, at the time of the cure, and whether there has been a significant increase in credit risk compared to initial recognition.

Loans and advances to customers

Forward-looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. Forecasts of these economic variables are provided by a reputable third party on a regular basis and provide the best estimate view of the economy over the next five years. After five years, to project the economic variables out for the full remaining lifetime, a mean reversion approach is used, i.e. long-run averages. In addition to the base economic scenario forecast, other possible scenarios along with scenario weightings are obtained, of which management have applied four (2021: four) scenarios in the model calculations to align with wider market practices. Further details of these scenarios are outlined in note 15.

ECL models

The ECL models are driven by three key components:

- **Probability of Default (PD):** The PD model takes attributes of the mortgage accounts on the portfolio (for example, origination vintage and time on book) and adjusts for the impacts of a range of independently sourced forward-looking macroeconomic scenarios to produce a vector detailing the likelihood of an account defaulting in a given month within the expected behavioural lifetime. The model outputs are scaled against a number of internal risk grades which are determined using the Society's behavioural scoring models. These behavioural scoring models contain a combination of internal and externally derived data to rank the mortgage accounts by risk and pool the accounts into groups of comparable expected performance.
- **Exposure at Default (EAD):** The EAD model predicts the loan exposure of each mortgage account at a future default date. The model takes into account balance amortisation and accrued interest from missed payments given expected changes in the repayment terms of the mortgage; for example interest rates may move in a manner consistent with the macroeconomic scenarios. The calculation produces a vector to represent 'expected' EAD at each potential point of default along the vector from the reporting date up to the expected behavioural lifetime; and
- **Loss Given Default (LGD):** The LGD model calculates the likely loss on asset disposal that the Society would suffer if a default were to occur in any given month over the expected behavioural lifetime of the mortgage account. LGD takes into account the EAD in comparison to the value expected to be recovered through the sale of an asset, given the macroeconomic scenario specific trend in property price indices. The expectation of loss is then scaled to reflect the likelihood of a mortgage account reaching default, progressing on to sale of the asset.

Forbearance strategies and renegotiated loans

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 their feet.

The main options offered by the Society include:

- Reduced monthly payment;
- An arrangement to clear outstanding arrears;
- Temporary interest only; and
- Extension of mortgage term.

Customers requesting a forbearance option will need to provide information to support the request which is likely to include a budget planner, statement of assets and liabilities, bank/credit card statements, payslips etc. in order that the request can be properly assessed. If the forbearance request is granted the account is monitored in accordance with our policy and procedures. At the appropriate time the forbearance option that has been implemented is cancelled, with the exception of capitalisation of arrears, and the customer's normal contractual payment is restored.

1. ACCOUNTING POLICIES (CONTINUED)

Loans that are subject to restructuring may only be classified as restructured and up-to-date once a specified number and/or amount of qualifying payments have been received. These qualifying payments are set at a level appropriate to the nature of the loan and the customer's ability to make the repayment going forward. Typically, the receipt of six months' qualifying payments is required. Loans that have been restructured and would otherwise have been past due or impaired are classified as renegotiated.

The carrying amount of loans that have been classified as renegotiated retain this classification until maturity or derecognition. Interest is recorded on renegotiated loans on the basis of new contractual terms following renegotiation. The original effective interest rate will be retained.

Modifications

The Society may on occasion modify the contractual terms of loans provided to customers. When this is solely for commercial reasons and considered part of the ordinary course of business, there is no impact on the impairment approach. Generally, forbearance at the Society, whether retail or SBL lending, does not result in the terms of the loan being modified so significantly that it becomes substantially a different financial asset, and therefore, the original loan remains and does not result in derecognition.

Write off of financial assets

Financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery, for example by bankruptcy, insolvency, renegotiation and similar events. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the loss allowance, which is then applied to the gross carrying amount. Any subsequent recoveries are credited to the income statement on settlement receipt.

Cash in hand and balances with the Bank of England, Loans and advances to credit institutions and Debt securities

The Group reviews the external credit ratings of its liquid assets at each reporting date. Those assets, which are of investment grade or higher, are considered to have low credit risk and therefore are assumed to have not had a significant increase in credit risk since initial recognition. This includes the Society's debt security portfolio. The Society's policy to allow only high quality, senior secured exposures to Residential Mortgage Backed Securities (RMBS) and Covered Bonds ensures continued Society receipt of contractual cash flows in stressed scenarios. For all other wholesale liquidity balances, a simple model calculates the ECL allowance, based on externally provided 12 month PD rates for individual counterparties.

Derecognition of financial assets and liabilities

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

Financial liabilities

All non-derivative financial liabilities, that include shares and wholesale funds, held by the Group are measured at amortised cost with interest recognised using the effective interest rate method. Discounts and other costs incurred in the raising of wholesale funds are amortised over the period to maturity using the effective interest rate method.

Fair value of financial assets and liabilities

IFRS 13 requires an entity to classify financial instruments held at fair value and those not measured at fair value but for which the fair value is disclosed according to a hierarchy that reflects the significance of observable market inputs in calculating those fair values. The three levels of the fair value hierarchy are defined as:

Level 1 – Valuation using quoted market prices

Financial instruments are classified as level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price reflects actual and regularly occurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

Level 2 – Valuation technique using observable inputs

Financial instruments classified as Level 2 have been valued using models whose inputs are observable in an active market. Valuations based on observable inputs include derivative financial instruments such as swaps and forwards which are valued using market standard pricing techniques and options that are commonly traded in markets where all the inputs to the market standard pricing models are observable. They also include investment securities valued using consensus pricing or other observable market prices.

Level 3 – Valuation technique using significant unobservable inputs

Financial instruments are classified as level 3 if their valuation incorporates significant inputs that are not based on observable market data ('unobservable inputs'). A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price. Unobservable input levels can generally be determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

Subscribed capital

Subscribed capital comprises Permanent Interest Bearing Shares (PIBS) which have no voting rights and have contractual terms to settle interest and is therefore classified as a financial liability. It is presented separately on the face of the statement of financial position. Subscribed capital is initially recognised at 'fair value' being its issue proceeds net of transaction costs incurred.

The interest on the subscribed capital is recognised on an effective interest rate basis in the income statement as interest expense.

NOTES TO THE ACCOUNTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

Intangible assets

Computer Software

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

Amortisation begins when the asset becomes available for operational use and is charged to the income statement on a straight-line basis over the estimated useful life of the software, which is generally between 3 to 8 years. The amortisation periods used are reviewed annually.

Assets are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount, if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell, and its value in use.

Property, plant and equipment

Additions and improvements to office premises and equipment, including costs directly attributable to the acquisition of the asset, are capitalised at cost. The property, plant and equipment value in the statement of financial position represents the original cost, less cumulative depreciation. The costs, less estimated residual values of assets, are depreciated on a straight-line basis over their estimated useful economic lives as follows:

- Freehold buildings 50 - 100 years;
- Leasehold premises over the remainder of the lease or 100 years if shorter;
- Refurbishment of premises over 5 to 10 years or length of lease if shorter;
- Equipment, fixtures, fittings and vehicles over 4 to 10 years;
- No depreciation is provided on freehold land.

Assets are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell, and its value in use.

Employee benefits

Long-term incentive schemes

The costs of bonuses payable after the end of the year in which they are earned are recognised on an accruals basis in the year in which the employees render the related service.

Pensions

The Group operated a contributory defined benefit pension scheme until 31 January 2009 when it was closed to future service accrual. The assets are held in a separate trustee administered fund. Included within the statement of financial position is the Group's net obligation calculated as the present value of the defined benefit obligation less the fair value of plan assets less any unrecognised past service costs. Any remeasurements that arise are recognised immediately in other comprehensive income through the statement of comprehensive income. The finance cost is recognised within finance income and expense in the income statement. The finance cost is the increase in the defined benefit obligation which arises because the benefits are one period closer to settlement.

Contributions are transferred to the trustee administered fund on a regular basis to secure the benefits provided under the rules of the scheme. Pension costs are assessed in accordance with the advice of a professionally qualified actuary.

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 income statement on an accruals basis.

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low value assets. The Group recognises lease liabilities, as the current value of future lease payments, and right-of-use assets representing the right to use the underlying leased assets.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight line basis over the lease term, adjusted to take account of any expected break or extension options.

- Leasehold premises over 10 to 15 years;
- Equipment, fixtures and fittings over 3 to 5 years;
- Motor vehicles over 3 to 5 years.

Right-of-use assets are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell, and its value in use.

1. ACCOUNTING POLICIES (CONTINUED)

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term, discounted using the incremental borrowing rate. The lease payments include fixed payments less any lease incentive receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under any residual value guarantees.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date as the interest rate implicit in the lease is not readily determinable. The incremental borrowing rate is determined based on the cost of funding to the Group. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for lease payments made.

In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term or a change in the lease payments.

The Group does not have an option to purchase the underlying asset in its lease agreements.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (i.e. those leases that have a lease term of 12 months or less from the commencement date). It also applies the lease of low-value assets recognition exemption to assets that are considered be of low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the term of the lease.

Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income and gains arising in the accounting period.

Deferred tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets and liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and the authority permits the company to make a single net payment. Deferred tax assets are only recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Both current and deferred taxes are determined using the rates enacted or substantively enacted at the statement of financial position date.

Tax relating to fair value re-measurement of available-for-sale investments, which are charged or credited directly to other comprehensive income, is also credited or charged directly to other comprehensive income and is subsequently recognised in the income statement when the deferred fair value gain or loss is recognised in the income statement.

Tax relating to actuarial gains/(losses) on retirement benefit obligations is recognised in other comprehensive income.

Provisions and contingent liabilities

The Group recognises a provision when there is a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

The Society has an obligation to contribute to the Financial Services Compensation Scheme (FSCS) to enable the FSCS to meet compensation claims from, in particular, retail depositors of failed banks. A provision is recognised to the extent it can be reliably estimated and when the Society has an obligation in accordance with IFRIC 21. The amount provided is based on information received from the FSCS, forecast future interest rates and the Society's historic share of industry protected deposits.

Contingent liabilities are potential obligations from past events which will only be confirmed by future events. Contingent liabilities are not recognised in the Statement of financial position.

Accounting estimates and judgements

In the course of preparing the financial statements, no judgements have been made in the process of applying the Group's significant accounting policies, other than those involving estimations, which have had a significant effect on the amounts recognised in the financial statements. The Group's significant estimates, including judgements involving estimations, are shown below.

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, in particular, the estimation of the amount and timing of future cash flows and collateral values and the assessment of significant increase in credit risk. The Society's ECL calculations under IFRS 9 are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies, which individually are not possible to isolate. The **Loans and advances to customers** section on page 59 outlines the accounting policies and key definitions for IFRS 9.

Key elements of the ECL models that are considered accounting judgements, including estimation, include:

- The internal credit grading model, which assigns PDs to individual accounts;
- The criteria for assessing if there has been a significant increase in credit risk;
- Determination of associations between macroeconomic scenarios, economic inputs and the effect on PDs, EADs and LGDs;
- Selection of forward-looking macroeconomic scenarios and their probability weightings to derive economic inputs to the ECL models; and
- Post model adjustments to address model limitations, including the:

  i) Impact to future Property Values;

  ii) Potential for Interest Rate shock;

  iii) Worsening Future Recovery profile of Assets; and

  iv) Cost of Living & Inflationary impact.

ACCOUNTS

NOTES TO THE ACCOUNTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

Expected mortgage life

In determining the expected life of mortgage assets, which is used as part of the effective interest rate calculation, the Group uses historical and forecast redemption data as well as management judgement. At regular intervals throughout the year, the expected life of mortgage assets is reassessed for reasonableness. Any variation in the expected life of mortgage assets will change the carrying value in the statement of financial position and the timing of the recognition of interest income.

The Group has assessed that no member remains on a Standard Variable Rate (SVR) for any meaningful period of time at the end of their product term. A two-week extension of the time spent on SVR would result in an increase in the value of loans on the statement of financial position and a gain to profit before tax of approximately £0.4 million (2021: £0.3 million).

Employee benefits

The Group operates a defined benefit pension scheme. Significant judgements (on such areas as future interest and inflation rates and mortality rates) have to be exercised in estimating the value of the assets and liabilities of the scheme, and hence of its net deficit. The assumptions are outlined in note 28 to the accounts. Of these assumptions, the main determinant of the liability is the discount rate. A variation of 0.1% in the discount rate will change liabilities by approximately £0.6 million (2021: £1.1 million).

Fair values of financial instruments

The Society uses widely recognised valuation models for determining the fair value of common and simple financial instruments, such as interest rate swaps that use only observable market data. Further analysis can be found in note 31. The availability of observable market prices and model inputs reduces the need for management judgement and also reduces the uncertainty associated with determining fair values.

Change in accounting estimate

As a result of the formation of the future strategy and anticipated future enhancements in mortgage systems and processes, the average useful lives of the Society's mortgage technology assets have been reduced, resulting in an additional £1.5 million amortisation charge in 2022. The remaining intermediary portal carrying value of £3.1 million will be amortised to the income statement over the revised remaining useful life of less than 2 years, resulting in an annual amortisation charge of £1.6 million in future periods.

NOTES TO THE ACCOUNTS (CONTINUED)

2. SEGMENTAL REPORTING

The chief operating decision maker has been identified as the Group Board. The Board reviews the Group's internal reporting in order to assess performance and allocate resources. Operating segments are reported in a manner consistent with the internal reporting provided to the Board.

Following the disposal of several subsidiaries in prior years, the remaining trade of the Group relates purely to retail financial services which includes the provision of mortgages, savings, third party insurance and investments.

As there is only one trade within the Group, the results of the financial services business are presented on the face of the income statement and as such no separate disclosure is required within this note.

The Group disposed of its immaterial mortgage broking business in 2021 through the sale of the Nottingham Mortgage Services Ltd. The results of this company were presented as a discontinued operation in the 2021 financial statements.

3. INTEREST RECEIVABLE AND SIMILAR INCOME

	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
On loans fully secured on residential property	64.3	67.3	64.3	67.3
On other loans	11.2	7.3	11.2	7.3
On amounts due from group undertakings	-	-	1.6	1.8
On liquid assets	4.3	0.4	4.3	0.4
On instruments held at amortised cost	79.8	75.0	81.4	76.8
On debt securities	4.8	0.7	4.8	0.7
On derivative hedging of financial assets	13.1	(10.3)	13.1	(10.3)
On instruments calculated on an EIR basis	97.7	65.4	99.3	67.2
On derivatives not in a hedge accounting relationship	1.1	(1.0)	(0.1)	(0.7)
	98.8	**64.4**	**99.2**	**66.5**

Interest on debt securities includes £1.7 million (2021: £0.3 million) arising from fixed income investment securities.

Included within interest income is £nil (2021: £0.2 million) in respect of interest income accrued on impaired loans three or more months in arrears.

4. INTEREST PAYABLE AND SIMILAR CHARGES

	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
On shares held by individuals	23.9	14.8	23.9	14.8
On amounts due to group undertakings	-	-	2.5	3.4
On deposits and other borrowings	8.7	2.1	6.5	0.8
On subscribed capital	2.0	2.0	2.0	2.0
On leases	0.1	0.1	0.1	0.1
On derivative hedging of financial liabilities	1.3	(0.5)	1.3	(0.5)
	36.0	**18.5**	**36.3**	**20.6**

NOTES TO THE ACCOUNTS (CONTINUED)

5. NET GAINS FROM DERIVATIVE FINANCIAL INSTRUMENTS

	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Derivatives in designated fair value hedge relationships	89.1	47.1	89.1	47.1
Adjustments to hedged items in fair value hedge accounting relationships	(78.8)	(40.4)	(78.8)	(40.4)
Derivatives not in designated fair value hedge relationships	(0.1)	1.2	(4.6)	(1.3)
	10.2	**7.9**	**5.7**	**5.4**

The net gain from derivative financial instruments of £10.2 million (2021: £7.9 million) represents the net fair value movement on derivatives in fair value hedge relationships and represents hedge ineffectiveness.

