The Nottingham

2023 ANNUAL REPORT AND ACCOUNTS

For the year ended 31st December 2023

KEY HIGHLIGHTS

6,957
New mortgage customers
(2022: 3,984) ↑

£887m
Gross new lending
(2022: £659m) ↑

64.6%
Net promoter score
(2022: 64.7%) →

£91.8m
Total interest paid to savers
(2022: £23.9m) ↑

4.9
Trustpilot score
(2022: 3.8) ↑

2,462
Colleague volunteering hours
(2022: 841) ↑

↑ Positive movement | ↓ Adverse movement

£3.6bn
Total mortgage assets
(2022: £3.0bn) ↑

1.94%
Net interest margin
(2022: 1.69%) ↑

£3.6bn
Total savings balance
(2022: £3.0bn) ↑

15bps
ECL coverage ratio
(2022: 17bps) ↑

£8.3m
Profit before tax
(2022: £18.9m) ↓

£24.2m
Underlying profit before tax
(2022: £15.2m) ↑

15.2%
CET1 ratio
(2022: 16.8%) ↓

5.2%
Leverage ratio
(2022: 5.6%) ↓

184%
Average LCR
(2022: 192%) ↓

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CHAIR'S STATEMENT

INTRODUCTION

I am pleased to introduce the Nottingham's Annual Report and Accounts for 2023. In a year defined by continued economic uncertainty, further base rate rises and sustained higher rates, our Society delivered good outcomes for our members, our customers and our communities. We provided attractive savings propositions for our branch and digital customers and helped new and existing customers purchase new homes. As we made progress in delivering our transformation strategy, we took the right steps to ensure our Society is well positioned to continue to provide a safe and robust home for our members' savings, both now and in the future.

ECONOMIC BACKDROP AND OUTLOOK

As we anticipated, the increases in the Bank of England ('BoE') base rate during 2022 continued in 2023, reaching 5.25% in August. Markets suggest that interest rates will gradually reduce in the second half of 2024. However, given the turbulent geopolitical trends we are seeing around the world including the ongoing conflicts in Ukraine and the Middle East, there is a large degree of uncertainty around the trajectory and timing for UK rates and how quickly inflation will reduce. The UK economic position and outlook, and its impact on our customers, has been central to our discussions this year. More broadly, emerging global issues and threats to society posed by climate change, cyber security and artificial intelligence continue to be monitored closely in the Board's horizon scanning.

MAKING MUTUALITY COUNT FOR OUR MEMBERS

Higher base rates have boosted the UK retail savings market and we have sought to pass on as much of the base rate increases as we can to our savings members and customers, while still ensuring we keep our Society strong. We have been able to act quickly and move at pace, using the digital capability we offer customers through our Beehive app, to offer rates that have regularly been amongst the most attractive in the market.

Putting our members at the heart of our decision-making on pricing is a key aspect of being a mutual building society and we are proud to be able to serve our members in this way. We have sought to provide the best value that we can to our mortgage customers while offering a range of measures to support them should they experience financial difficulty, including measures introduced by the Government's Mortgage Charter. Overall, however, our lending book is low-risk and we have not seen any material impact on arrears from the higher interest rate and high inflationary environment.

The Financial Conduct Authority's ('FCA') Consumer Duty regulations came into effect in mid-2023, and our mutual values positioned us well for this new regulation. Our customer-first approach has been further strengthened as our teams responded to this area of continued regulatory focus.

The Board has been delighted to see the renewal of our community impact programme with colleagues putting in more community volunteering hours than ever before, and our charitable giving focusing on tackling homelessness, an issue we recognise as being acute in our Nottingham heartland as well as being a cause we know matters to our customers around the country.

In an age where digital innovation and open banking regulations provide savers and borrowers with more choices than ever before, we remain committed to our mutual status and recognise that our member-owned approach continues to be one that resonates strongly.

FINANCIAL PERFORMANCE AND STRATEGY DELIVERY

We are delighted that we were able to achieve a strong financial performance this year in a challenging lending market. We achieved growth ahead of plan, in both savings and mortgages. We also began to execute the strategy that our Chief Executive Officer ('CEO') Sue Hayes and her team defined for the Society in 2022, and which she describes later in the Annual Report.

In a fast-changing world, our strategy seeks to future proof our Society. The Board sought to provide support and challenge to Management as they put in place new IT and change programmes designed to ensure strong foundations for the Society as we ensure we are well positioned to meet the needs of borrowers and savers. As we said last year, our strategy will involve continuing investment in the systems and data analytics underpinning our risk analysis, but not any fundamental shift in our risk appetite.

OUR BOARD AND LEADERSHIP TEAM

The membership of Board and the Leadership team is reviewed on a continual basis to ensure that there is an appropriate level of skills, experience and diversity of thought.

There have been some changes to our Board during 2023. Paul Astruc, formerly the Chief Financial Officer ('CFO') of the Society, joined our Board in April 2023 for a 12-month period to provide continuity during a period of change. Paul will be stepping down as planned at the end of March 2024. Paul was succeeded as CFO by Anthony Murphy, who also joined the Board as an Executive Director. Simon Baum, previously a Non-Executive Director and Chair of the Risk Committee, was appointed to the executive role of Chief Risk Officer ('CRO') in June 2023 and remains on our Board as an Executive Director.

Kerry Spooner, our Senior Independent Director, has taken on Chairing the Risk Committee. In December, we welcomed Robin Ashton as a new Non-Executive Director. Robin's extensive career in non-executive roles includes seven years as Chair of the Leeds Building Society, along with board positions at challenger bank Shawbrook and Domestic & General. His significant experience and proven track record will be extremely valuable to our Board.

I would like to take this opportunity to thank all our Board members for their support during what has been a pivotal year for the Society.

THANK YOU

Our members and customers are central to everything we do as a Society. We are committed to developing and improving our services and propositions next year, and reviewing the way in which we communicate and engage directly with you. Thank you for your continued loyal custom during 2023.

Finally, my thanks to Sue and the Leadership team and to all our colleagues for their hard work and commitment to serving our members during a challenging and successful year.

Andrew Neden
Chair
6th March 2024

CHIEF EXECUTIVE'S REVIEW

A POSITIVE YEAR OF PROGRESS

I am pleased to report our financial results for 2023 alongside the progress towards the delivery of our strategy.

I am proud of what we have achieved together over the past 12-months. We improved our customer service, which was already good, and forged stronger relationships with mortgage brokers who are the bedrock of the mortgage industry. We have continued to grow our team of talented colleagues to support our customers and members and make our strategy a reality. At the same time in 2023 we renewed our support for our communities through a refocused programme of activity to tackle homelessness which fits well with our purpose of supporting people to own their own home.

We made significant progress in the delivery of the strategy that we defined in 2022. Colleagues have worked as a team to create increasingly strong foundations that will function as a springboard for our future development.

Our purpose as a Society, which sits at the heart of our strategy, is to **fight for the Extra Ordinary to own their own home** – focusing on those who find it more difficult to access mortgage lending due to old fashioned and rigid linear lending processes.

Offering a range of attractive savings propositions to our members and customers enables us to deliver our purpose. Providing the right opportunities for savers is particularly important at a time when interest rates are at their highest levels in over a decade.

We are proud of our mutual heritage dating back more than 170 years, serving customers and communities. At the same time, we want to ensure our success is sustainable and we are relevant in the future.

The strategic transformation we put in place will enable us to deliver our strategy and continue to provide mutual mortgage and savings solutions for our customers and members in the years and decades ahead.

Our colleagues have supported us on this journey and continue to provide outstanding service to our loyal members as we deliver positive outcomes for all our customers and communities to ensure our future mutual success.

THE EXTERNAL ECONOMIC ENVIRONMENT

The economic landscape in the UK and the broader geopolitical uncertainty continues to present challenges. Throughout 2023 we experienced continued base rate increases and higher levels of inflation triggering cost-of-living challenges that affect all our customers and members. Whilst the outlook for the UK economy as well as the broader geo-political environment remains uncertain, we will continue to monitor the impact on our mortgage customers.

Whilst it is heartening to be able to provide better returns to savers, we recognise the increasing costs for our mortgage holders, and the cumulative impact of the continued cost-of-living crisis. As such, we were one of the first institutions to sign up to the Government's Mortgage Charter in August 2023. The Charter provides a range of support options for customers who are struggling with mortgage payments. To date very few of our customers have chosen to access the support the Charter provides, and we continue to have extremely low levels of mortgage arrears, reflecting the low-risk nature of our lending book.

> "We are proud of our mutual heritage dating back more than 170 years, serving customers and communities. At the same time we want to ensure our success is sustainable."

We operate from a strong financial base and will continue to adopt a future focused approach for the benefit of our members, colleagues, and the communities in which we operate.

STRONG FINANCIAL PERFORMANCE

Our financial performance in 2023 was strong, with a statutory profit before tax of £8.3m (2022: £18.9m), an underlying profit before tax of £24.2m (2022: £15.2m) and a 18.3% increase in mortgage balances compared with 2022.

We achieved significant growth in mortgage lending, particularly notable as overall lending in the UK mortgage market fell by approximately 28% as reported by the BoE. We achieved this through offering attractive pricing despite the rising cost of lending, and by targeting key customer segments where demand remained resilient and where our brokers felt there was unmet demand. Whilst we outperformed the market in terms of organic growth, this accelerated through our inorganic lending relationship.

I am pleased to report that the strategic partnership we began with fintech mortgage provider Generation Home in 2022 supported our lending growth during the year. The forward lending flow that we provided made a strong contribution to our total mortgage lending. We ended 2023 with total assets of £4.5bn – an increase of 17.4% year on year.

Our lending performance was supported by the purchase of a book of mortgages from Generation Home. We completed this transaction, which comprised a mortgage book value of £161.6m in September 2023. We will continue to seek opportunities to support the growth of our book through purpose driven products and partners who are customer focussed to augment our own lending.

Like many financial institutions in the sector, the increases we have seen in UK base rates have acted as a positive tailwind to our financial performance. We are pleased that we have been able to pass on a sizeable proportion of these increases to our savings members and will continue to do so. We took a deliberate decision not to increase our Standard Variable Rate ('SVR') rate to support mortgage customers.

We achieved good growth in our savings balances of 18.3%. We diversified our proposition to offer a variety of attractive products and savings rates to our customers, through our branch network and our online savings app, Beehive Money. In a higher rate environment, we saw greater numbers of savers shopping around to achieve the best rates and our digital app enabled us to anticipate and respond to market movements with speed and agility.

Our marketing campaigns encouraged members to save for their future goals, and to maximise the opportunity of higher interest rates. Our first Community Saver product offered customers the option to donate a percentage of their savings interest to our charity partners – a real demonstration of mutuality in action.

Significant investment was made in 2023 in both people and technology, to support the continued improvement in the level of service we provide to our members. We also supported our colleagues with a pay award to reflect the elevated inflationary environment.

MAKING A DIFFERENCE TO OUR CUSTOMERS

As interest rates have risen and remained high throughout this year, we have focused on paying savers the best rates we can whilst doing what we need to strengthen the Society. We paid a total of £91.8m in interest to savers in 2023 (2022: £23.9m).

We helped 6,957 (2022 3,984) customers either take out a mortgage with us for the first time or move to a new mortgage.

Improving our customer experience has been and is a key focus and I have been delighted to see our independent Trustpilot rating for our customer in-branch experience increasing to 4.9 out of 5 (2022: 3.8 out of 5). We have also seen continued strong performance in our Net Promoter Scores of 64.6% on 31st December 2023 (2022: 64.7%).

It is appropriate that this report notes that some of our customers have been impacted by a company known as Philips Trust Corporation Limited going into Administration in April 2022.