Further information regarding the Group and Society's derivative financial instruments and fair value hedge accounting is presented in notes 13 and 31 of these financial statements.

6. ADMINISTRATIVE EXPENSES

	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Continuing operations				
Wages and salaries	20.1	18.3	20.1	18.3
Social security costs	2.0	1.7	2.0	1.7
Other pension costs	1.0	1.0	1.0	1.0
Total employee costs	**23.1**	**21.0**	**23.1**	**21.0**
Other administrative costs	19.7	6.1	19.6	6.1
	42.8	**36.5**	**42.7**	**36.5**

The restructuring costs relating to continuing operations included in wages and salaries for the Group and Society in 2022 amounts to £1.1 million (2021: £nil). Other administrative costs have increased primarily due to the strategic investment costs of £5.0 million (2021: £0.2 million) explained in the strategic report on page 11.

	Group 2022 £000	Group 2021 £000	Society 2022 £000	Society 2021 £000
Other administrative costs include:				
Remuneration of auditors and associates (excluding VAT)				
Fees payable to the auditor for the audit of the annual accounts	346	358	346	353
Fees payable to the auditor for other services:				
Audit of the accounts of subsidiary undertakings	10	8	-	-
Audit of associated pension schemes	14	14	14	14
Audit related assurance services	64	60	64	60
Non-audit services	-	25	-	25
Total audit fees for the financial year	**434**	**465**	**424**	**452**

ACCOUNTS

NOTES TO THE ACCOUNTS (CONTINUED)

7. EMPLOYEES

	Group 2022 Number	Group 2021 Number	Society 2022 Number	Society 2021 Number
Continuing operations				
The average number of persons employed during the year was:				
Full time	369	388	369	388
Part time	144	149	144	149
	513	**537**	**513**	**537**
Building Society				
Central Administration	283	299	283	299
Branches	230	238	230	238
	513	**537**	**513**	**537**

The average number of employees on a full time equivalent basis in the Society was 472 (2021: 510) and all of these are employed within the United Kingdom.

8. TAX CHARGE

	Notes	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Current tax charge		3.0	0.9	3.0	0.9
Adjustments for prior years		0.2	0.4	0.2	0.4
TOTAL CURRENT TAX		**3.2**	**1.3**	**3.2**	**1.3**
Deferred tax		-	1.7	-	1.7
Adjustments for prior years		(0.1)	(0.5)	(0.1)	(0.5)
TOTAL DEFERRED TAX	20	**(0.1)**	**1.2**	**(0.1)**	**1.2**
		3.1	**2.5**	**3.1**	**2.5**

The total tax charge for the period differs from that calculated using the UK standard rate of corporation tax. The differences are explained below.

	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Profit before taxation	18.9	15.1	14.6	13.7
Expected tax charge at 19% (2021: 19%)	3.6	2.9	2.8	2.6
Expenses not deductible for corporation tax	0.1	0.2	0.1	0.3
Effective securitisation	(0.8)	(0.4)	-	-
Income not taxable	-	(0.1)	-	(0.3)
Adjustment for prior years	0.2	(0.1)	0.2	(0.1)
	3.1	**2.5**	**3.1**	**2.5**

8. TAX CHARGE (CONTINUED)

	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Tax recognised directly in other comprehensive income				
Tax credit on FVOCI assets	(0.8)	(0.2)	(0.8)	(0.2)
Tax expense/(credit) on pension scheme	0.1	(0.3)	0.1	(0.3)
TAX CREDIT FOR THE YEAR	**(0.7)**	**(0.5)**	**(0.7)**	**(0.5)**

Factors affecting standard rate of tax

The Finance Act 2021, which was enacted in May 2021, will increase the rate of tax from 19% to 25% with effect from 1 April 2023. Deferred tax assets and liabilities are measured at the enacted tax rates that are expected to apply when the related asset is realised or liability is settled.

9. CASH IN HAND AND BALANCES WITH THE BANK OF ENGLAND

	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Cash in hand	1.1	1.5	1.1	1.5
Balances with the Bank of England	289.0	284.6	289.0	284.6
	290.1	**286.1**	**290.1**	**286.1**

Balances with the Bank of England includes cash ratio deposits of £7.1 million (2021: £6.9 million) which are not readily available for use in the Group's day-to-day operations and therefore are excluded from cash and cash equivalents.

10. LOANS AND ADVANCES TO CREDIT INSTITUTIONS

	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Repayable on call and short notice	9.3	8.0	1.7	-
Other loans and advances to credit institutions	6.7	8.1	6.7	8.1
	16.0	**16.1**	**8.4**	**8.1**

As at 31 December 2022 £6.7 million (2021: £8.1 million) of cash has been deposited by the Group and Society as collateral against derivative contracts.

11. CASH AND CASH EQUIVALENTS

	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Cash in hand and balances with the Bank of England	283.1	279.2	283.1	279.2
Loans and advances to credit institutions	9.3	8.0	1.7	-
	292.4	**287.2**	**284.8**	**279.2**

NOTES TO THE ACCOUNTS (CONTINUED)

12. DEBT SECURITIES

Group and Society	Notes	2022 £m	2021 £m
Debt securities			
Gilts		67.0	39.6
Treasury Bills		59.7	-
Fixed rate notes		52.2	34.1
Floating rate notes		53.8	70.6
Mortgage backed securities		63.3	61.5
Floating covered bonds		117.2	54.5
		413.2	**260.3**
Movements on debt securities during the year may be analysed as follows:			
As at 1 January		260.3	152.8
Additions		286.2	168.2
Disposals and maturities		(129.2)	(60.4)
Net gains from changes in fair value recognised in other comprehensive income	30	(4.1)	(0.3)
		413.2	**260.3**

Of this total £178.9 million (2021: £73.7 million) is attributable to fixed income debt securities.

Debt securities include items with a carrying value of £nil (2021: £nil) which have been pledged as collateral under Bank of England facilities.

13. DERIVATIVE FINANCIAL INSTRUMENTS

Group	2022 Contract/ notional amount £m	2022 Fair value of assets £m	2022 Fair value of liabilities £m	2021 Contract/ notional amount £m	2021 Fair value of assets £m	2021 Fair value of liabilities £m
Derivatives not in hedge accounting relationship						
Interest rate swaps	412.4	7.8	(7.0)	1,525.1	3.1	(0.1)
Derivatives designated as fair value hedges						
Interest rate swaps	2,132.0	134.8	(7.4)	2,065.0	23.0	(6.4)
	2,544.4	**142.6**	**(14.4)**	**3,590.1**	**26.1**	**(6.5)**

Society	2022 Contract/ notional amount £m	2022 Fair value of assets £m	2022 Fair value of liabilities £m	2021 Contract/ notional amount £m	2021 Fair value of assets £m	2021 Fair value of liabilities £m
Derivatives not in a hedge accounting relationship						
Interest rate swaps	298.7	1.2	(7.0)	1,378.6	1.0	(0.1)
Derivatives designated as fair value hedges						
Interest rate swaps	2,132.0	134.9	(7.4)	2,065.0	23.0	(6.4)
	2,430.7	**136.1**	**(14.4)**	**3,443.6**	**24.0**	**(6.5)**

Derivative fair values have increased in the year due to changes in the interest rate environment. Further information regarding the Group's hedge accounting and fair value hedges is presented in note 31.

The Group's interest rate swaps which are not held by the Society are held by Arrow Mortgage Finance No. 1 Ltd and hedge the interest rate risk associated with the Group's securitisation funding.

14. LOANS AND ADVANCES TO CUSTOMERS

Group and Society	Notes	2022 £m	2021 £m
Loans fully secured on residential property		2,702.6	2,800.2
Other loans fully secured on land		334.7	232.6
		3,037.3	3,032.8
Provision for impairment losses on loans and advances	15	(5.3)	(3.1)
		3,032.0	3,029.7
Fair value adjustment for hedged risk		(109.2)	(18.8)
		2,922.8	**3,010.9**

Other loans fully secured on land represents Secured Business Lending (SBL) assets.

Encumbrance

The Society pledges a proportion of its loans and advances to customers to enable it to access funding either through a secured funding arrangement or as whole mortgage loan pools with the Bank of England.

Loans and advances to customers used to support these funding activities are as follows:

Group and Society 2022	Mortgages pledged £m	Held by third parties £m	Held by the Group drawn £m	Held by the Group undrawn £m
Bank of England	820.3	-	423.4	396.8
Other secured funding	112.2	112.2	-	-
	932.5	**112.2**	**423.4**	**396.8**

Group and Society 2021	Mortgages pledged £m	Held by third parties £m	Held by the Group drawn £m	Held by the Group undrawn £m
Bank of England	1,089.0	-	443.9	645.1
Other secured funding	147.6	147.6	-	-
	1,236.6	**147.6**	**443.9**	**645.1**

Other secured funding

As at 31 December 2022, loans and advances to customers also includes balances for both the Group and Society which have been used in secured funding arrangements, resulting in the beneficial interest of these loans being transferred to Arrow Mortgage Finance No.1 Limited, a special purpose vehicle consolidated into the Group Accounts. All of the loans pledged, with a book value of £112.2 million (2021: £147.6 million) and a fair value of £108.0 million (2021: £146.4 million) are retained within the Society's Statement of Financial Position as the Society retains substantially all the risk and rewards relating to the loans. These loans secure £91.0 million (2021: £127.1 million) of funding for the Group (note 25) and £117.6 million (2021: £153.7 million) of funding for the Society.

15. PROVISION FOR IMPAIRMENT LOSSES ON LOANS AND ADVANCES TO CUSTOMERS

Impairment provisions have been deducted from the appropriate asset values on the Statement of Financial Position. The gross carrying amounts and impairment provisions are presented in detail below.

Group and Society	Notes	Loans fully secured on residential property 2022 £m	Other loans fully secured on land 2022 £m	Total 2022 £m	Loans fully secured on residential property 2021 £m	Other loans fully secured on land 2021 £m	Total 2021 £m
Gross carrying amount							
Stage 1		2,187.1	305.7	2,492.8	2,666.7	215.1	2,881.8
Stage 2		499.4	25.3	524.7	117.3	16.5	133.8
Stage 3		16.1	3.7	19.8	16.2	1.0	17.2
	14	**2,702.6**	**334.7**	**3,037.3**	**2,800.2**	**232.6**	**3,032.8**

Group and Society	Loans fully secured on residential property 2022 £m	Other loans fully secured on land 2022 £m	Total 2022 £m	Loans fully secured on residential property 2021 £m	Other loans fully secured on land 2021 £m	Total 2021 £m
Expected Credit Loss allowance						
Stage 1	2.5	1.5	4.0	1.4	0.8	2.2
Stage 2	0.5	0.4	0.9	0.2	0.5	0.7
Stage 3	0.1	0.3	0.4	0.1	0.1	0.2
	3.1	**2.2**	**5.3**	**1.7**	**1.4**	**3.1**

The Society's ECL coverage ratio, as a percentage of gross loans is 0.17% at 31 December 2022 for the total book and 0.17% for those balances in Stage 2. The equivalent ECL coverage ratios at 31 December 2021 were 0.10% across the total portfolio and 0.14% for Stage 2 assets.

At 31 December 2022, £4.8 million of balances were over 3 months in arrears (2021: £4.4 million), representing 0.2% of the total mortgage book (2021: 0.2%). As at 31 December 2022, 0.4% (2021: 0.4%) of mortgage customers have some sort of contractual forbearance arrangement in place. Further details of the Society's arrears and forbearance cases are disclosed in note 31.

The ECL allowance recognised against the Society's future loan commitment balance at 31 December 2022 and 2021 is immaterial to the financial statements and therefore has not been separately disclosed. Future loan commitments are classified as Stage 1 for ECL calculation purposes under IFRS 9.

NOTES TO THE ACCOUNTS (CONTINUED)

15. PROVISION FOR IMPAIRMENT LOSSES ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Post model adjustment

Due to the level of uncertainty and worsening in the economy, at 31 December 2022, the Society has applied multiple overlays to its core ECL models to reflect management's view that there will be an impact on affordability as a result of the current cost of living crisis, global inflationary pressures and anticipated rate rises to manage inflation. An overlay ECL allowance of £4.2 million has been recognised at 31 December 2022 (2021: £2.0 million).

Inflation and affordability model limitations were addressed at 31 December 2021 via post model adjustment overlays of an absolute 6% PD uplift to retail and 4% PD uplift for commercial Stage 1 and 2 accounts.

Additional PMAs have been added, at 31 December 2022, to reflect that the level of variability in the actual outcomes that may occur remains significantly wider than in recent history, with forecasts signalling a worsening outlook compared to December 2021. Retail PD uplift has been increased from 6% to 8% and commercial from 4% to 5%.

Several additional post model adjustments have been applied to address the following: i) Impact to future Property Values, ii) Potential for Interest Rate shock, iii) Worsening Future Recovery profile of Assets and iv) Cost of Living & Inflationary impact.

The charge/(release) to the income statement comprises:

Group and Society	2022 Loans fully secured on residential property £m	2022 Other loans fully secured on land £m	2022 Total £m	2021 Loans fully secured on residential property £m	2021 Other loans fully secured on land £m	2021 Total £m
Charge/(release) of provision for impairment	1.4	0.7	2.2	(0.1)	(1.3)	(1.4)
Recoveries of debts previously written off	-	-	-	-	-	-
	1.4	**0.7**	**2.2**	**(0.1)**	**(1.3)**	**(1.4)**

ACCOUNTS

NOTES TO THE ACCOUNTS (CONTINUED)

15. PROVISION FOR IMPAIRMENT LOSSES ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The tables below reconcile the movement in both gross balances and expected credit losses in the period.

Gross balances	Subject to 12 month ECL Stage 1 £m	Non-credit impaired Subject to lifetime ECL Stage 2 £m	Credit impaired Subject to lifetime ECL Stage 3 £m	Total £m
At 1 January 2022	2,881.8	133.8	17.2	3,032.8
Stage transfers:				
Transfers from Stage 1 to Stage 2	(472.6)	472.6	-	-
Transfers to Stage 3	(5.2)	(3.1)	8.3	-
Transfers from Stage 2 to Stage 1	47.6	(47.6)	-	-
Transfers from Stage 3	2.1	1.2	(3.3)	-
NET MOVEMENT ARISING FROM TRANSFER OF STAGE	**(428.1)**	**423.1**	**5.0**	**-**
New assets originated[1]	627.0	5.6	1.2	633.8
Net further lending/repayments and redemptions	(587.9)	(37.8)	(3.6)	(629.3)
At 31 December 2022	**2,492.8**	**524.7**	**19.8**	**3,037.3**

Expected Credit Loss allowance	Subject to 12 month ECL Stage 1 £m	Non-credit impaired Subject to lifetime ECL Stage 2 £m	Credit impaired Subject to lifetime ECL Stage 3 £m	Total £m
At 1 January 2022	2.2	0.7	0.2	3.1
Stage transfers:				
Transfers from Stage 1 to Stage 2	(0.3)	0.3	-	-
Transfers to Stage 3	-	(0.1)	0.1	-
Transfers from Stage 2 to Stage 1	0.2	(0.2)	-	-
Transfers from Stage 3	-	-	-	-
NET MOVEMENT ARISING FROM TRANSFER OF STAGE	**(0.1)**	**-**	**0.1**	**-**
New assets originated[1]	1.8	-	-	1.8
Further lending/repayments and redemptions	0.1	-	-	0.1
Changes in risk parameters in relation to credit quality	-	0.2	0.1	0.3
At 31 December 2022	**4.0**	**0.9**	**0.4**	**5.3**

[1] New assets originated enter at stage 1. The balances presented are the final position as at 31 December 2022.

15. PROVISION FOR IMPAIRMENT LOSSES ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Gross balances	Subject to 12 month ECL Stage 1 £m	Non-credit impaired Subject to lifetime ECL Stage 2 £m	Credit impaired Subject to lifetime ECL Stage 3 £m	Total £m
At 1 January 2021	1,913.4	1,183.9	8.9	3,106.2
Stage transfers:				
Transfers from Stage 1 to Stage 2	(44.7)	44.7	-	-
Transfers to Stage 3	(3.9)	(8.1)	12.0	-
Transfers from Stage 2 to Stage 1	923.1	(923.1)	-	-
Transfers from Stage 3	2.1	0.8	(2.9)	-
NET MOVEMENT ARISING FROM TRANSFER OF STAGE	**876.6**	**(885.7)**	**9.1**	**-**
New assets originated[1]	494.6	34.0	1.1	529.7
Net further lending/repayments and redemptions	(402.8)	(198.4)	(1.9)	(603.1)
At 31 December 2021	**2,881.8**	**133.8**	**17.2**	**3,032.8**

Expected Credit Loss allowance	Subject to 12 month ECL Stage 1 £m	Non-credit impaired Subject to lifetime ECL Stage 2 £m	Credit impaired Subject to lifetime ECL Stage 3 £m	Total £m
At 1 January 2021	2.0	1.8	0.7	4.5
Stage transfers:				
Transfers from Stage 1 to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Transfers from Stage 2 to Stage 1	1.1	(1.1)	-	-
Transfers from Stage 3	0.1	0.1	(0.2)	-
NET MOVEMENT ARISING FROM TRANSFER OF STAGE	**1.2**	**(1.0)**	**(0.2)**	**-**
New assets originated[1]	0.5	0.1	-	0.6
Further lending/repayments and redemptions	(0.8)	(0.1)	-	(0.9)
Changes in risk parameters in relation to credit quality	(0.7)	(0.1)	(0.3)	(1.1)
At 31 December 2021	**2.2**	**0.7**	**0.2**	**3.1**

[1] New assets originated enter at stage 1. The balances presented are the final position as at 31 December 2021.

15. PROVISION FOR IMPAIRMENT LOSSES ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Forward-looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information, which takes into account key economic impacts such as the high inflationary and higher interest rate environment. Key economic variables have been determined by management, but expert judgement is also applied. Forecasts of these economic variables are provided by a reputable third party, providing a best estimate view of the economy over the next five years. After five years, a mean reversion approach is used, i.e. long-run averages.

In addition to the base economic scenario forecast, other possible scenarios along with scenario weightings are obtained, of which management have applied four scenarios in the model calculations. In the prior year, the Society applied a four scenario approach, with weightings of 40% (base), 30% (upside) , 23% (downside) and 7% severe applied. These scenarios continue to be consistently provided by a reputable third party.

As at 31 December 2022	Weighting
Base The base economic scenario assumes that the UK economy is already in recession but will slowly recover from Q2 2023. Inflation peaks in Q4 2022 and as a result, the Bank of England continue to raise rates which reach 4.5% by Q2 2023. Russia's invasion of Ukraine continues, but does not expand outside of Ukraine. Global oil prices remain around current high levels and natural gas remains at extremely high prices, however there is no need for gas rationing.	30%
Upside The upside scenario assumes that the Russia's invasion of Ukraine is resolved much faster than the baseline case. Global oil prices decrease faster (than the baseline) which in turn slows down inflation. This leads to the Bank of England raising rates at a slower pace than the baseline case. Unemployment rate continues to drop below pre-pandemic lows and stays below 4% for several years.	20%
Downside The downside scenario assumes that Russia cuts off natural gas supplies and that the supply of oil is severely reduced due to the embargo. This leads to a jump in oil and natural gas prices. The Bank of England raise interest rates faster than the baseline case but have to reduce this due to the economy being in recession. Households pull back on spending and the unemployment rate exceeds 7% in 2024 due to higher costs and supply shortages. The increase in unemployment rate and shrinking real incomes causes house prices to drop with a 21% peak to trough reduction.	35%
Severe downside The severe downside scenario assumes that Russia cuts off natural gas supplies and that the supply of oil is severely reduced due to the embargo. This leads to a jump in oil and natural gas prices. The Bank of England raise interest rates faster than the baseline case, but as inflation reduces in 2024, interest rates are reduced to 0.1%. Due to the collapse of economic demand, unemployment rate peaks at 8% in 2024. The increase in unemployment rate and shrinking real incomes causes house prices to drop with a 30% peak to trough reduction. The autumn and winter waves of Covid-19 are stronger than anticipated, whilst not causing a lockdown they cause a temporary drop in consumption.	15%

NOTES TO THE ACCOUNTS (CONTINUED)

15. PROVISION FOR IMPAIRMENT LOSSES ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

As at 31 December 2021	Weighting
Base The base economic scenario assumes that Covid-19 infections peaked in January 2021, with infections abating by February 2022. Due to the timing of the scenario, Delta was assumed the dominant strain, but that Omicron would soon take over as dominant. The scenario assumes that existing vaccines would be less effective against Omicron, with measures being reimposed, such as the use of face masks, but that a fourth lockdown is unlikely. The scenario assumes unemployment spikes in Q2 2022 and that inflation accelerates as the economy reopens along with an energy cost crisis. Interest rate rises by the Bank of England in early 2022 are then assumed to manage inflation.	40%
Upside The upside scenario assumes that the vaccine is partly effective against the latest Omicron variant and infections abate in January 2022. The resulting cases, hospitalisations and deaths from Covid-19 reduce faster than the base scenario. Higher growth than the base case gives a lower unemployment rate and a higher GDP in the long-term due to increased household wealth leading to higher consumer spending. The UK and EU extend negotiations for free trade and access to the single market faster than in the base scenario.	30%
Downside The downside scenario assumes that the vaccines are a lot less effective against the Omicron variant, resulting in a severe shock to the economy. Infections do not abate until May 2022. Restrictions are imposed for sustained period, although there is low compliance. This results in contractions in GDP due to lack of consumer confidence and spending. Unemployment reaches a peak of 6.7% in Q2 2023 and the bank base rate remains at 0.1% until Q3 2025. Tensions rise between China and the US and a trade deal is not agreed between the UK and the EU.	23%
Severe downside The severe downside scenario assumes that vaccines are less effective than the downside and it takes longer to develop and roll out a successful updated vaccine. This means that the Government reintroduces restrictions, which remain in place until Spring 2022 due to non- compliance. Infections do not abate until July 2022. The fear of Covid-19 restricts spending on goods and services, resulting in bankruptcies and a spike in unemployment, rising to 7.7% in Q2 2023, as well as a contraction in GDP during 2022. The unemployment rate spike pushes down the average house significantly, increasing non-performing loans. The bank base rate remains at 0.1% until Q3 2028. Tensions rise between China and the US and a trade deal is not agreed between the UK and EU.	7%

15. PROVISION FOR IMPAIRMENT LOSSES ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The summary below outlines the most significant forward-looking assumptions under IFRS 9, over the five year planning period across the optimistic, base and pessimistic scenarios.

As at 31 December 2022		2023 %	2024 %	2025 %	2026 %	2027 %
Unemployment rate	Upside	3.9	3.6	3.7	4.0	4.2
	Base	4.3	4.5	4.6	4.6	4.6
	Downside	6.2	7.2	7.2	6.8	6.1
	Severe downside	7.5	8.3	8.2	7.9	7.2
House price index	Upside	9.0	5.4	2.1	(1.2)	(2.1)
	Base	(4.4)	2.3	4.8	2.9	0.8
	Downside	(14.9)	(7.0)	4.0	5.7	4.1
	Severe downside	(20.7)	(11.0)	4.4	4.3	3.4
BoE interest rate	Upside	4.3	2.9	2.3	2.3	2.3
	Base	4.5	3.0	2.3	2.3	2.3
	Downside	5.3	1.8	0.4	0.9	1.8
	Severe downside	5.5	0.8	0.1	0.2	0.9

As at 31 December 2021		2022 %	2023 %	2024 %	2025 %	2026 %
Unemployment rate	Upside	3.9	3.3	3.5	3.8	4.0
	Base	4.7	4.4	4.4	4.5	4.5
	Downside	6.3	6.6	6.5	6.3	5.9
	Severe downside	7.2	7.5	7.2	7.1	6.6
House price index	Upside	14.2	8.5	4.8	2.1	0.7
	Base	3.4	6.0	5.2	3.7	2.0
	Downside	(9.8)	(8.1)	(1.9)	4.4	8.3
	Severe downside	(13.4)	(10.3)	(2.5)	4.3	7.7
BoE interest rate	Upside	0.6	1.0	1.5	2.1	2.6
	Base	0.5	0.8	1.2	1.7	2.2
	Downside	0.1	0.1	0.1	0.2	0.7
	Severe downside	0.1	0.1	0.1	0.1	0.1

NOTES TO THE ACCOUNTS (CONTINUED)

15. PROVISION FOR IMPAIRMENT LOSSES ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

A significant degree of estimation relates to the relative weightings of the economic scenarios. In order to demonstrate this sensitivity, the impact of applying 100% of a particular scenario on the 31 December 2022 reported ECL position output is shown below.

31 December 2022	ECL provision £m	(Decrease)/ increase £m	(Decrease)/ increase %
IFRS 9 weighted average	5.3	-	-
Base	3.7	(1.6)	(30.6)%
Downside	6.6	1.3	24.2%
Severe downside	9.3	4.0	45.2%
Upside	2.5	(2.8)	(53.0)%

31 December 2021	ECL provision £m	(Decrease)/ increase £m	(Decrease)/ increase %
IFRS 9 weighted average	3.1	-	-
Base	2.8	(0.3)	(9.7)%
Downside	4.0	0.9	29.0%
Severe downside	4.5	1.4	45.2%
Upside	2.3	(0.8)	(25.8)%

NOTES TO THE ACCOUNTS (CONTINUED)

16. AMOUNTS DUE FROM SUBSIDIARY UNDERTAKINGS

Society	2022 Shares £m	2022 Amount due £m	2021 Shares £m	2021 Amount due £m
As at 1 January	-	26.6	-	26.6
Additions/(repayments)	-	-	-	(1.1)
Change in fair value	-	-	-	1.1
	-	**26.6**	-	**26.6**

The Society has the following active subsidiary undertaking, which operates and has a registered office in the United Kingdom and is included in the Group accounts:

Name of subsidiary undertaking	Principal business activity	Registration number	Ownership interest
Arrow Mortgage Finance No. 1 Limited	Funding vehicle	09891174	See below

The registered office of Arrow Mortgage Finance No. 1 Limited is 1 Bartholomew Lane, London, EC2N 2AX.This subsidiary is incorporated in England and Wales.

The special purpose vehicle (SPV), Arrow Mortgage Finance No. 1 Limited, has been formed with nominal share capital, is funded through loans from the Society and its activities are carried out under the direction of the Society, under the legal terms of its operation. The Society is exposed to variable returns from this entity and therefore the SPV passes the test of control under IFRS 10. Consequently, it is fully consolidated into the Group Accounts.

The amounts due from Arrow Mortgage Finance No. 1 Ltd have a contractual maturity of two years and are expected to be repaid within this period in line with the secured funding term. The amount due from Arrow is classed as Stage 1 for ECL calculation purposes under IFRS 9 and the ECL arising is immaterial to the financial statements.

The Nottingham Building Society provides a guarantee to the Nottingham Property Services Limited (company number: 02272731) under S479A, which exempts this inactive subsidiary from the requirements of the Companies Act relating to the audit of its individual accounts for the financial year ended 31 December 2022.

NOTES TO THE ACCOUNTS (CONTINUED)

ACCOUNTS

17. PROPERTY, PLANT AND EQUIPMENT

Group and Society	2022 Land and buildings £m	2022 Equipment, fixtures, fittings £m	2022 Total £m	2021 Land and buildings £m	2021 Equipment, fixtures, fittings £m	2021 Total £m
Cost						
As at 1 January	14.7	27.3	42.0	14.3	26.1	40.4
Additions	-	0.3	0.3	0.8	1.3	2.1
Disposals	-	-	-	(0.4)	(0.1)	(0.5)
As at 31 December	**14.7**	**27.6**	**42.3**	**14.7**	**27.3**	**42.0**
Depreciation						
As at 1 January	8.8	23.2	32.0	8.7	21.7	30.4
Charge for the year	0.3	1.7	2.0	0.3	1.6	1.9
On disposals	-	-	-	(0.2)	(0.1)	(0.3)
As at 31 December	**9.1**	**24.9**	**34.0**	**8.8**	**23.2**	**32.0**
Net Book Value						
As at 31 December	**5.6**	**2.7**	**8.3**	**5.9**	**4.1**	**10.0**

	2022 £m	2021 £m
The net book value of land and buildings comprises:		
Freehold	5.5	5.6
Short Leasehold	0.1	0.3
	5.6	**5.9**
The net book value of land and buildings occupied for own use:		
Building Society	5.3	5.5
Subsidiaries	-	-
Non-Group	0.3	0.4
	5.6	**5.9**

18. LEASES

The statement of financial position shows the following amounts relating to leases:

Group and Society Right of use assets	2022 Property £m	2022 Equipment £m	2022 Motor Vehicles £m	2022 Total £m	2021 Property £m	2021 Equipment £m	2021 Motor Vehicles £m	2021 Total £m
Cost								
As at 1 January	4.9	0.3	0.2	5.4	4.8	0.3	0.2	5.3
Additions	-	-	-	-	0.1	-	-	0.1
Lease modifications	(0.3)	-	-	(0.3)	-	-	-	-
As at 31 December	**4.6**	**0.3**	**0.2**	**5.1**	**4.9**	**0.3**	**0.2**	**5.4**
Depreciation								
As at 1 January	2.1	0.2	0.2	2.5	1.7	0.1	0.1	1.9
Charge for the year & impairment	1.4	0.1	-	1.5	0.4	0.1	0.1	0.6
As at 31 December	**3.5**	**0.3**	**0.2**	**4.0**	**2.1**	**0.2**	**0.2**	**2.5**
Net Book Value								
As at 31 December	**1.1**	**-**	**-**	**1.1**	**2.8**	**0.1**	**-**	**2.9**

Group and Society	2022 £m	2021 £m
Lease liabilities		
Current	0.4	0.5
Non-current	1.8	2.7
	2.2	**3.2**

The income statement shows the following amounts relating to leases:

Group and Society	Note	2022 £m	2021 £m
Depreciation charge for right-of-use assets		1.5	0.6
Interest expense (included in interest payable and similar charges)	4	0.1	0.1
Expense relating to short-term leases (included in administrative expenses)	6	0.3	0.3

The total cash outflow for leases in 2022 was £0.7m (2021: £0.7m) for the Group, of which £0.7m (2021: £0.7m) related to the Society.