During the years 2011 – 2018 we referred customers who were looking for wills and estate planning services to an external third-party company called The Will Writing Company Limited. The Will Writing Company and a related company, The Family Trust Corporation Limited, organised wills and trusts for those customers.

In 2018, The Will Writing Company went into administration. The administration of the trusts for a number of customers was subsequently transferred from The Family Trust Corporation to Philips Trust Corporation without the involvement from the Nottingham Building Society. This has resulted in some customers being impacted financially as the assets of some of the customers trusts were transferred into investments by Philips Trust Corporation. Those subsequent investments have lost significant value. We are currently reviewing the situation, to assess the impact of the ongoing Philips Trust Corporation Administration process on our customers, and how we may be able to provide support.

It is a complex situation because we had no relationship nor direct contact with Philips Trust Corporation and have no rights of access to the information now under the control of the Administrators, Kroll Advisory Ltd. We have been in contact with Kroll for a number of months to establish how many of the customers we initially referred to The Will Writing Company have been subsequently impacted by the administration of Philips Trust Corporation. On the basis of what we now know in terms of how our customers have been treated by the third parties we have asked the relevant regulatory bodies, Serious Fraud Office and the Police to investigate the treatment of those referred customers by those third parties.

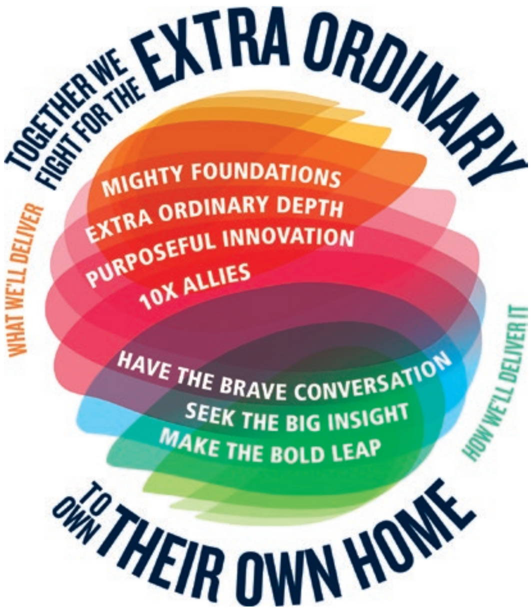
POSITIVE PROGRESS TOWARDS DELIVERING OUR STRATEGY

When I joined The Nottingham as CEO in 2022, I took the time to work with colleagues across the Society to define a clear strategy that would enable success for future generations. Our strategy builds on The Nottingham's 170 year heritage looking after savers and helping people own their own homes while also seeking to address the challenges some aspiring homeowners face.

It sets out our purpose, and the strategic drivers that will help us deliver it. 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. Our strategic drivers are to build strong foundations, to understand our customers and brokers in extraordinary depth, to drive purposeful innovation and to build powerful partnerships that will provide mutual support in achieving our goals.

In terms of the Extra Ordinary, we want to meet the needs of borrowers who traditionally have found it challenging to access mortgage lending due to professional or lifestyle factors. For example, those who have complex income patterns due to being freelance or self-employed, whose professions enable overtime to supplement their incomes or whose circumstances have changed because of a life event such as sickness, divorce or by working abroad.

2023 was our first year of starting to deliver our strategy. As I highlighted in our interim results report published in July 2023, we had three key priorities for this year and I am pleased to report that we have made substantial progress towards each of them, delivering change and innovation that sets us up strongly for 2024 and future years.



UNDERSTANDING THE NEEDS OF BORROWERS

The first key priority was to spend time understanding more about our new mortgage customers and brokers. I am pleased with the progress we have made, and this enables us to build for the future. In response to the insight we gained, we implemented a series of changes to help ensure our propositions better meet the needs of our target customers, and this has helped drive our strong lending performance this year.

We have made great strides as we begin to transform our approach to credit risk, modernising our processes in this area to better support our customers.

However, we have only just begun this aspect of our journey and there is much more still to do. I look forward to moving further and faster and harnessing the best of today's technology and data alongside great customer service to meet the needs of customers in 2024.

PEOPLE AND PARTNERSHIPS

Our second priority has been to maximise the potential of our people and strategic partners. In terms of our people, I am delighted that we have been able to attract a strong leadership team, both at Executive and Senior Leader level.

Key Executive hires for us this year have included our CFO, Anthony Murphy who joined us from a challenger bank and Praven Subbramoney, our Chief Lending Officer ('CLO'), who joined from a client-driven and successful innovation bank based in South Africa. It was a good demonstration of talent development when we moved Bradley Nicholls from Finance Director to Director of Savings, Branches and Beehive in recognition of his capability more broadly as well as being more data driven in these areas. Harriet Guevara has moved from Head of Strategic Review to Chief of Staff, again in recognition of her impressive performance and breadth of capability.

I was also delighted that Simon Baum moved to CRO from his previous non-executive role given his huge experience in innovative and deep credit risk expertise and that enabled Paul Roberts, who previously held both CRO and General Counsel responsibilities, to focus on a broader General Counsel role with Procurement and Partnerships reflecting the increasing number of contracts and partners with whom we are now engaging. We have also welcomed Charlotte Symonds as Head of Customer and Stephen Donne as Head of Change who both have building society backgrounds.

We have embarked on a leadership development programme for all the senior leaders across our organisation to equip them with the skills they need to lead our strategic transformation and achieve the commercial success to benefit our members and ensure our Society remains sustainable and relevant. We have also supported our colleagues through the transformation; recognising however, that the pace of change continues to accelerate. Our colleague engagement score was 68%, which has not yet met our aspirations to be in the top quartile. A high proportion of colleagues did tell us they have a good understanding of how their role relates to the delivery of our strategy and they have a powerful sense of being part of a team.

As a mutual with a purpose, we can attract and retain great people we also need to create strategic partnerships to maximise our potential.