NOTES TO THE ACCOUNTS (CONTINUED)

19. INTANGIBLE ASSETS

Group and Society	2022 Purchased Software £m	2022 Developed Software £m	2022 Total £m	2021 Purchased Software £m	2021 Developed Software £m	2021 Total £m
Cost						
As at 1 January	8.3	39.4	47.7	8.0	31.1	39.1
Additions	0.3	1.2	1.5	0.3	8.3	8.6
As at 31 December	**8.6**	**40.6**	**49.2**	**8.3**	**39.4**	**47.7**
Amortisation						
As at 1 January	7.8	23.1	30.9	7.7	18.9	26.6
Charge for the year	0.2	7.0	7.2	0.1	4.2	4.3
As at 31 December	**8.0**	**30.1**	**38.1**	**7.8**	**23.1**	**30.9**
Net Book Value						
As at 31 December	**0.6**	**10.5**	**11.1**	**0.5**	**16.3**	**16.8**

As a result of the formation of the future strategy and anticipated future enhancements in mortgage systems and processes, the average useful lives of the Society's mortgage technology assets have been reduced, resulting in an additional £1.5m amortisation charge in 2022. The remaining intermediary portal carrying value of £3.1 million will be amortised to the income statement over the revised remaining useful life of less than 2 years, resulting in an annual amortisation charge of £1.6 million in future periods.

20. DEFERRED TAX

	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
As at 1 January	1.7	2.7	1.7	2.6
Adjustments in respect of prior periods	-	0.5	-	0.6
Charge to the income statement	0.1	(1.7)	0.1	(1.7)
Recognised directly in other comprehensive income	0.4	0.2	0.4	0.2
As at 31 December	**2.2**	**1.7**	**2.2**	**1.7**

The deferred tax (credit)/charge in the income statement comprises the following temporary differences:

	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Pensions and other post tax retirement benefits	-	0.1	-	0.1
Property plant and equipment	(0.2)	-	(0.2)	-
Intangible assets	(0.1)	(0.4)	(0.1)	(0.4)
Other provisions	-	0.1	-	0.1
Tax losses	0.2	1.4	0.2	1.4
	(0.1)	**1.2**	**(0.1)**	**1.2**

ACCOUNTS

20. DEFERRED TAX (CONTINUED)

Deferred income tax assets and liabilities as at 31 December are attributable to the following items:

	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Deferred tax assets				
Pensions and other post-retirement benefits	0.7	1.1	0.7	1.1
Property, plant and equipment	0.5	0.4	0.5	0.4
Fair value reserves	1.1	0.3	1.1	0.3
Other timing differences	0.2	0.1	0.2	0.1
Tax losses	-	0.2	-	0.2
	2.5	**2.1**	**2.5**	**2.1**
Deferred tax liabilities				
IFRS transitional adjustments	0.2	0.2	0.2	0.2
Intangibles	0.1	0.2	0.1	0.2
	0.3	**0.4**	**0.3**	**0.4**
Net deferred tax asset	**2.2**	**1.7**	**2.2**	**1.7**

Deferred tax assets and liabilities have been offset as there is a legally enforceable right to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and the authority permits the company to make a single net payment.

The Society recognised £nil (2021: £0.2m) deferred tax assets relating to losses incurred in the financial year as it is more likely than not that future profitability will enable the recovery of such assets. There are no further assets for tax losses in the Group, which have not been recognised at 31 December 2022 (2021: £nil).

21. SHARES

Group and Society	2022 £m	2021 £m
Held by individuals	3,014.5	2,874.9
Fair value adjustment for hedged risk	(4.8)	(0.3)
	3,009.7	**2,874.6**

22. AMOUNTS OWED TO CREDIT INSTITUTIONS

Group and Society	2022 £m	2021 £m
Amounts owed to credit institutions	419.0	346.1
	419.0	**346.1**

NOTES TO THE ACCOUNTS (CONTINUED)

23. AMOUNTS OWED TO OTHER CUSTOMERS

Group and Society	2022 £m	2021 £m
Demand accounts		
Retail customers	0.7	0.6
Other	0.2	0.3
	0.9	**0.9**
Term deposits		
Local Authorities	7.5	22.0
Other	-	-
	7.5	**22.0**
	8.4	**22.9**

24. AMOUNTS OWED TO SUBSIDIARY UNDERTAKINGS

Society	2022 £m	2021 £m
At 1 January	145.2	205.2
Advance	-	-
Repayment	(35.8)	(60.0)
At 31 December	**109.4**	**145.2**

The amounts owed to subsidiary undertakings represents a deemed loan with Arrow Mortgage Finance No.1 Ltd as part of a secured funding balance. The repayment of the loan will follow the collection of the principal and interest of the underlying mortgage assets, which is contractually due to be settled within two years.

25. DEBT SECURITIES IN ISSUE

	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Senior secured debt	91.0	127.1	-	-
	91.0	**127.1**	**-**	**-**

The underlying security for the senior secured debt are certain loans and advances to customers (see note 14 for further detail). The facility is due to mature in April 2025.

NOTES TO THE ACCOUNTS (CONTINUED)

26. OTHER LIABILITIES AND ACCRUALS

	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Trade creditors	1.0	0.4	1.0	0.4
Accruals and deferred income	4.8	3.2	4.8	3.2
Other creditors	3.5	2.7	3.5	2.7
	9.3	**6.3**	**9.3**	**6.3**

27. PROVISIONS FOR LIABILITIES

FSCS levy

Following the settlement of the loans outstanding from the 2008/09 banking failures, there are no further liabilities outstanding. Ongoing costs of the FSCS scheme are recognised in administrative expenses.

Customer redress and other related provisions

Other provisions have been made in previous periods in respect of various customer claims, including claims in relation to previous sales of payment protection insurance and endowment policies. The remaining liability at 31 December 2022 is immaterial to the financial statements.

Contingent liabilities

As a deposit taker, the Society continues to have obligations to the FSCS, as well as other contractual obligations to third party suppliers, which may create a financial obligation in future accounting periods.

28. RETIREMENT BENEFIT OBLIGATIONS

a) Defined benefit obligations

The Group operates a contributory defined benefit scheme, the assets of which are held in a separate trustee administered fund. The scheme closed to new members in 1997 and was closed for future service accrual from 31 January 2009.

The pension cost is assessed following the advice of a qualified independent actuary using the projected unit method. The latest funding review of the scheme was as at 31 March 2020. This review showed that the market value of the scheme assets as at 31 March 2020 was £55.3 million and that the actuarial value of those assets represented 86% of the benefits that had accrued to members after allowing for expected future increase in salaries.

An updated actuarial valuation at 31 December 2022 was carried out on a market value basis by a qualified independent actuary, as follows:

Group and Society	**2022**	**2021**
The principal actuarial assumptions used were as follows:		
Discount rate	4.85%	1.85%
Rate of increase in salaries	3.40%	3.55%
Rate of increase in pensions	3.60%	3.70%
Inflation	3.55%	3.55%
Post-retirement mortality	S3PMA_L for males, S3PFA for females tables with CMI 2019 projections using a long-term improvement rate of 1.25% p.a	S3PMA_L for males, S3PFA for females tables with CMI 2019 projections using a long-term improvement rate of 1.25% p.a

The assumptions applied follow the requirements of IAS 19, which are different to the technical valuation approach. This requires the discount rate to be benchmarked against AA corporate rated bonds, which as at 31 December 2022 were higher (2021: lower) than the anticipated rate of future inflation.

28. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

The table below shows the assumptions used for expected life at 31 December based on an expected normal retirement age of 62.

Group and Society	2022 Male Years	2022 Female Years	2021 Male Years	2021 Female Years
Expected life at retirement for a new pensioner	26.6	27.7	26.5	27.6
Expected life at retirement in 20 years' time	28.0	29.2	27.9	29.1

Approximate sensitivities of the principal assumptions are set out in the table below which shows the increase or reduction in the pension obligations that would result. Each sensitivity considers one change in isolation.

Group and Society	Change in assumption	2022 £m	2021 £m
Principal actuarial assumption			
Discount rate	- 0.25%	(1.4)	(2.7)
Rate of increase in salaries	- 0.25%	0.1	0.1
Rate of increase in pensions	- 0.25%	0.5	1.0
Mortality age adjustment	- 0.25%	0.3	0.6
Inflation	- 0.25%	0.6	1.2

Group and Society	2022 £m	2021 £m
Fair value of scheme assets:		
As at 1 January	67.7	65.6
Interest on pension scheme assets	1.3	0.8
Contributions by employer	1.5	1.5
Benefits paid	(2.3)	(2.1)
(Loss)/gain on asset returns	(24.9)	1.9
As at 31 December	**43.3**	**67.7**
Present value of defined benefit obligations:		
As at 1 January	(63.4)	(68.8)
Interest on pension scheme liabilities	(1.2)	(0.8)
Benefits paid	2.3	2.1
Experience gain on liabilities	(0.9)	-
Gain on changes in financial assumptions	21.1	4.1
As at 31 December	**(42.1)**	**(63.4)**
Surplus in scheme at 31 December	**1.2**	**4.3**
Impact of asset ceiling	(4.1)	(8.7)
LIABILITY IN THE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER	**(2.9)**	**(4.4)**

In recognising the net surplus or deficit of the pension scheme, the funded status of the scheme is adjusted to reflect the funding requirement agreed by the sponsor alongside the rights of any return of surplus, with the recognition of an asset ceiling liability. The actual return on plan assets was a loss of £23.7 million (2021: £2.7 million gain).

28. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

The major categories of plan assets are as follows:

Group and Society	2022 £m	2021 £m
Investments quoted in active market		
Listed equity investments	4.9	15.0
Multi asset growth	9.4	16.1
High yield credit	10.6	16.2
Cash and cash equivalent	6.6	4.0
Unquoted investments		
Liability driven investments	10.7	15.0
Secured pensioners	1.1	1.4
Fair value of scheme assets	**43.3**	**67.7**

Amounts recognised in finance cost in the income statement:	2022 £m	2021 £m
Interest cost on pension scheme liabilities	(1.3)	(0.8)
Interest income on pension scheme assets	1.2	0.8
	(0.1)	**-**

The movement in the liability recognised in the statement of financial position is as follows:

Group and Society	2022 £m	2021 £m
Opening defined benefit obligation at 1 January	(4.4)	(5.9)
Amount recognised in the income statement	(0.1)	-
Employer contributions	1.5	1.5
Remeasurement gains	0.1	-
Closing defined benefit obligation as at 31 December	**(2.9)**	**(4.4)**

28. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

The amount recognised in the statement of other comprehensive income for remeasurement gains and losses is as follows:

Group and Society	2022 £m	2021 £m
Actual return less expected return on plan assets	(24.9)	1.9
Experience loss arising on scheme liabilities	(0.9)	-
Changes in assumptions underlying the present value of the scheme liabilities	21.1	4.1
Change in impact of asset ceiling	4.8	(6.0)
Remeasurement of defined benefit obligation	**0.1**	**-**

The average duration of the defined benefit obligation as at 31 December 2022 is 13 years (2021: 16 years). This number can be analysed as follows:

Group and Society	2022 Years	2021 Years
Active members	16	21
Deferred members	17	21
Retired members	11	13

During the year, the Group made contributions of £1.5 million (2021: £1.5 million) as part of its funding plan. The Group and Society have committed to contribute £1.5 million in 2022 under the agreed funding plan.

During the year, the Society provided a short-term liquidity facility to the defined benefit pension scheme of £8 million. The outstanding balance on the facility amounted to £nil at 31 December 2022 and the facility expires in April 2023.

b) Defined contribution obligations

The Group also operates contributory defined contribution schemes. The assets of these schemes are held separately from those of the Group.

The pension charge for the period represents contributions payable by the Group and Society to the schemes and amounted for the continuing Group to £1.0 million (2021: £1.0 million) and for the Society £1.0 million (2021: £1.0 million). There were no outstanding or prepaid contributions at either the beginning or end of the year.

29. SUBSCRIBED CAPITAL

Group and Society	2022 £m	2021 £m
7.875% sterling permanent interest bearing shares	23.9	23.9
Fair value adjustment for hedged risk	0.1	0.1
	24.0	**24.0**

The subscribed capital was issued for an indeterminate period and is only repayable in the event of the winding up of the Society. PIBS holders do not have any right to a residual interest in the Society.

30. FAIR VALUE RESERVES

Group and Society	FVOCI reserve 2022 £m	FVOCI reserve 2021 £m
At 1 January	(0.1)	-
Fair value losses on treasury assets	(4.1)	(0.3)
Deferred tax credit	0.8	0.2
Amounts recycled to the income statement	-	-
At 31 December	**(3.4)**	**(0.1)**

31. FINANCIAL INSTRUMENTS

Classification & Measurement

A financial instrument is a contract that gives rise to a financial asset or financial liability. The Nottingham Building Society is a retailer of financial instruments, mainly in the form of mortgages and savings products. The Group uses wholesale financial instruments to invest in liquid assets, raise wholesale funding and to manage the risks arising from its operations.

The Group has a formal structure for managing risk, including established risk limits, reporting lines, mandates, credit risk appetite and other control procedures. The Board Risk Committee (BRC) is tasked with monitoring the Group's overall exposure to risk, supported by the Executive Risk Committee (ERC). Six sub committees, the Assets and Liabilities Committee (ALCO), Retail Credit Committee (RCC), Model Governance (MGC), Operational Risk & Resilience Committee (ORRC), Legal, Regulatory & Conduct Risk Committee (LRC) and the Reinvention Committee (RC) monitor the individual areas of risk and report to the BRC quarterly.

The ALCO, monitors statement of financial position risks (including the use of derivative financial instruments), funding and liquidity in line with the Group's prudent policy statements as well as wholesale credit risk. The Retail Credit Committee ensures that the management of credit risk is consistent with the credit risk appetite statement.

Key performance indicators are provided to the ERC and Board monthly by the ALCO and Retail Credit Committee.

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

The objective of the Group in using derivatives is in accordance with the Building Societies Act 1986 and is to limit the extent to which the Group will be affected by changes in interest rates. Derivatives are not used in trading activity or for speculative purposes.

The derivative instruments used by the Group in managing its statement of financial position risk exposures are interest rate swaps. These are used to protect the Group from exposures arising principally from fixed rate mortgage lending, fixed rate savings products and fixed rate wholesale funding. 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 Group applies portfolio fair value hedging techniques to reduce its exposure to interest rate risk as follows:

Hedged item	Risk	Fair value interest rate hedge
Fixed rate mortgage	Increase in interest rates	Group pays fixed, receives variable
Fixed rate savings bond	Decrease in interest rates	Group receives fixed, pays variable
Fixed rate funding	Decrease in interest rates	Group receives fixed, pays variable

The fair values of these hedges as at 31 December 2022 are shown in note 13.

NOTES TO THE ACCOUNTS (CONTINUED)

31. FINANCIAL INSTRUMENTS (CONTINUED)

Classification & Measurement (continued)

Below are the summary terms and conditions and accounting policies of financial instruments held by the Group.

Financial instrument	Terms and conditions	Accounting policy: IFRS 9
Loans and advances to credit institutions	Fixed or reference linked interest rate Fixed term Short to medium-term maturity	Amortised cost Accounted for at settlement date
Debt securities	Fixed or reference linked interest rate Fixed term Short to medium-term maturity	Fair value through other comprehensive income Accounted for at settlement date
Loans and advances to customers	Secured on residential property or land Standard maximum contractual term of 25 years Fixed or variable rate interest	Amortised cost Accounted for at settlement date
Shares	Variable term Fixed or variable interest rates	Amortised cost Accounted for at settlement date
Amounts owed to credit institutions	Fixed or reference linked interest rate Fixed term Short to medium-term maturity	Amortised cost Accounted for at settlement date
Amounts owed to other customers	Fixed or reference linked interest rate Fixed term Short to medium-term maturity	Amortised cost Accounted for at settlement date
Debt securities in issue	Fixed or reference linked interest rate Fixed term Short to medium-term maturity	Amortised cost Accounted for at settlement date
Subscribed capital	Fixed interest rate Issued for indeterminate period Only repayable upon winding up of the Society	Amortised cost Accounted for at settlement date
Derivative financial instruments	Fixed interest received/paid converted to variable interest paid/received Based on notional value of the derivative	Fair value through profit and loss Accounted for at trade date

31. FINANCIAL INSTRUMENTS (CONTINUED)

Classification & Measurement (continued)

Financial assets and liabilities are measured on an ongoing basis either at fair value or at amortised cost. Note 1: 'Accounting policies' describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The tables below analyse the Group's assets and liabilities by financial classification:

Carrying values by category	Held at amortised cost	Held at fair value			
Group **As at 31 December 2022**	Financial assets and liabilities at amortised cost **£m**	Fair value through other comprehensive income **£m**	Derivatives designated as fair value hedges **£m**	Unmatched derivatives **£m**	Total **£m**
Financial assets					
Cash in hand and balances with the Bank of England	290.1	-	-	-	290.1
Loans and advances to credit institutions	16.0	-	-	-	16.0
Debt securities	-	413.2	-	-	413.2
Derivative financial instruments	-	-	134.8	7.8	142.6
Loans and advances to customers	2,922.8	-	-	-	2,922.8
Other assets	27.8	-	-	-	27.8
	3,256.7	**413.2**	**134.8**	**7.8**	**3,812.5**
Financial liabilities					
Shares	3,009.7	-	-	-	3,009.7
Amounts owed to credit institutions	419.0	-	-	-	419.0
Amounts owed to other customers	8.4	-	-	-	8.4
Debt securities in issue	91.0	-	-	-	91.0
Derivative financial instruments	-	-	14.0	0.4	14.4
Subscribed capital	24.0	-	-	-	24.0
Other liabilities	14.4	-	-	-	14.4
	3,566.5	**-**	**14.0**	**0.4**	**3,580.9**

31. FINANCIAL INSTRUMENTS (CONTINUED)

Classification & Measurement (continued)

Carrying values by category	Held at amortised cost	Held at fair value			
Group **As at 31 December 2021**	Financial assets and liabilities at amortised cost **£m**	Fair value through other comprehensive income **£m**	Derivatives designated as fair value hedges **£m**	Unmatched derivatives **£m**	Total **£m**
Financial assets					
Cash in hand and balances with the Bank of England	286.1	-	-	-	286.1
Loans and advances to credit institutions	16.1	-	-	-	16.1
Debt securities	-	260.3	-	-	260.3
Derivative financial instruments	-	-	23.0	3.1	26.1
Loans and advances to customers	3,010.9	-	-	-	3,010.9
Other assets	35.3	-	-	-	35.3
	3,348.4	**260.3**	**23.0**	**3.1**	**3,634.8**
Financial liabilities					
Shares	2,874.6	-	-	-	2,874.6
Amounts owed to credit institutions	346.1	-	-	-	346.1
Amounts owed to other customers	22.9	-	-	-	22.9
Debt securities in issue	127.1	-	-	-	127.1
Derivative financial instruments	-	-	6.4	0.1	6.5
Subscribed capital	24.0	-	-	-	24.0
Other liabilities	14.5	-	-	-	14.5
	3,409.2	**-**	**6.4**	**0.1**	**3,415.7**

31. FINANCIAL INSTRUMENTS (CONTINUED)

Fair values of financial assets and liabilities carried at amortised cost

The table below analyses the book and fair values of the Group's financial instruments held at amortised cost at 31 December:

Group		2022 Book value £m	2022 Fair value £m	2021 Book value £m	2021 Fair value £m
Financial assets					
Cash in hand and balances with the Bank of Engand	a	290.1	290.1	286.1	286.1
Loans and advances to credit institutions	b	16.0	16.0	16.1	16.1
Loans and advances to customers	c	2,922.8	2,800.4	3,010.9	3,029.3
Financial liabilities					
Shares	d	3,009.7	3,035.0	2,874.6	2,879.9
Amounts owed to credit institutions	d	419.0	419.0	346.1	346.1
Amounts owed to other customers	d	8.4	8.4	22.9	22.8
Debt securities in issue	e	91.0	91.0	127.1	127.1
Subscribed capital	f	23.9	24.2	23.9	31.0

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The estimated fair value of the financial assets and liabilities above has been calculated using the following valuation methodology:

a) Cash in hand – Level 1
The fair value of cash in hand and deposits with central banks is the amount repayable on demand.

b) Loans and advances to credit institutions – Level 2
The fair value of overnight deposits is the amount repayable on demand.
The estimated fair value of collateral loans and advances to credit institutions is derived using valuation techniques that use observable market inputs.

c) Loans and advances to customers – Level 3
Loans and advances are recorded net of provisions for impairment together with the fair value adjustment for hedged items. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received taking account of expected prepayment rates.

Estimated cash flows are discounted at prevailing market rates for items of similar remaining maturity. The fair values have been adjusted where necessary to reflect any observable market conditions at the time of valuation.

d) Shares, deposits and borrowings – Level 3
The fair value of shares and deposits and other borrowings with no stated maturity is the amount repayable on demand.

The fair value of fixed interest bearing deposits and other borrowings without a quoted market price is based on expected future cash flows determined by the contractual terms and conditions discounted at prevailing market rates for items of similar remaining maturity.

e) Debt securities in issue – Level 2
The fair value is calculated using a discounted cash flow model. Expected cash flows are discounted at prevailing market rates for items of similar remaining maturity.

f) Subscribed capital – Level 1
The estimated fair value of fixed interest bearing debt is based on its active market price as at the period end.

NOTES TO THE ACCOUNTS (CONTINUED)

31. FINANCIAL INSTRUMENTS (CONTINUED)

Fair values of financial assets and liabilities carried at fair value

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:

Group	Notes	2022 Level 1 £m	2022 Level 2 £m	2022 Total £m	2021 Level 1 £m	2021 Level 2 £m	2021 Total £m
Financial assets							
FVOCI - Debt securities	12	413.2	-	413.2	260.3	-	260.3
Derivative financial instruments – Interest rate swaps	13	-	142.6	142.6	-	26.1	26.1
		413.2	**142.6**	**555.8**	**260.3**	**26.1**	**286.4**
Financial liabilities							
Derivative financial instruments – Interest rate swaps	13	-	(14.4)	(14.4)	-	(6.5)	(6.5)
		-	**(14.4)**	**(14.4)**	**-**	**(6.5)**	**(6.5)**

The Group has no level 3 financial instruments carried at fair value.

Valuation techniques

The following is a description of the determination of fair value for financial instruments, which are accounted for at fair value using valuation techniques.

The fair value hierarchy detailed in IFRS 13: 'Fair Value Measurement' splits the source of input when deriving fair values into three levels, as follows:

- **Level 1** – quoted prices (unadjusted) in active markets for identical assets or liabilities
- **Level 2** – inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly or indirectly
- **Level 3** – inputs for the asset or liability that are not based on observable market data

The main valuation techniques employed by the Group to establish fair value of the financial instruments disclosed above are set out below:

Debt securities

- **Level 1** – Market prices have been used to determine the fair value of listed debt securities
- **Level 2** - Debt securities for which there is no readily available traded price are valued based on the 'present value' method. This requires expected future principal and interest cash flows to be discounted using prevailing yield curves. The yield curves are generally observable market data which is derived from quoted interest rates in similar time bandings, which match the timings of the cash flows and maturities of the instruments.

Interest rate swaps

The valuation of interest rate swaps is also based on the 'present value' method. Expected interest cash flows are discounted using the prevailing SONIA yield curves. The yield curves are generally observable market data which is derived from quoted interest rates in similar time bandings which match the timings of the interest cash flows and maturities of the instruments. All swaps are fully collateralised and therefore no adjustment is required for credit risk in the fair value of derivatives.

Transfers between fair value hierarchies

Transfers between fair value hierarchies occur when either it becomes possible to value a financial instrument using a method that is higher up the valuation hierarchy or it is no longer possible to value it using the current method and it must instead be valued using a method lower down the hierarchy. There have been no transfers during the current or previously reported periods.

NOTES TO THE ACCOUNTS (CONTINUED)

31. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk

Credit risk is the risk that the Group incurs a financial loss arising from the failure of a customer or counterparty to meet their contractual obligations. The Group structures the level of credit risk it undertakes, by maintaining a credit governance framework involving delegated approval authority levels and credit procedures, the objective of which is to build and maintain risk asset portfolios of high quality.

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

Group and Society	2022 £m	2021 £m
Credit risk exposure		
Cash in hand and balances with the Bank of England	290.1	286.1
Loans and advances to credit institutions	16.0	16.1
Debt securities	417.7	260.8
Derivative financial instruments	142.6	26.1
Loans and advances to customers	2,922.8	3,010.9
Total statement of financial position exposure	**3,789.2**	**3,600.0**
Off balance sheet exposure – mortgage commitments	281.5	120.0
	4,070.7	**3,720.0**

The growth in mortgage commitments in 2022 is primarily as a result of the Society's partnership with Generation Home.

a) Loans and advances to credit institutions, debt securities and derivative financial instruments

The Executive Risk Committee, supported by ALCO, is responsible for approving treasury counterparties for both derivatives and investment purposes, within the Board's risk appetite. Limits are placed on the amount of risk accepted in relation to one counterparty, or group of counterparties, and to industry sectors. This is monitored weekly by the Society's Treasury risk team and reviewed monthly by the ALCO.

The Group's policy only permits lending to central government (which includes the Bank of England), UK local authorities, banks with a high credit rating and building societies. The Group's Treasury team perform regular analysis of counterparty credit risk and monitoring of publicly available information to highlight possible indirect exposures.

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

Group	2022 £m	2022 %	2021 £m	2021 %
Industry sector				
Banks	112.9	15.7	89.0	15.8
Building Societies	76.7	10.7	44.4	7.9
Multilateral Development Banks	114.0	15.8	104.9	18.7
Central Government	415.7	57.8	324.2	57.6
	719.3		**562.5**	

Group	2022 £m	AAA %	AA %	A %	2021 £m
Geographic region					
United Kingdom	605.3	25.3	68.7	2.8	457.6
Multilateral Development banks	114.0	100.0	-	-	104.9
North America	-	-		-	-
	719.3				**562.5**

NOTES TO THE ACCOUNTS (CONTINUED)

31. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk (continued)

a) Loans and advances to credit institutions, debt securities and derivative financial instruments (continued)

The Group has no exposure to foreign exchange risk. All instruments are denominated in sterling. The Group also has no direct exposure to any sovereign states, other than the UK.

The Group's derivative financial instruments are fully collateralised with a central clearing house in the United Kingdom and as a result there is no exposure to the Group.

All of the Group's treasury assets are classified as Stage 1 for ECL calculation purposes under IFRS 9 and there are no impairment charges against any of the Group's treasury assets as at 31 December 2022 (2021: £nil).

b) Loans and advances to customers

All mortgage loan applications are assessed with reference to the Group's retail credit risk appetite statement and lending policy, which includes assessing applicants for potential fraud risk, which is approved by the Board. When deciding on the overall risk appetite that the Group wishes to adopt, both numerical and non-numerical considerations are taken into account, along with data on the current UK economic climate, portfolio information derived from the Group's rating system and competitor activity. The statement must comply with all the prevailing regulatory policy and framework.

The lending portfolio is monitored by the RCC to ensure that it remains in line with the stated risk appetite of the Group, including adherence to the lending principles, policies and lending limits.

For new customers, the first element of the retail credit control framework is achieved via credit scoring, which assesses the credit quality of potential customers prior to making loan offers. The customers' credit score combines demographic and financial information. A second element is lending policy rules, which are applied to new applications to ensure that they meet the risk appetite of the Group. All mortgage applications are overseen by the Lending Services team who ensure that any additional lending criteria are applied and that all information submitted within the application is validated.

For existing customers who have been added to the lending portfolio, management use behavioural scorecards to review the ongoing creditworthiness of customers by determining the likelihood of them defaulting over a rolling 12 month period together with the amount of loss if they do default. The continual assessment of customer risk of default is used to assess the customer's suitability for further lending as well as feed into strategic decision making processes, such as the corporate plan. Models used within the customer rating process are monitored in line with industry best practice and to provide insight into changes observed within the mortgage portfolios.

Credit risk management information is comprehensive and is circulated to the RCC on a monthly basis to ensure that the portfolio remains within the Group's risk appetite.

It is the Group's policy to ensure good customer outcomes and lend responsibly by ensuring at the outset that the customer can meet the mortgage repayments. This is achieved by obtaining specific information from the customer concerning income and expenditure but also external credit reference agency data.

The Group does not have any exposure to the sub-prime market.

The maximum credit risk exposure is disclosed in the table on page 95.

Loans and advances to customers are predominantly made up of retail loans fully secured against UK residential property of £2,702.7 million (2021: £2,800.2 million), split between residential and buy-to-let loans with the remaining £334.7 million (2021: £232.6 million) being secured on secured business lending.

31. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk (continued)

b) Loans and advances to customers (continued)

The Group operates throughout England & Wales with the portfolio well spread throughout the geographic regions. An analysis of the Group's geographical concentration is shown in the table below:

Group and Society	2022 %	2021 %
Geographical analysis		
Eastern	9.5	9.5
East Midlands	15.8	16.8
London	9.4	8.6
North East	5.1	5.1
North West	12.2	11.8
South East	14.0	13.9
South West	8.5	8.7
Wales	3.6	3.4
West Midlands	9.7	9.8
Yorkshire & Humberside	11.9	12.1
Other	0.3	0.3
	100.0	**100.0**

Retail loans (Loans fully secured on residential properties)

Loans fully secured on residential property are split between residential and traditional buy-to-let. The average LTV is the mean LTV for the portfolio. Each individual LTV is calculated by comparing the value of the mortgage loan to the value of collateral held adjusted by a house price index. The simple average LTV of residential mortgages is 46% (2021: 49%). All residential loans above 80% LTV are insured against loss.

The indexed LTV analysis on the Group's residential mortgage portfolio is shown below:

Group and Society	2022 Residential %	2022 Buy-to-let %	2021 Residential %	2021 Buy-to-let %
Loan to Value analysis				
< 60%	54.6	85.0	48.5	74.7
60% - 80%	37.4	15.0	45.1	25.3
80% - 90%	6.8	-	5.8	-
> 90%	1.2	-	0.6	-
	100.0	**100.0**	**100.0**	**100.0**
Average loan to value of loans	45.5	47.6	48.2	51.1
Average loan to value of new business	70.5	66.1	67.8	64.1

The quality of the Group's retail mortgage book is reflected in the number and value of accounts in arrears. By volume 0.2% (2021: 0.2%) of loans are three months or more in arrears and by value it is 0.2% (2021: 0.2%).

The main factor for loans moving into arrears tends to be the condition of the general economic environment. In general, the lower the loan-to-value percentage, the greater the equity within the property, and the lower the losses expected to be realised in the event of default or repossession.

NOTES TO THE ACCOUNTS (CONTINUED)

31. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk (continued)

b) Loans and advances to customers (continued)

Retail loans (continued)

The table below shows the fair value of collateral held for residential mortgages.