Our strategic partnership with Generation Home has benefited us significantly in several aspects during 2023. Firstly, we have seen the commercial benefits from our relationship. In addition, this partnership also provided us with deep customer insight into our target market of borrowers.

We enjoyed the learnings and energy that comes from a close partnership with this fast growing and innovative fintech lender and this represents the start of both lending partnerships as well as tech, data and community partnerships.

We made the decision to exit the partnership with the Panthers Ice Hockey Team. Whilst it is a great local organisation, we felt it was important to support initiatives that are more aligned strategically to our purpose. We will continue to support the Panthers personally as well as to wish them the best for the future and will see this season out with them.

STRENGTHENING OUR LEADERSHIP TEAM IN 2023

Anthony Murphy, Chief Financial Officer

Praven Subbramoney, Chief Lending Officer

Charlotte Symonds, Head of Customer

Stephen Donne, Head of Change

BUILDING THE RIGHT FOUNDATIONS

Thirdly, we wanted to make sure we delivered the things which will significantly improve the foundations of our business and enable the innovation to serve the customers of tomorrow.

The regulatory agenda remains key, and we were pleased to deliver the continuation of regulatory focus through the introduction of Consumer Duty. We were also one of the first to support the Government's Mortgage Charter, ensuring we continue to provide good customer outcomes. These types of initiatives work alongside our strategic plans and require significant resource to deliver to a high standard.

In building our strong foundations we have delivered several key IT upgrades to reinforce our systems and ensure the Society is safe and secure for the future with resilient systems that protect our customers and members and enhance our ability to develop our technology in the future. This is the mid-way point in a three-year journey of enhancements, involving a great deal of hard work and effort from our IT and Change colleagues.

The progress towards our new origination platform has been slower than anticipated, reflecting the time taken to find the right partners to collaborate with us, on this leg of our transformation in 2024.

We are doubling down on how we can better use data in all its senses, to enhance our customer and member propositions. The emergence of artificial intelligence presents another area of potential but like other financial organisations it is one that we are considering carefully.

This year we have also spent time reviewing our brand strategy and recognise we will need to ensure our brands remain attractive and recognised and meaningful in today's digital environment.

As a mutual, Economic, Social and Regulatory ('ESG') has always been at the heart of our thinking. In 2023 we formalised this with a clear ESG policy and strategy that will help us focus our thinking and plan key actions as these issues become more important for all businesses.

STRONGER COMMUNITY IMPACT

I am particularly proud of the new focus and momentum we brought to our community engagement programme in 2023. Aligned to our purpose, we decided to focus our charitable giving, fundraising, and volunteering towards tackling homelessness.

We have begun strategic partnerships with two charities dedicated to ending homelessness and supporting those who are already, or who find themselves at risk of being homeless. We are pleased to be working with Emmanuel House, an independent charity helping people in Nottingham and with Shelter, a charity well recognised for its campaigning and support on the national stage.

These partnerships are designed to help us make a tangible difference together in addressing what is a growing issue within the UK and we are looking forward to playing our part in the years ahead.

Our network of thirty-one branches stretches across central England. Colleagues play an active role in their local communities, contributing towards our collective focus on homelessness, and supporting our customers with a range of issues including bereavement, fraud awareness and fostering the sense of community.

As a result, we have been able to more than double the number of volunteering hours we have devoted to helping our communities, compared with 2022, and reached a charitable giving total of £144,979. You can find out more about our work together in our community pages, starting on page 26.

OUTLOOK FOR 2024

Our financial performance in 2023 provides us with the financial strength to invest in delivering our strategy through our people, our foundations more broadly and our core technology systems and data capabilities in the year ahead. These investments are essential for us to compete in the market and build for the future, but the associated cost will impact the financial performance of our business in 2024.

2023 was a strong year in terms of our financial performance and our strategic progress. However, we also reaped the benefits of sustained high interest rates, which have buoyed our financial performance. The economic outlook for the UK remains uncertain and competition will increase in terms of pricing and propositions, which will challenge everyone in the industry.

As I indicated at the mid-year, we will continue to monitor the impact of movements in base rate on our mortgage book and to take a prudent approach to financial management, while focusing on innovation in our products. We will also continue to support our saver members with attractive savings propositions.

Our strategic intent is increasingly important to be:

- A modern successful building society with exceptional customer service for all our members and customers;
- A place everyone wants to work at and is able to develop themselves to be their best;
- A Society that is great for the communities it serves; and
- A Society that uses technology and data in purposeful ways (purposeful innovation) and extraordinary depth whilst not losing sight of its mighty foundations.

Finally, I would like to thank our hardworking colleagues who deliver for our customers every day, and our members for their loyal custom. I would also like to thank the Board for their continued support as we deliver our plans.

Sue Hayes
Chief Executive Officer
6th March 2024

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. Redefining our purpose is a crucial step in concentrating our efforts to maintain a positive impact on our members.

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; and
- **Our behaviours** - how we all need to operate.

The journey we undertook involved our entire organisation, gaining significant insights into our present and future customers and members, our competitors and the broader 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 can 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 their own homes 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 and 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; and
- **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 isolation. 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 home ownership 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; and
- **Seek the big insight** – We demonstrate curiosity, leaving no stone unturned to find different perspectives and to understand problems and opportunities equally.

BUSINESS MODEL AND GROUP STRATEGY

The Nottingham is a Top Ten UK building society with £4.5bn of assets.

The Society operates under three membership hubs:

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

Mortgages

During 2023, we have focused on gaining a deeper understanding of our customers and members to ensure our mortgage products and services help make borrowing easier to access for those who currently find it harder to do so for lifestyle or career choices.

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 mortgage advice through our independent partners. Our colleagues strive to provide members with an excellent customer service and ensure their financial needs are met.

Beehive Money

Beehive Money is the Society's online and mobile app proposition providing savings accounts to members that prefer to manage their savings themselves, but also supported by our online web chat and telephony customer advocates.