Group and Society	2022 Indexed £m	2022 Unindexed £m	2021 Indexed £m	2021 Unindexed £m
Value of collateral held:				
Stage 1: *12 month expected credit losses*	4,981.3	3,758.0	5,709.5	4,460.3
Stage 2: *Lifetime expected credit losses*	1,183.0	862.4	257.0	196.3
Stage 3: *Lifetime expected credit losses*	45.6	28.1	42.4	28.3
	6,209.9	**4,648.5**	**6,008.9**	**4,684.9**

The collateral held consists of residential property. Collateral values are adjusted by the ONS Property Price Index to derive the indexed valuation at 31 December. This is the UK's longest running house price index and takes into account regional data from the 12 standard planning regions of the UK. The Group uses the index to update the property values of its residential and buy-to-let portfolios on a quarterly basis.

With collateral capped to the amount of outstanding debt, the value of collateral held against loans in stages 2 and 3 under IFRS 9 and which are in arrears, is £12.2 million as at 31 December 2022 (2021: £11.6 million).

Mortgage indemnity insurance acts as additional security. It is taken out for all residential loans where the borrowing exceeds 80% of the value of the property at the point of application.

The increase in the collateral held in relation to loans classified in Stage 2 and the decrease in the collateral held in relation loans classified in Stage 1 primarily reflects the movement of loans to between Stage 1 and 2 in the year.

NOTES TO THE ACCOUNTS (CONTINUED)

31. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk (continued)

b) Loans and advances to customers (continued)

Retail loans (continued)

The Group's residential mortgage exposures and provisions may be disaggregated by probability of default ranges as follows:

Group and Society PD%	2022 Gross loans £m	2022 Expected Credit Loss £m	2021 Gross loans £m	2021 Expected Credit Loss £m
0% - 2.5%	-	-	3.2	-
2.5% - 5.0%	5.9	-	4.8	-
5.0% - 7.5%	3.0	-	2,514.5	1.3
7.5% - 10.0%	1,983.4	1.9	167.8	0.1
10.0% – 100%	710.3	1.2	109.9	0.3
	2,702.6	**3.1**	**2,800.2**	**1.7**

The movement in the exposures to higher PD bands in the year is reflective of the change in the economic environment as a result of the current cost of living crisis, global inflationary pressures and the interest rate rises to manage inflation. This is expected to have an impact on the affordability of mortgages, resulting in an increased likelihood that customers will default.

The table below provides information on retail gross loans and Expected Credit Loss stages split by the number of days past due (DPD):

Group and Society	2022 Gross loans £m	2022 Expected Credit Loss £m	2021 Gross loans £m	2021 Expected Credit Loss £m
Stage 1: 12 month expected credit losses				
< 30 days past due	2,187.1	2.5	2,666.7	1.4
Stage 2: Lifetime expected credit losses				
< 30 days past due	493.1	0.5	111.5	0.2
> 30 days past due	6.3	-	5.8	-
Stage 3: Lifetime expected credit losses				
< 90 days past due	11.9	0.1	12.1	0.1
> 90 days past due	4.2	-	4.1	-
	2,702.6	**3.1**	**2,800.2**	**1.7**

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NOTES TO THE ACCOUNTS (CONTINUED)

31. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk (continued)

b) Loans and advances to customers (continued)

Retail loans (continued)

Forbearance

Temporary interest only concessions were historically offered to customers in financial difficulty on a temporary basis with formal periodic review. The concession allowed the customer to reduce monthly payments to cover interest only, and if made, the arrears status will not increase. Interest only concessions are no longer offered and have been replaced by reduced payment concessions.

Reduced payment concessions allow a customer to make an agreed underpayment for a specific period of time. The monthly underpaid amount accrues as arrears and agreement is reached at the end of the concession period on how the arrears will be repaid.

Payment plans are agreed to enable customers to reduce their arrears balances by an agreed amount per month, which is paid in addition to their standard monthly repayment.

Capitalisations occur where arrears are added to the capital balance outstanding for the purposes of restructuring the loan.

The term of the mortgage is extended in order to reduce payments to a level that is affordable to the customer based on their current financial circumstances.

All forbearance arrangements are formally discussed with the customer and reviewed by management prior to acceptance of the forbearance arrangement. By offering customers in financial difficulty the option of forbearance, the Society potentially exposes itself to an increased level of risk through prolonging the period of non-contractual payment and/or potentially placing the customer into a detrimental position at the end of the forbearance period.

Regular monitoring of the level and different types of forbearance activity are reported to the RCC on a monthly basis. In addition the Legal, Regulatory & Conduct Risk Committee monitors the level of arrears and forbearance cases. In addition, all forbearance arrangements are reviewed and discussed with the customer on a regular basis to assess the ongoing potential risk to the Society and suitability of the arrangement for the customer.

The table below details the number of forbearance cases within the retail loans category:

Unaudited Group and Society	2022 Number	2021 Number
Type of forbearance		
Interest only concessions	1	1
Reduced payment concessions	4	-
Payment plans	29	27
Capitalisations	38	47
Mortgage term extensions	35	52
Less: cases with more than one form of forbearance	(35)	(35)
	72	**92**

These cases are covered by an IFRS 9 ECL allowance of £23,000 (2021: £22,000). In total, £5.1 million (2021: £8.4 million) of loans are subject to forbearance.

Secured Business Loans (Other loans fully secured on land)

Secured Business Loans (SBL) are primarily made available to Small and Medium sized enterprises for either owner occupied or investment property purposes and includes limited company buy-to-let loans. Loans are also only granted against the 'bricks and mortar' valuation of the property and not against working capital or machinery etc.

The make-up of the SBL book as at 31 December is as follows:

Unaudited Group and Society	2022 £m	2022 %	2021 £m	2021 %
Owner occupied	38.8	11.6	40.9	17.6
Investment property	295.9	88.4	191.7	82.4
	334.7	**100.0**	**232.6**	**100.0**

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NOTES TO THE ACCOUNTS (CONTINUED)

31. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk (continued)

b) Loans and advances to customers (continued)

Secured Business Loans (continued)

The table below provides information on the original LTV of the Group's SBL mortgage portfolio:

Group and Society	2022 %	2021 %
Loan to Value analysis		
< 60%	19.9	23.7
60% - 80%	78.2	73.3
80% - 90%	1.8	2.9
> 90%	0.1	0.1
	100.0	**100.0**
Average loan to value of loans	67.1	65.6
Average loan to value of new business	70.1	69.4

The table below shows the fair value of collateral held for SBL loans:

Group and Society	2022 Indexed £m	2022 Unindexed £m	2021 Indexed £m	2021 Unindexed £m
Value of collateral held:				
Stage 1: 12 month expected credit losses	562.4	520.8	385.6	385.9
Stage 2: Lifetime expected credit losses	44.9	41.8	26.5	28.5
Stage 3: Lifetime expected credit losses	7.6	8.3	2.0	2.0
	614.9	**570.9**	**414.1**	**416.4**

Collateral reflects the latest valuation completed. If a property has had a desktop valuation since the latest full valuation, the collateral reflects the desktop valuation (24% of the SBL book has had a desktop valuation (2021: 32%)).

With collateral capped to the amount of outstanding debt, the value of collateral held against loans in stages 2 and 3 under IFRS 9 and which are in arrears, is £2.9 million as at 31 December 2022 (2021: £1.5 million).

31. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk (continued)

b) Loans and advances to customers (continued)

Secured Business Loans (continued)

The Group's SBL mortgage exposures and provisions may be disaggregated by probability of default ranges as follows:

Group and Society PD%	2022 Gross loans £m	2022 Expected Credit Loss £m	2021 Gross loans £m	2021 Expected Credit Loss £m
0% - 2.5%	0.1	-	0.3	-
2.5% - 5.0%	0.2	-	0.2	-
5.0% - 7.5%	1.7	-	124.2	0.3
7.5% - 10.0%	229.0	0.9	5.3	-
10.0% – 100%	103.7	1.3	102.7	1.1
	334.7	**2.2**	**232.7**	**1.4**

The table below provides information on SBL gross loans and Expected Credit Loss stages split by the number of days past due (DPD):

Group and Society	2022 Gross loans £m	2022 Expected Credit Loss £m	2021 Gross loans £m	2021 Expected Credit Loss £m
Stage 1: 12 month expected credit losses				
< 30 days past due	305.7	1.5	215.1	0.8
Stage 2: Lifetime expected credit losses				
< 30 days past due	23.1	0.4	15.5	0.5
> 30 days past due	2.2	-	1.0	-
Stage 3: Lifetime expected credit losses				
< 90 days past due	3.1	0.2	0.7	-
> 90 days past due	0.6	0.1	0.3	0.1
	334.7	**2.2**	**232.6**	**1.4**

In terms of SBL risk, the single largest borrower represents less than 0.3% (2021: 0.4%) of the SBL mortgage book.

NOTES TO THE ACCOUNTS (CONTINUED)

31. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk (continued)

b) Loans and advances to customers (continued)

Secured Business Loans (continued)

Forbearance

The Group has various forbearance options to support customers who may find themselves in financial difficulty. These include 'interest only' concessions, renegotiation of contractual payment, payment plans and capitalisations.

'Interest only' concessions are offered to customers in financial difficulty on a temporary basis with formal periodic review. The concession allows the customer to reduce monthly payments to cover interest only, and if made, the arrears status will not increase.

Renegotiation of contractual payments is provided to reduce the monthly payment to a level affordable by the customer. The agreement remains within the Society's lending policy, for example within the maximum mortgage term.

Payment plans are agreed to enable customers to reduce their arrears balances by an agreed amount per month which is paid in addition to their standard monthly repayment.

Capitalisations occur where arrears are added to the capital balance outstanding for the purpose of restructuring the loan.

The table below shows those loans subject to forbearance within the SBL loans category:

Unaudited **Group and Society**	**2022** **Number**	**2021** **Number**
Type of forbearance		
Interest only concessions	13	5
Renegotiation of contractual payment	-	5
Active payment plan	-	2
Capitalisation	-	1
Mortgage term extensions	6	-
Less: cases with more than one form of forbearance	(4)	-
	15	**13**

These cases are covered by an IFRS 9 ECL allowance of £23,000 (2021: £90,000). In total, £2.5 million (2021: £2.4 million) of loans are subject to forbearance.

Liquidity risk

Liquidity risk is the risk that the Society 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 Society'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:

i) meet day-to-day business needs;

ii) meet any unexpected cash needs;

iii) maintain public confidence; and

iv) ensure maturity mismatches are provided for.

Monitoring of liquidity, in line with the Society's prudent policy framework, is performed daily. Compliance with these policies is reported to ALCO monthly and through to the Executive Risk and Board Risk Committees.

The Society's liquidity policy is designed to ensure the Society has sufficient liquid resources to withstand a range of stressed scenarios. A series of liquidity stress tests have been developed as part of the Internal Liquidity Adequacy Assessment process (ILAAP). They include scenarios that fulfil the specific requirements of the PRA (the idiosyncratic, market-wide and combination stress tests) and scenarios identified by the Society which are specific to its business model. The stress tests are performed monthly and reported to ALCO to confirm that the liquidity policy remains appropriate.

NOTES TO THE ACCOUNTS (CONTINUED)

31. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk (continued)

The Society's liquid resources comprise high quality liquid assets, including a Bank of England reserves account, Gilts, time deposits and investment grade fixed and floating rate notes issued by highly rated financial institutions, supplemented by unencumbered mortgage assets. At the end of the year the ratio of liquid assets to shares and deposits was 20.4% compared to 16.7% at the end of 2021. When also taking into account the off balance sheet liquid resources, the ratio of liquid resources to shares and deposits was 28.3% (2021: 30.3%).

The Society maintains a contingency funding plan, as part of its Recovery and Resolution Plan process, to ensure that it has so far as possible, sufficient liquid financial resources to meet liabilities as they fall due under each of the scenarios.

The table below analyses the Group's assets and liabilities into relevant maturity groupings, based on the remaining period to contractual maturity at the statement of financial position date. This is not representative of the Group's management of liquidity. Loans and advances to customers rarely run their full course. The actual repayment profile is likely to be significantly different from that shown in the analysis. For example most mortgages have a contractual maturity of around 25 years but are generally repaid much sooner. The average life of a mortgage at the Group, currently in product, is 4.3 years (2021: 4.4 years). Conversely, retail deposits repayable on demand generally remain on the balance sheet much longer.

Group Residual maturity as at 31 December 2022	On demand **£m**	Not more than three months **£m**	More than three months but not more than one year **£m**	More than one year but not more than five years **£m**	More than five years **£m**	Total **£m**
Financial assets						
Liquid assets						
Cash in hand and balances with the Bank of England	283.0	-	7.1	-	-	290.1
Loans and advances to credit institutions	9.3	6.7	-	-	-	16.0
Debt securities	-	65.5	122.1	217.6	8.0	413.2
Total liquid assets	292.3	72.2	129.2	217.6	8.0	719.3
Derivative financial instruments	-	1.3	14.4	125.3	1.9	142.6
Loans and advances to customers	6.6	23.4	65.4	341.1	2,486.3	2,922.8
Other assets	-	2.9	4.1	0.5	20.3	27.8
	298.9	**99.8**	**212.8**	**684.5**	**2,516.5**	**3,812.5**
Financial liabilities and reserves						
Shares	956.0	810.4	490.3	732.2	20.8	3,009.7
Amounts owed to credit institutions	81.6	-	20.0	317.4	-	419.0
Amounts owed to other customers	0.9	-	7.5	-	-	8.4
Debt securities in issue	-	-	-	91.0	-	91.0
Derivative financial instruments	-	-	0.7	13.7	-	14.4
Subscribed capital	-	0.1	-	-	23.9	24.0
Reserves	-	-	-	-	231.6	231.6
Other liabilities	2.3	4.6	1.2	3.3	3.0	14.4
	1,040.8	**815.1**	**519.7**	**1,157.6**	**279.3**	**3,812.5**
Net liquidity gap	**(741.9)**	**(715.3)**	**(306.9)**	**(473.1)**	**2,237.2**	**-**

31. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk (continued)

Group **Residual maturity** **as at 31 December 2021**	On demand **£m**	Not more than three months **£m**	More than three months but not more than one year **£m**	More than one year but not more than five years **£m**	More than five years **£m**	Total **£m**
Financial assets						
Liquid assets						
Cash in hand and balances with the Bank of England	279.2	-	6.9	-	-	286.1
Loans and advances to credit institutions	8.0	8.1	-	-	-	16.1
Debt securities	-	14.0	11.3	235.0	-	260.3
Total liquid assets	287.2	22.1	18.2	235.0	-	562.5
Derivative financial instruments	-	(0.4)	2.2	16.4	7.9	26.1
Loans and advances to customers	0.7	24.6	75.1	438.0	2,472.5	3,010.9
Other assets	-	1.8	3.0	0.5	30.0	35.3
	287.9	**48.1**	**98.5**	**689.9**	**2,510.4**	**3,634.8**
Financial liabilities and reserves						
Shares	1,324.4	720.4	454.2	375.6	-	2,874.6
Amounts owed to credit institutions	2.9	28.1	-	315.1	-	346.1
Amounts owed to other customers	0.9	2.0	20.0	-	-	22.9
Debt securities in issue	-	-	127.1	-	-	127.1
Derivative financial instruments	-	0.4	3.0	3.1	-	6.5
Subscribed capital	-	0.1	-	-	23.9	24.0
Reserves	-	-	-	-	219.1	219.1
Other liabilities	1.6	3.4	1.2	3.1	5.2	14.5
	1,329.8	**754.4**	**605.5**	**696.9**	**248.2**	**3,634.8**
Net liquidity gap	**(1,041.9)**	**(706.3)**	**(507.0)**	**(7.0)**	**2,262.2**	**-**

There is no material difference between the maturity profile for the Group and that for the Society. As at 31 December 2022, £542.4 million (2021: £599.5 million) of the Group's assets were encumbered.