Beehive offers several tax-free and taxable savings products and provides several advice partnerships, accessible on the Beehive platform, to help first time buyers achieve their home purchase goals including access to mortgage advice, conveyancing services and ways to help manage and improve their credit scores.

OVERALL BUSINESS PERFORMANCE

The economic environment in the UK remained challenging across 2023, inflation has remained elevated and the BoE has increased base rates in response.

Throughout this period of economic instability, we have continued to deliver on our purpose and stay focused on the long-term sustainability of the Society, whilst balancing the interests of both savings and mortgage members throughout.

The mortgage market in 2023 has reduced in size versus prior year due to higher interest rates and cost-of-living pressures, consequently reducing demand and further compounding competitive pressures. Nevertheless, against this backdrop we have delivered a record high total asset position of £4.5bn for the Society, with growth across both organic and inorganic mortgage volumes, supported by a diversified funding base.

Throughout the period, we have continued to serve our members with a range of mortgage products, enabling us to generate growth in application volumes despite the declining market, reflecting the strength of our proposition and service we provide for brokers, partners and ultimately our members. The achievement of significant new lending volumes of £887m in 2023 is a testament to the enhancements we have made (and will continue to embed) with planned investment in our mortgage / credit platforms to make it even easier to deal with us, ultimately resulting in a better experience for members and brokers.

We are conscious of the impact that the rise in cost-of-living has had on mortgage affordability and have proactively supported members facing difficulties in meeting monthly payments. We were among the first lenders to sign up to the Mortgage Charter, providing assurance to our members that they will be helped through these testing times.

Our savings members are of utmost importance to the delivery of our strategy as their deposits support borrowers achieve their goal of home ownership. We remain committed to providing savers with secure propositions that offer easy access to their savings and competitive interest rates. Following the closures completed in 2022 we have maintained our network at 31 branches, whilst improving our online Beehive proposition to ensure an excellent experience for our members when accessing their savings through their preferred channel.

The Group's business activities are focused within the UK and predominantly relate to mortgage lending which is funded primarily through domestic deposits.

Both the Chair's and CEO's reviews include a summary of factors affecting our performance in 2023 and should be read in conjunction with this report.

This section is presented on a Group basis only as the financial performance of the Group is assessed by Management at this level given the relatively simple group structure.

Our financial performance is reviewed regularly by our Board using several measures, including statutory profit before tax and underlying profit before tax. Underlying profit represents an alternative performance measure which excludes items such as fair value volatility and significant one-time charges that do not reflect the Group's day-to-day activities. Our Board considers underlying profit before tax to be an appropriate measure of the underlying performance of the business.

The presentation of underlying profit before tax remains consistent with that in prior years. Further information is provided in this Strategic Report with a reconciliation of the underlying profit to statutory profit included on page 16.

KEY PERFORMANCE INDICATORS

TOTAL GROUP BASIS

£887m
Gross new lending
(2022: £659m) ↑

£3.6bn
Total mortgage assets
(2022: £3.0bn) ↑

15bps
ECL coverage ratio
(2022: 17bps) ↑

£3.6bn
Total savings balance
(2022: £3.0bn) ↑

£91.8m
Total interest paid to savers
(2022: £23.9m) ↑

1.94%
Net interest margin
(2022: 1.69%) ↑

70.5%
Underlying cost to income ratio
(2022: 73.0%) ↑

£8.3m
Profit before tax
(2022: £18.9m) ↓

£24.2m
Underlying profit before tax
(2022: £15.2m) ↑

15.2%
CETI ratio
(2022: 16.8%) ↓

5.2%
Leverage ratio
(2022: 5.6%) ↓

184%
Average LCR
(2022: 192%) ↓

FINANCIAL HIGHLIGHTS

As a mutual we do not pay dividends to external shareholders; our profit requirements are driven solely by our need for ongoing capital to support our activities. Profit remains sufficient to ensure we are resilient to severe economic stresses and enable continued investment to help more members in the future. In 2023, the key financial highlights included:

- Statutory profit before tax in 2023 of £8.3m (2022: £18.9m);
- Underlying profit for the year increased to £24.2m (2022: £15.2m), reflecting income growth, partially offset by higher costs and ongoing investment;
- Interest receivable and similar income has increased to £200.6m (2022: £97.7m) due to growth in balances and rising interest rates, with Net Interest Margin ('NIM') increasing to 1.94% (2022: 1.69%);
- Gross mortgage balances increased to £3.6bn (2022: £3.0bn), whilst Member deposit balances increased by £0.6bn to £3.6bn (2022: £3.0bn);
- Cost to income ratio of 85.5% (2022: 71.7%), the increase is primarily due to the impact of losses on derivative financial statements in 2023 (gains in 2022) and an increased cost base in 2023;
- Underlying cost to income ratio, which excludes the impact of derivatives decreased to 70.5% (2022: 73.0%), due to growth in underlying net income exceeding growth in the cost base;
- Management expenses were £57.6m, an increase of £10.6m versus 2022. A significant proportion of this increase relates to a rise in people costs (including a pay award that was significantly higher than the historical average to reflect the higher cost-of-living) and investment in our transformation programme;
- A small credit of £0.1m was recognised in 2023 on reversals in provisions relating to impairments (2022: expense of £2.2m), due to an improved outlook in relation to House Price Index ('HPI'), whilst retaining provisions for the continued economic uncertainty and affordability pressures on borrowers; and
- Common Equity Tier 1 ('CET1') and Leverage ratios decreased to 15.2% and 5.2% respectively (2022: 16.8% and 5.6%), primarily due to growth in mortgage assets.

The results are prepared in accordance with International Financial Reporting Standards ('IFRS') as set out in Note 1 to the Financial Statements. Underlying results are shown below, together with a reconciliation to the statutory results.