ACCOUNTS

31. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk (continued)

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

Group 31 December 2022	Repayable on demand £m	Not more than three months £m	More than three months but not more than one year £m	More than one year but not more than five years £m	More than five years £m	Total £m
Shares	1,021.0	810.4	490.8	736.4	20.8	3,079.4
Amounts owed to credit institutions	81.6	-	20.3	317.4	-	419.3
Amounts owed to other customers	0.9	-	7.7	-	-	8.6
Debt securities in issue	-	8.1	20.2	62.7	-	91.0
Derivative financial instruments	-	-	0.7	13.4	-	14.1
Subscribed capital	-	0.5	1.5	7.9	23.9	33.8
TOTAL LIABILITIES	**1,103.5**	**819.0**	**541.2**	**1,137.8**	**44.7**	**3,646.2**
Group 31 December 2021						
Shares	1,336.7	720.4	454.3	375.8	-	2,887.2
Amounts owed to credit institutions	2.9	28.1	-	315.1	-	346.1
Amounts owed to other customers	0.9	2.0	20.0	-	-	22.9
Debt securities in issue	-	5.1	122.0	-	-	127.1
Derivative financial instruments	-	0.5	1.6	10.3	-	12.4
Subscribed capital	-	0.5	1.5	7.9	23.9	33.8
TOTAL LIABILITIES	**1,340.5**	**756.6**	**599.4**	**709.1**	**23.9**	**3,429.5**

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.

31. FINANCIAL INSTRUMENTS (CONTINUED)

Market and interest rate risk

Market risk is the risk of changes to the Society's financial condition caused by market interest rates. The Society is exposed to market risk in the form of changes (or potential changes) in the general level of interest rates and changes in the relationship between different types of interest rates (basis risk).

The Society has adopted the 'Extended' approach to interest rate risk, as defined by the PRA, which aims to undertake the hedging of individual transactions within an overall strategy for structural hedging, based on a detailed analysis of the statement of financial position.

The management of interest rate risk is based on a full statement of financial position gap analysis. The statement of financial position is subjected to a range of stress tests, including a 2% rise in interest rates on a weekly basis. The results are measured against the risk appetite for market risk which is currently set at a maximum of 4.0% of capital. In addition, management review interest rate basis risk and its potential impact on earnings. Risk positions are reviewed monthly by the ALCO and reported through to the Executive Risk and Board Risk Committees.

The table below summarises the Group's exposure to interest rate risk.

Group and Society	2022 £m	2021 £m
Changes in market value from a 2% parallel upward shift in interest rates	5.1	0.1

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

The Group is not exposed to foreign currency risk.

The Society does not have any financial assets or liabilities that are offset with the net amount presented in the statement of financial position as IAS 32 'Financial Instruments – Presentation' requires both an enforceable right to set off and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously. Neither of these conditions are met by the Society.

All financial assets and liabilities are presented on a gross basis in the statement of financial position.

The Society centrally clears its derivative instruments, which requires it to enter into Credit Support Annexes (CSAs) and which typically provide for the exchange of collateral on a daily basis to mitigate net mark to market credit exposure.

The following table shows the impact on derivative financial instruments and repurchase agreements after collateral:

Group and Society	2022 Gross Amounts £m	2022 Financial collateral* £m	2022 Net amounts £m	2021 Gross Amounts £m	2021 Financial collateral* £m	2021 Net amounts £m
Financial assets						
Derivative financial instruments	142.6	(142.6)	-	26.1	(26.1)	-
TOTAL FINANCIAL ASSETS	**142.6**	(142.6)	**-**	**26.1**	(26.1)	**-**
Financial liabilities						
Derivative financial instruments	14.4	(14.4)	-	6.5	(6.5)	-
TOTAL FINANCIAL LIABILITIES	**14.4**	**(14.4)**	**-**	**6.5**	**(6.5)**	**-**

* Financial collateral disclosed is limited to the amount of the related financial asset and liability.

31. FINANCIAL INSTRUMENTS (CONTINUED)

Market and interest rate risk (continued)

Fair value hedges

The Group holds a portfolio of fixed rate mortgages and savings products as well as fixed rate PIBS and therefore is exposed to changes in fair value due to movements in market interest rates. The Group manages this risk exposure by entering into pay fixed/receive floating interest rate swaps for its loans to customers and pay floating/receive fixed interest rate swaps to hedge its fixed rate liabilities.

Only the interest rate risk element is hedged and therefore other risks, such as credit risk, are managed separately but are not managed through hedged derivative financial instruments by the Group. The interest rate risk component is determined as the change in the fair value of the long-term fixed rate mortgages arising solely from changes in the appropriate 3 month benchmark rate of interest (SONIA). Such changes are usually the largest component of the overall change in fair value. This strategy is designated as a fair value hedge and its effectiveness is assessed by comparing changes in the fair value of the loans attributable to changes in the benchmark rate of interest with changes in the fair value of the loans attributable to changes in the benchmark rate of interest with changes in the fair value of the interest rate swaps. The Group establishes the hedging ratio by matching the notional of the derivatives with the principal of the portfolio being hedged. Possible sources of ineffectiveness are as follows:

- differences between the expected and actual volumes of prepayments, as the Group hedges to the expected repayment date taking into account expected prepayments based on past experience;
- difference in the discounting between the hedged item and the hedging instrument, as cash collateralised interest rate swaps are discounted using the relevant reference rate discount curves, which are not applied to the fixed rate mortgages; and
- hedging derivatives with a non-zero fair value at the date of initial designation as a hedging instrument.

The exposure from this portfolio frequently changes due to new loans originated, contractual repayments and early prepayments made by customers in each period. As a result, the Group adopts a dynamic hedging strategy (sometimes referred to as a 'macro' or 'portfolio' hedge) to hedge the exposure profile by closing and entering into new swap agreements at each month-end. The Group uses the portfolio fair value hedge of interest rate risk to recognise fair value changes related to changes in interest rate risk in the relevant portfolio, and therefore reduce the profit or loss volatility that would otherwise arise from changes in fair value of the interest rate swaps alone.

The following table details the hedging instruments included in the derivative financial instruments line of the Group's consolidated statement of financial position:

Group and Society	2022 Contract/notional amount £m	2022 Fair value of assets £m	2022 Fair value of liabilities £m	2022 Changes in fair value used for calculating hedge ineffectiveness £m
Derivatives designated as fair value hedges for interest rate risk (note 13)				
Fixed rate mortgages	1,993.0	134.8	(2.6)	93.4
Fixed rate savings	139.0	-	(4.8)	(4.3)
Subscribed capital	-	-	-	-
	2,132.0	**134.8**	**(7.4)**	**89.1**

Group and Society	2021 Contract/notional amount £m	2021 Fair value of assets £m	2021 Fair value of liabilities £m	2021 Changes in fair value used for calculating hedge ineffectiveness £m
Derivatives designated as fair value hedges for interest rate risk (note 13)				
Fixed rate mortgages	1,991.0	21.4	(6.1)	48.6
Fixed rate savings	74.0	1.6	(0.3)	-
Subscribed capital	-	-	-	(1.5)
	2,065.0	**23.0**	**(6.4)**	**47.1**

31. FINANCIAL INSTRUMENTS (CONTINUED)

Market and interest rate risk (continued)

Fair value hedges (continued)

The following table details the hedge exposures covered by the Group's hedging strategies:

Group and Society	2022 Carrying amount of hedged item Assets £m	2022 Carrying amount of hedged item Liabilities £m	2022 Accummulated amount of fair value adjustments on the hedged item Assets £m	2022 Accummulated amount of fair value adjustments on the hedged item Liabilities £m	2022 Balance sheet line item	2022 Change in fair value of hedged item for ineffectiveness assessment £m
Hedged items in fair value hedges for interest rate risk (note 13)						
Fixed rate mortgages	2,093.5	-	(109.2)	-	Loans & advances to customers	(83.2)
Fixed rate savings	-	138.4	-	4.7	Shares	4.4
Subscribed capital	-	-	-	-	Subscribed capital	-
	2,093.5	**138.4**	**(109.2)**	**4.7**		**(78.8)**

Group and Society	2021 Carrying amount of hedged item Assets £m	2021 Carrying amount of hedged item Liabilities £m	2021 Accummulated amount of fair value adjustments on the hedged item Assets £m	2021 Accummulated amount of fair value adjustments on the hedged item Liabilities £m	2021 Balance sheet line item	2021 Change in fair value of hedged item for ineffectiveness assessment £m
Hedged items in fair value hedges for interest rate risk (note 13)						
Fixed rate mortgages	2,047.0	-	(18.8)	-	Loans & advances to customers	(42.0)
Fixed rate savings	-	77.4	-	(0.3)	Shares	1.3
Subscribed capital	-	-	-	-	Subscribed capital	0.3
	2,047.0	**77.4**	**(18.8)**	**(0.3)**		**(40.4)**

31. FINANCIAL INSTRUMENTS (CONTINUED)

Market and interest rate risk (continued)

Fair value hedges (continued)

The following table contains information regarding the effectiveness of the hedging relationships designated by the Group, as well as the impacts on profit or loss.

Group and Society	2022 Hedge ineffectiveness recognised in income statement £m	2022 Income statement line item that includes reclassified amount
Fair value hedges		
Interest rate swaps		
Fixed rate mortgages	10.1	Net gains from derivative financial instruments
Fixed rate savings	(0.1)	Net gains from derivative financial instruments
Subscribed capital	-	Net gains from derivative financial instruments
	10.0	

Group and Society	2021 Hedge ineffectiveness recognised in income statement £m	2021 Income statement line item that includes reclassified amount
Fair value hedges		
Interest rate swaps		
Fixed rate mortgages	6.6	Net losses from derivative financial instruments
Fixed rate savings	(0.1)	Net losses from derivative financial instruments
Subscribed capital	-	Net losses from derivative financial instruments
	6.5	

NOTES TO THE ACCOUNTS (CONTINUED)

32. CAPITAL STRUCTURE

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 formal Internal Capital Adequacy Assessment Process (ICAAP) assists the Society with its management of capital. Through its quarterly business plan update the Board monitors the Society's capital position to assess whether adequate capital is held to mitigate the risks it faces in the course of its business activities. 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 Total Capital Requirement (TCR).

The Board manages the Society's capital and risk exposures to maintain capital in line with regulatory requirements which includes monitoring of:

- **Lending and Business Decisions** – The Society uses application scorecards to help it assess whether mortgage applications fit within its appetite for credit risk. Once loan funds have been advanced, behavioural scorecards are used to review the ongoing risk profile of both the portfolios and individual customers. In addition, for residential and buy-to-let mortgages property values are updated on a quarterly basis.
- **Pricing** – Pricing models are utilised for all mortgage product launches. The models include expected loss estimates and capital utilisation enabling the calculation of a risk adjusted return on capital.
- **Concentration risk** – The design of retail products takes into account the overall mix of products to ensure that exposure to market risk remains within permitted parameters.
- **Counterparty risk** – Wholesale lending is only carried out with approved counterparties in line with the Society's lending criteria and is subject to a range of limits. The limits are monitored daily to ensure the Society remains within risk appetite.

This is subjected to regular stress tests to ensure the Society maintains sufficient capital for future possible events.

The Society's regulatory capital consists of independently verified general reserves, accumulated gains and losses recognised in the fair value reserve and IFRS 9 transitional adjustments; less adjustments in relation to intangible assets, deferred tax and assets/liabilities held at fair value. Further information can be found in the Pillar 3 disclosures which are published on the Society's website.

The Group's capital requirements are set and monitored by the PRA. During 2022, the Society has complied with the requirements included within the Capital Requirements Directive V (Basel III). Further details of these requirements and their impact on the Society are provided in the Strategic Report on page 14.

There were no reported breaches of capital requirements during the year. There have been no material changes in the Society's management of capital during the year.

Under Basel III Pillar 3, the Society is required to publish further information regarding its capital position and exposures. The Society's Pillar 3 disclosures are available on our website.

ACCOUNTS

33. RELATED PARTY TRANSACTIONS

Transactions with Group companies

Details of the Society's shares in group undertakings are given in note 16.

During the year, Nottingham Building Society has received £0.1 million (2021: £0.2 million) in fees for providing cash manager and mortgage servicer fees to Arrow Mortgage Finance No.1 Limited.

Movement on the intercompany balances are disclosed in note 16.

At the end of the year the following balances were outstanding between the Society and its subsidiaries:

	2022 Amount owed to subsidiaries £m	2022 Amount owed by subsidiaries £m	2021 Amount owed to subsidiaries £m	2021 Amount owed by subsidiaries £m
Arrow Mortgage Finance No. 1 Limited	(109.3)	26.6	(145.2)	26.6
	(109.3)	**26.6**	**(145.2)**	**26.6**

Interest accrues on the balances outstanding with Arrow Mortgage Finance at SONIA plus a margin. The repayment of the loan will follow the collection of the principal and interest of the underlying mortgage assets, used as security and has a contractual maturity within two years.

33. RELATED PARTY TRANSACTIONS (CONTINUED)

Transactions with key management personnel

Transactions with key management personnel are on the same terms and conditions applicable to members and other employees within the Group. The directors are considered to be the only key management personnel as defined by IAS 24, which includes Non-Executive Directors.

Compensation for key management personnel for the year totalled £1.2 million (2021: £0.8 million) and a breakdown is disclosed on pages 42 and 43 in the Directors' Remuneration Report.

In addition, the following transactions were undertaken through the normal course of business:

Group and Society	2022 Number of key management personnel and their close family members Number	2022 Amounts in respect of key management personnel and their close family members £000	2021 Number of key management personnel and their close family members Number	2021 Amounts in respect of key management personnel and their close family members £000
Loans and advances*				
Net movements in the year	(2)	(107)	-	(16)
Balances outstanding 31 December	-	-	2	107
Share accounts				
Net movement in the year	-	29	(1)	(30)
Balances outstanding 31 December	7	164	7	135
Subscribed capital				
Net movement in the year	(1)	(6)	1	7
Balances outstanding 31 December	1	7	2	13
Interest receivable on loans & advances		-		2
Interest payable on share accounts		-		-
Interest payable on subscribed capital		-		1

*The loan related to a director or connected person that resigned from his post in 2022

Directors' loans and transactions

As at 31 December 2022 there were no (2021: one) outstanding secured mortgage loans made in the ordinary course of business at a normal commercial rate to directors and their connected persons. A register is maintained at the head office of the Society that shows details of all loans, transactions and arrangements with directors and their connected persons. A statement of the appropriate details contained in the register, for the financial year ended 31 December 2022, will be available for inspection at the head office for a period of 15 days up to and including the annual general meeting.

Transactions with the defined benefit pension scheme

During the year, the Society provided a short-term liquidity facility to the defined benefit pension scheme of £8.0 million. The outstanding balance on the facility amounted to £nil at 31 December 2022 and the facility expires in April 2023.

NOTES TO THE ACCOUNTS (CONTINUED)

34. NOTES TO THE CASH FLOW STATEMENTS

Group and Society	Notes	2022 £m	2021 £m
Changes in liabilities arising from financing activities			
Subscribed capital at 1 January		23.9	23.9
Accrued interest		1.9	1.9
Interest paid		(1.9)	(1.9)
Balance at 31 December	29	**23.9**	**23.9**

35. LOAN COMMITMENTS

Group and Society	2022 £m	2021 £m
Mortgage commitments	281.5	120.0
Committed facilities to fintech mortgage provider	170.0	-
Balance at 31 December	**451.5**	**120.0**

During 2022, the Society entered into a strategic partnership with a fintech mortgage provider with an initial commitment of £250 million. The outstanding balance from this initial commitment is presented above. The Society also has an option to fund further mortgages at its own discretion above the initial commitment.

36. REGISTERED OFFICE

Nottingham Building Society is a building society, incorporated and domiciled in the United Kingdom. The address of its registered office is: Nottingham House, 3 Fulforth Street, Nottingham, NG1 3DL.

ANNUAL BUSINESS STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2022

1. Statutory percentages	2022 %	Statutory limit %
Lending limit		
Proportion of business assets not in the form of loans fully secured on residential property	12.20	25
Funding limit		
Proportion of shares and borrowings not in the form of shares held by individuals	14.69	50

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 and are based on the Group statement of financial position.

Business assets are the total assets of the Society and its subsidiary undertakings as shown in the Group's statement of financial position plus impairment for losses on loans and advances (note 15), less property, plant and equipment, intangible assets and liquid assets.

Loans fully secured on residential property are the amount of principal owing by borrowers and interest accrued not yet payable.

Total 'shares and borrowings' are the aggregate of 'shares', 'amounts owed to credit institutions', 'amounts owed to other customers' and 'debt securities in issue' in the Group's statement of financial position. Shares held by individuals are found in note 21.

2. Other percentages	2022 %	2021 %
As a percentage of shares and borrowings:		
Gross capital	7.24	7.21
Free capital	6.66	6.33
Liquid assets	20.39	16.69
As a percentage of mean total assets:		
Profit after taxation	0.44	0.34
Management expenses (Group)	1.44	1.19
Management expenses (Society)	1.43	1.17
As a percentage of year end assets:		
Return on assets	0.42	0.35

The above percentages have been calculated from the Group accounts.

'Shares and borrowings' are the aggregate of 'shares', 'amounts owed to credit institutions', 'amounts owed to other customers' and 'debt securities in issue' in the Group statement of financial position.

'Gross capital' is the aggregate of subscribed capital and aggregated reserves as shown in the Group statement of financial position.

'Free capital' is gross capital less property, plant and equipment, lease assets and intangible assets in the Group statement of financial position.

'Mean total assets' are calculated by halving the aggregate of total assets at the beginning and end of the financial year for the Group/Society.

'Liquid assets' are the first three items on the asset side of the Group statement of financial position.

'Management expenses' are the aggregate of administrative expenses (excluding acquisition and merger costs) and depreciation and amortisation taken from the Group/Society statements of comprehensive income.

ANNUAL BUSINESS STATEMENT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

3. Information about the directors at 31 December 2021:

Director's name	Date of appointment	Age	Business occupation	Other directorships (and offices)
Paul Astruc Chief Financial Officer	21.06.22	56	Building Society Executive	Rocket Sense Limited
Simon Baum	18.06.18	60	Director	Baum Associates Ltd
Sue Hayes Chief Executive	08.03.22	55	Building Society Executive	UK Finance mortgage Board
Simon Linares	01.12.19	58	Director	Dreams Come True charity
Andrew Neden Chair	17.09.14	60	Director	ABC International Bank plc Aetna Insurance Company Ltd Eltham College Ltd Grace Church Dulwich Ltd Northgate (Warwick) Developments Ltd The Great St Helen's Trust Ltd (renamed to Gospel Support and Homes Trust from February 2023) Wesleyan Assurance Society Wesleyan Financial Services Limited Wesleyan Unit Trust Managers Ltd
Peter O'Donnell	01.01.21	56	Director	Cardiac Risk in the Young
Kavita Patel	01.01.17	46	Director	Shakespeare Martineau LLP Philsec Ltd Meaujo Incorporations Ltd Ampa Holdings LLP
Kerry Spooner	01.09.16	61	Director	ANZ UK branch Scotiabank Europe plc

Directors' service contracts:

All contracts are terminable at any time by the Society on 12 months' notice and by the individual on six months' notice. Unless notice to terminate is given by either party, the contracts continue automatically.

GLOSSARY

Set out below are the definitions of the terms used within the Annual Report and Accounts to assist the reader and to facilitate comparison with other financial institutions:

Additional Tier 1 capital (AT1)	Capital that meets certain rules under CRD IV and which comprises the Society's PIBS but only under the transitional provisions.
Arrears	A customer is in arrears when they are behind in meeting their contractual obligations with the result that an outstanding loan payment is overdue. The value of the arrears is the value of any payments that have been missed.
Basel III	Basel III sets out the details of strengthened global regulatory standards on bank capital adequacy and liquidity.
Buy-to-let loans (BTL)	Buy-to-let loans are those loans which are offered to customers buying residential property specifically to let out and generate a rental income.
Capital Requirements Directive (CRD V)	CRD V is made up of the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD), outlining the capital requirements framework and introduced liquidity requirements, which regulators use when supervising firms.
Common Equity Tier 1 capital (CET1)	CET1 capital consists of internally generated capital generated from retained profits, other reserves less intangible assets and other regulatory deductions. CET1 capital is fully loss absorbing.
Common Equity Tier 1 ratio	Common Equity Tier 1 capital as a percentage of risk weighted assets.
Contractual maturity	The date at which a loan or financial instrument expires, at which point all outstanding principal and interest is due.
Cost income ratio	A ratio that represents the proportion of administrative expenses to total income. On an underlying basis, is defined as total administrative expenses (excluding one-off strategic investment costs) as a percentage of total income (excluding the impact of fair value gains or losses from derivatives and one off income).
Credit risk	This is the risk that a customer or counterparty fails to meet their contractual obligations.
Debt securities	Assets representing certificates of indebtedness of credit institutions, public bodies or other undertakings excluding those issued by central banks.
Debt securities in issue	Transferable certificates of indebtedness of the Society to the bearer of the certificates. These are liabilities of the Group and include certificates of deposit.
Derivative financial instruments	A derivative financial instrument is a contract between two parties whose value is based on an underlying price or index rate it is linked to, such as interest rates, exchange rates or stock market indices. The Society uses derivative financial instruments to hedge its exposure to interest rate risk.
Effective interest rate method (EIR)	The method used to measure the carrying value of a financial asset or liability and to allocate associated interest income or expense over the relevant period. The calculation includes all fees and penalties paid and received between parties which are integral to the contract.
Expected Credit Loss (ECL)	The present value of all cash shortfalls over the expected life of the financial instrument. The term is used for accounting for impairment provisions under the IFRS 9 standard.
Exposure	The maximum loss a financial institution might suffer if a borrower, counterparty or group fails to meet their obligations.
Exposure at Default (EAD)	A component of the IFRS 9 expected credit loss calculation. The EAD model calculates the balance profile of each mortgage account over its expected behavioural lifetime.
Fair value	Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
Fair value through other comprehensive income (FVOCI)	Financial assets held at fair value on the balance sheet with changes in fair value being recognised through other comprehensive income.
Fair value through profit or loss (FVPL)	Financial assets held at fair value on the balance sheet with changes in fair value being recognised through the income statement.
Financial Conduct Authority (FCA)	The statutory body responsible for conduct of business regulation and supervision of UK authorised firms.

OTHER INFORMATION

GLOSSARY (CONTINUED)

Financial Services Compensation Scheme (FSCS)	The UK's compensation fund of last resort for customers of authorised financial services firms. The FSCS may pay compensation to customers if a firm is unable, or likely to be unable, to pay claims against it, usually because it has stopped trading or has been declared in default. The FSCS is funded by the financial services industry. Every firm authorised by the FCA is obliged to pay an annual levy, which goes towards its running costs and compensation payments.
Fintech	A company whose purpose is to create technology enabled financial innovation.
Forbearance strategies	Strategies to support borrowers in financial difficulty, such as agreeing a temporary reduction in the monthly payment, extending mortgage terms and a conversion to an interest-only basis. The aim of forbearance strategies is to avoid repossession.
Free capital	The aggregate of gross capital and provisions for collective impairment losses on loans and advances to customers less property, plant and equipment and intangible assets.
Funding limit	Measures the proportion of shares and borrowings (excluding the fair value adjustment for hedged risk) not in the form of shares held by individuals. The calculation of the funding limit is explained in the Annual Business Statement.
General reserves	The accumulation of the Society's historic and current year profits which is the main component of Common Equity Tier 1 capital.
Gross capital	The aggregate of general reserves, fair value reserves and subscribed capital.
Impaired loans	Loans where there is objective evidence that an impairment event has occurred, meaning that the Society does not expect to collect all the contractual cash flows or expect to collect them later than they are contractually due.
Interest rate risk	The risk of loss due to a change in market interest rates. Interest rate risk can have an impact on Society's mortgages and savings products.
Internal Capital Adequacy Assessment Process (ICAAP)	The Society's own assessment, as part of Basel III requirements, of the levels of capital that it needs to hold in respect of its regulatory capital requirements for risks it faces under a business as usual scenario including stress events.
Internal Liquidity Adequacy Assessment Process (ILAAP)	The Society's own assessment of the liquidity resources it requires in order to remain within the risk tolerances it has set. This will include an evaluation of potential stresses based on multiple market environments.
Lending limit	Measures the proportion of business assets not in the form of loans fully secured on residential property.
Leverage ratio	The ratio of Tier 1 capital divided by the total exposures, which includes on and off balance sheet items.
Liquid assets	Total of cash in hand, loans and advances to credit institutions, and debt securities.
Liquid assets ratio	A ratio that expresses liquid assets as a percentage of mean total assets.
Liquidity resources	Assets held in order to manage liquidity risk. Liquidity resources comprise cash and balances with the Bank of England, UK Government securities and multilateral development banks, other securities and bank deposits and Bank of England approved mortgage portfolios. Liquid resources ratio is expressed as a percentage of shares, deposits and funding liabilities.
Liquidity risk	Liquidity risk is the risk that the Society is unable to meet its financial obligations as they fall due, or can only secure them at excessive cost. This risk arises from timing mismatches of cash inflows and outflows.
Loan to value ratio (LTV)	LTV expresses the amount of a mortgage as a percentage of the value of the property.
Loans past due	Loans on which a payment has not been made as of its due date.
Loss Given Default (LGD)	A component of the IFRS 9 expected credit loss calculation. The LGD model calculates the likely loss on asset disposal that the Society would suffer if a default event were to occur in any given month over the expected behavioural lifetime of a mortgage account.
Management expenses	The aggregate of administrative expenses, depreciation and amortisation.
Management expenses ratio	A ratio that expresses management expenses as a percentage of mean total assets. On an underlying basis, excludes one-off strategic investment costs.
Market risk	The risk that movements in market risk factors, including foreign exchange rates, interest rates, credit spreads and customer-driven factors will create potential losses or decrease the value of the Society balance sheet.

GLOSSARY (CONTINUED)

Mean total assets	Represents the amount produced by halving the aggregate of total assets at the beginning and end of the financial year.
Member	A person who has a share investment or a mortgage loan with the Society.
Net interest income	The difference between interest receivable on assets and similar income and interest paid on liabilities and similar charges.
Net interest margin	A ratio expressing net interest income as a percentage of mean total assets.
Operational risk	The risk of loss arising from inadequate or failed internal processes, people and systems, or from external events.
Permanent interest bearing shares (PIBS) / Subscribed capital	Unsecured, deferred shares of the Society which rank behind the claims of all depositors, payables and investing members of the Society. PIBS are also known as subscribed capital.
Probability of Default (PD)	A component of the IFRS 9 expected credit loss calculation. An estimate of the probability that a borrower will default on their credit obligation over a fixed time period. A 12 month ECL uses a 12 month PD, whilst a lifetime ECL uses the estimated PD over the remaining contractual life of the loan.
Prudential Regulation Authority (PRA)	The statutory body responsible for the prudential supervision of banks, building societies, insurers and small number of significant investment firms in the UK. The PRA is a subsidiary of the Bank of England.
Renegotiated loans	Loans are classed as renegotiated where an agreement between a borrower and a lender has been made to modify the loan terms either as part of an ongoing relationship or if the borrower is in financial difficulties. The renegotiated loan may no longer be treated as past due or impaired.
Residential loans	Loans that are loaned to individuals rather than institutions and are secured against residential property.
Right-of-use assets	A lessee's right to use an asset over the life of a lease. The cost of the asset is calculated as the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.
Risk appetite	The articulation of the level of risk that the Society is willing to accept (or not accept) in order to safeguard the interests of the Society's members whilst also achieving business objectives.
Risk weighted assets (RWA)	The value of assets, after adjustment, under the relevant Basel III capital rules to reflect the degree of risk they represent.
Secured business lending (SBL)	Loans secured on commercial property which is only made available to Small and Medium sized Enterprises and includes limited company buy-to-let lending.
Shares	Funds deposited by a person in a retail savings account with the Society. Such funds are recorded as liabilities for the Society.
Shares and borrowings	The aggregate of shares, amounts owed to credit institutions, amounts owed to other customers and debt securities in issue.
Significant increase in credit risk (SICR)	A significant increase in credit risk on a financial asset is judged to have occurred when an assessment, using quantitative and qualitative factors, identifies at a reporting date that the credit risk has moved significantly since the last asset was originally recognised.
Special Purpose Vehicle (SPV)	A legal entity (usually a limited company) created to fulfil narrow, specific or temporary objectives. In the context of the Society, the SPV is used in relation to securitisation activities.
SPPI test	An assessment of whether the contractual terms of the financial asset give rise to cash flows that are in substance solely payments of principal and interest.
Stage 1	A component of the IFRS 9 expected credit loss calculation. Stage 1 assets are assets which have not experienced a significant increase in credit risk since the asset was originally recognised on the balance sheet. 12 month ECL are recognised as the impairment provision for all financial assets on initial recognition. Interest revenue is the EIR on the gross carrying amount.
Stage 2	A component of the IFRS 9 expected credit loss calculation. Stage 2 assets have experienced a significant increase in credit risk since initial recognition. Lifetime ECL is recognised as an impairment provision. Interest revenue is the EIR on the gross carrying amount.

GLOSSARY (CONTINUED)

Stage 3	A component of the IFRS 9 expected credit loss calculation. Stage 3 assets are identified as in default and considered credit impaired. Lifetime ECL is also recognised as an impairment provision. Interest revenue is the EIR on the net carrying amount.
Standardised approach	The basic method used to calculate capital requirements for credit risk. In this approach the risk weighting used in the capital calculation are determined by specified percentages.
Term Funding Scheme (TFS) **Term Funding with additional incentives for SMEs (TFSME)**	Schemes launched by the Bank of England and HM Treasury, which provides funding to participating banks and building societies with the aim of stimulating lending within the economy.
Tier 1 capital	A component of regulatory capital, it comprises CET1 and AT1.
Tier 1 ratio	Tier 1 capital as a percentage of risk weighted assets.
Tier 2 capital	Comprises the collective impairment allowance (for exposures treated on a Standardised basis), less certain regulatory deductions.
Total Capital Requirement (TCR)	The total amount of capital the regulator requires the Society to hold, which is made up of Pillar 1 and Pillar 2A capital.
Underlying profit	A measure that aims to present management's view of the Group's underlying performance for the reader of the Annual Report & Accounts with like for like comparisons of performance across years without the distortion of one-off volatility and items which are not reflective of the Group's ongoing business activities.
Wholesale funding	Amounts owed to credit institutions, amounts owed to other customers and debt securities in issue.

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Robin Trow - Marketing and Product Risk Manager