INCOME STATEMENT REVIEW

INCOME STATEMENT TOTAL GROUP BASIS	Group 2023 £m	Group 2022 £m
Underlying net interest income	79.3	62.8
Underlying net fees and commissions receivable	2.4	1.6
Underlying net income	**81.7**	**64.4**
Management expenses*	(57.6)	(47.0)
Impairment credit / (charge) on loans and advances to customers	0.1	(2.2)
Underlying profit before tax	**24.2**	**15.2**
(Losses) / gains from derivative financial instruments	(14.2)	10.2
Net strategic investment costs	(0.2)	(5.0)
Other	(0.5)	-
Change in accounting estimates	0.8	(1.5)
Loss on disposal of treasury assets	(1.8)	-
Profit before tax	**8.3**	**18.9**
Tax expense	-	(3.1)
Profit after tax	**8.3**	**15.8**

PROFITABILITY

We made a statutory profit before tax in 2023 of £8.3m (2022: £18.9m) and an underlying profit before tax of £24.2m (2022: £15.2m). The significant increase in underlying profit is primarily due to a rise in net interest income, driven by higher market rates and lending volumes coupled with strong margin performance. Profit after tax is our primary source of new capital and is essential in ensuring long term security for members, as well as meeting the regulator's capital requirements. Statutory profit before tax benefitted from gains on derivative financial instruments in 2022, which have partially amortised as losses in 2023.

TOTAL INCOME AND NET INTEREST MARGIN

	2023	2022
Net interest margin	**1.94%**	1.69%

Statutory net interest income was £80.3m (underlying net interest income: £79.3m) in 2023 (2022 statutory and underlying: £62.8m), increasing £17.5m year on year, and reflects an improved NIM of 1.94% (2022: 1.69%).

During 2023 we have seen a significant increase in the level of interest paid to our savers as the base rate continued to rise. We have increased the average rate paid to our savers above the average paid across the market to 48bps[1], from 20bps in 2022, rewarding our savers with an additional £14.7m in interest in 2023 (2022: £5.6m).

Despite actively increasing our customer savings rates in response to the base rate increases, NIM increased steadily during the year as the asset side of the Balance Sheet benefitted from rising rates. This was largely an existing book dynamic, driven by the growing level of income from variable rate mortgages and derivatives hedging fixed rate mortgages, alongside a higher return on liquid assets.

OTHER INCOME

Net fees and commissions receivable relates to fees, commissions and other operating income.

MANAGEMENT EXPENSES

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

	2023 £m	2022 £m
Underlying administrative expenses	50.9	39.3
Depreciation and amortisation – underlying	6.7	7.7
Management expenses – underlying	**57.6**	**47.0**
Strategic investment costs	0.2	5.0
Change in accounting estimate	0.7	1.5
Other	0.5	-
Management expenses – strategic	**1.4**	**6.5**
Total management expenses	**59.0**	**53.5**
Represents:		
Administrative expenses	52.3	42.8
Depreciation & amortisation	6.7	10.7
	59.0	**53.5**

As a result of the cost-of-living crisis, we supported our colleagues with an elevated pay increase in 2023. Alongside our commitment to colleagues, we continue to invest in a multi-year transformation programme to improve the experience for our members, as well as supporting our communities with charitable donations. Significant expenditure has also been incurred in 2023 implementing the requirements of both the Consumer Duty and the Mortgage Charter.

We continue to focus on operating the Society efficiently with close control over our costs and our cost ratios which remain important measures as we work to deliver our strategy. Following the disposal of branches in 2022, the average number of colleagues (full time equivalent) employed by the Society has decreased to 444 in 2023 (2022: 472). Looking to the future, headcount is anticipated to grow as we invest in people to support the delivery of our strategy.

Although costs have increased in the year, we have developed a greater degree of flexibility to speed up or slow down project related spend to manage our overall cost position therefore allowing us to be more agile when responding to the current uncertainty.

As a result of these investments, management expenses have increased by 10.3%, with underlying management expenses increasing by 22.6% compared to prior year. We continue to carefully manage our costs in line with internal targets and are continuously looking to identify appropriate efficiencies whilst at the same time investing for the long-term future of the Society.

(LOSSES) / GAINS FROM DERIVATIVE FINANCIAL INSTRUMENTS

The Society uses derivative financial instruments to manage the interest rate risk arising from its fixed mortgage and savings accounts and applies hedge accounting where possible. Changes in fair value are primarily due to timing differences, which will trend to zero as the asset or liability reaches maturity.

During the year, fair value losses on swaps amounted to £14.2m (2022: gain of £10.2m), including:

	2023 £m	2022 £m
Fair value movements on swaps held against the mortgage pipeline	(2.8)	5.6
Amortisation (losses) / gains from the reversal of gains / losses recognised in both the prior and current periods	(6.6)	1.4
Movements in the ineffectiveness of the hedge accounting portfolio	(4.5)	3.1
Fair value movements on swaps associated with the secured funding vehicle	(0.3)	0.1
(Losses) / gains from derivative financial instruments	**(14.2)**	**10.2**

Overall, the hedge accounting portfolio has become more effective in 2023 and the movement in effectiveness represents the reversal of ineffectiveness gains recognised in the prior period.

More detail on the fair value gains and losses in the period is available in Note 5.

IMPAIRMENT CREDIT / (CHARGE) ON LOANS AND ADVANCES TO CUSTOMERS

We hold provisions for expected credit losses across all loans, based on the probability of each loan defaulting and resulting in a loss, whilst considering a range of assumptions about future economic scenarios and an assessment of whether the credit risk of the loan has increased.

Despite the challenges faced by borrowers, due to the current uncertain economic environment, there has not been any significant movement in the number of borrowers in arrears, with the proportion in arrears by over 30 days or more being 0.35% at 31st December 2023 (December 2022: 0.39%).

Although the economy has remained more resilient than expected in 2023, there is still downside risk relating to the rise in interest rates, high levels of inflation and the potentially adverse impacts of tighter financial market conditions. Affordability concerns remain due to the risk associated with rising mortgage rates and the effect of these on members coming to the end of their current fixed term.

An impairment credit of £0.1m was recorded in 2023 (2022: charge of £2.2m). The credit in 2023 primarily relates to an improved macroeconomic outlook, resulting in a lower coverage ratio of 0.15% (2022: 0.17%). Total impairment loss provisions at 31st December 2023 were £5.2m (December 2022: £5.3m). The key judgements and estimates involved in the calculation of impairment loss provisions, including the use of post model adjustments, are set out in Note 15.

[1] CACI's CSDB, Stock, January 2022 to December 2023, latest data available. CACI is an independent company that provides financial benchmarking data of the retail cash savings market.

TAXATION

From 1st April 2023, the main rate of corporation tax increased from 19% to 25%. The tax charge for the period amounts to £0.0m (2022: £3.1m), reflecting the lower level of profitability within the Society as a standalone entity. Further information is provided in Note 8 to the financial statements.

We manage our tax obligations to ensure compliance with all statutory requirements and do not intentionally structure transactions to give a tax result which is contrary to the intentions of Parliament. We maintain an open and transparent relationship with His Majesty's Revenue and Customs ('HMRC') and the Board Audit Committee ('BAC') reviews our Tax policy annually. This provides a framework for the operation, planning and oversight of tax and tax risk to ensure compliance with relevant legislation. The policy has been complied with throughout the year.

STATEMENT OF OTHER COMPREHENSIVE INCOME REVIEW

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 2023 and 2022, where (losses) / gains on the pension scheme's liabilities have been appropriately offset by gains / (losses) on the pension scheme's assets.

Treasury disposals in 2023 crystalised Income Statement losses of £1.8m, with a corresponding gain in other comprehensive income. In addition, fair value gains have been observed on treasury assets due to interest rate movements and unwind of fair value losses booked in prior periods.

STATEMENT OF FINANCIAL POSITION REVIEW

	Group 2023 £m	Group 2022 £m
Loans and advances to customers	3,543.9	2,922.8
Liquid assets	801.3	719.3
Other assets	129.7	170.4
TOTAL ASSETS	**4,474.9**	**3,812.5**
Retail & wholesale funding	4,150.4	3,528.1
Other liabilities	81.0	53.3
Reserves	243.5	231.1
TOTAL LIABILITIES & RESERVES	**4,474.9**	**3,812.5**

We provide residential mortgages in the UK, through a network of approved mortgage brokers. We fund most of the mortgage lending with members' savings, through a range of channels, while the remainder is funded from other financial institutions, including Central Bank facilities, on competitive terms.

MORTGAGE LENDING

Gross balances	2023 £m	2022 £m
Residential	3,155.0	2,702.3
SBL	437.4	334.7
Total	**3,592.4**	**3,037.0**

Total gross mortgage lending outstanding was higher than prior period at £3.6bn (2022: £3.0bn). Net lending in the period was £0.6bn (2022: £0.0bn), reflecting solid performance given a competitive market with subdued growth. The volume of new lending has been impacted by reduced levels of applications in late 2022 and early 2023, with challenging economic conditions reducing the size of the UK mortgage market.

Residential mortgage balances including owner-occupied and traditional Buy-To-Let ('BTL') increased to £3.2bn (2022: £2.7bn) and Secured Business Loans ('SBL') including commercial / portfolio buy-to-let balances increased slightly to £0.4bn (2022: £0.3bn). BTL remains an important part of our lending mix as it allows us to balance risks across our book and supports the long-term financial resilience of the Society. We also recognise that good quality rental accommodation represents a vital part of the UK housing market with many using it as a step towards home ownership.

Our Lending policy reflects an appropriate balance between supporting home ownership and protecting borrowers and the Society. During the year we updated our policy in response to the challenging economic environment and credit criteria were amended in response to the rise in the cost-of-living. The average loan-to-value of new lending in 2023 was 71.5% and 61.2% for Residential and SBL, respectively (2022: 70.5% and 66.1%) and our overall book indexed loan-to-value ('LTV') is currently 50.2% and 49.5% for Residential and SBL respectively (2022: 45.5% and 47.6%).

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 & South-East.

RETAIL AND WHOLESALE FUNDING

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

Gross balances	2023 £m	2022 £m
Branch savings	2,672.3	2,508.0
Non-branch savings	895.0	502.7
Retail savings	**3,567.3**	**3,010.7**
Secured wholesale	515.0	346.9
Unsecured wholesale	48.8	89.0
Collateral liabilities	19.3	81.5
Retail & Wholesale funding	**4,150.4**	**3,528.1**

The Group operates a diverse funding strategy to ensure an optimum mix and duration of retail and wholesale funding. Retail savings are, and will continue to be, the cornerstone of our funding requirement, with the remainder acquired via the secured and unsecured wholesale funding markets.

As a mutual, we remain committed to providing savers with a secure home for their deposits, as well as an attractive proposition and competitive interest rates. Our savings balances now stand at £3.6bn (2022: £3.0bn) with growth in 2023 particularly driven via Beehive which has offered market-leading rates during the year. We aim to support our members through this challenging period of higher living costs by paying attractive rates while managing current and future financial risks.

Total wholesale funding at 31st December 2023 was £0.6bn (31st December 2022: £0.5bn), representing 14.0% (2022: 14.7%) of total funding.

The movement in wholesale funding in 2023 reflects a £110m repayment of some of our drawings from the BoE's Term Funding Scheme with additional incentives for SMEs ('TFSME') significantly ahead of its contractual maturity date, and the upsizing of the existing secured bilateral funding facility to £246.2m (2022: £91.0m).

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 level of liquidity required is closely monitored and considers forecasted and stressed outflows on a dynamic basis. We have increased our levels of liquidity during 2023 and the year-end position is strong, which provides protection and flexibility in this uncertain economic environment.

The Group's liquidity resources comprise a combination of 'On-Balance Sheet' liquid assets and access to contingent funding from the BoE secured against approved mortgage portfolios. By holding liquid resources of the highest quality, which can be turned readily into cash, the Group is able to manage the excess liquidity it holds to a lower level.

The Group's 'On-Balance Sheet' liquidity is made up as follows:

	2023 £m	2022 £m
Balances held with the Bank of England	429.1	289.0
Multilateral Development Banks	28.8	106.0
UK Gilts & T-Bills	63.2	126.7
Mortgage-backed securities	97.8	63.3
Covered Bonds	150.3	54.2
Other	32.1	80.1
Liquid assets	**801.3**	**719.3**

At 31st December 2023 liquidity included £0.8 billion of High-Quality Liquid Assets ('HQLA') (2022: £0.7 billion), which are either in cash or are readily realisable as cash when required. 100% of our liquidity assets are rated A or above (2022: 100%).

The Prudential Regulatory Authority ('PRA') monitors liquidity under the Capital Requirements Regulation ('CRR') framework. The two key measures are the Liquidity Coverage Ratio ('LCR') and Net Stable Funding Ratio ('NSFR'). These are being reported in accordance with the transitional CRR / CRD rules, which came into force on 1st 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 184% (2022: 192%) and NSFR being 143% (2022: 144%).

CAPITAL

The Society continues to focus on maintaining strong capital ratios to protect members' interests, with all capital ratios significantly in excess of the regulatory minima.

Our regulatory capital predominantly comprises accumulated retained profits in the general reserve and subscribed capital provided through Permanent Interest-Bearing Shares ('PIBS'). Capital is ultimately held for the protection of depositors and other creditors by providing a buffer against unexpected losses.

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 ('TCR'). As at 31st December 2023, the Society's TCR was set at 8.5% (2022: 8.6%) of Risk Weighted Assets ('RWAs') or £133.2m (2022: £114.0m).

Total regulatory capital has increased by £15.8 million during 2023 to £261.9 million (2022: £246.1m). This is mainly due to retained profits accumulated during the year, which are added to the general reserve.

As a result of the regulatory changes and growth in our mortgage book, RWAs have grown by £240.5m during 2023. Our CET 1 Ratio, calculated on a transitional basis, has reduced to 15.2% from 16.8% at 31st December 2022.

The following table shows the composition of our regulatory capital as at 31st December:

CAPITAL RESOURCES	2023 Transitional CRD £m	2022 Transitional CRD £m
COMMON EQUITY TIER 1 CAPITAL		
General reserves	243.3	235.0
Fair value reserves	0.2	(3.4)
Regulatory adjustments & deductions	(5.5)	(9.4)
TOTAL COMMON EQUITY TIER 1 CAPITAL	**238.0**	**222.2**
TOTAL ADDITIONAL TIER 1 CAPITAL	-	-
TIER 2 CAPITAL		
Permanent Interest Bearing Shares	23.9	23.9
TOTAL TIER 2 CAPITAL	23.9	23.9
TOTAL REGULATORY CAPITAL	261.9	246.1
RISK WEIGHTED ASSETS	**1,565.3**	**1,324.8**

CAPITAL RATIOS	%	%
Common Equity Tier 1 ('CET1') ratio	15.2	16.8
Total Tier 1 ratio	15.2	16.8
Total Capital ratio	16.7	18.6
Leverage ratio	5.2	5.7

CAPITAL REQUIREMENTS

Pillar 1 - we hold capital to meet Pillar 1 requirements for credit risk, operational risk and market risk.

Pillar 2A - PRA requires us to hold additional Pillar 2A capital for the risks not covered under Pillar 1. At 31st December 2023, the regulatory requirement was 0.5% of RWAs, a point in time estimate set by the PRA during the year.

Capital Buffers - in common with other banks and building societies, we are required to hold capital buffers that can be utilised to absorb the impact of a stress scenario. Our buffer comprises the following elements:

- Sector-wide capital conservation buffer, set at 2.5%;
- Macroprudential countercyclical capital buffer currently set at 2% of RWAs for exposures to the UK; and
- Additional requirements calculated through the Internal Capital Adequacy Assessment Process ('ICAAP') to satisfy our risk appetite over the planning horizon and absorb the impact of a severe, but plausible, stress scenario.

The ICAAP is reviewed by the PRA when setting the Society's Total Capital Requirement (Pillar 1 and Pillar 2A). We perform regular stress tests on our capital base and these tests have consistently demonstrated a surplus above requirement after applying management actions.

We have utilised available transitional arrangements in relation to the impact of adopting IFRS 9 on regulatory capital and the figures above reflect those arrangements.

The Leverage ratio, which is calculated as Tier 1 capital divided by total Balance Sheet exposure, has decreased to 5.2%. This is being reported as per the transitional CRD rules. This is driven primarily by higher capital resources and asset exposures.

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

[1] CACI's, market data for January to December

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 several unavoidable or inherent risks. These inherent risks are continuously monitored and managed by the Board, as noted in the Risk Management Report on pages 42 to 46. They are categorised as principal risks within the Risk Management Framework ('RMF') 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. Strategy risk includes consideration of climate related risks.
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 Society'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. This includes consideration of wholesale liquidity risks (e.g. counterparty selection and management).
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 the failure of the Society to comply with statutory and regulatory requirements. **Conduct:** risks associated with the failure to deliver good 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. The operational risk category is considered in the context of people, resilience and data & systems, with each element covering several sub-categories of risk, including people risk, health & safety, third party management risk, information security risk (including cyber risk) and technology. The Nottingham's operational risk category includes managing and overseeing the Society's compliance with the PRA's requirements on operational resilience.

In recent times, the impacts of Covid-19, Brexit, geopolitical conflict and cost-of-living crisis 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 key external factors, including: inflation, the ongoing crisis in the Middle East, the war in Ukraine and related energy crisis, and the government's financial policy, along with the BoE base rate.

However, in recent months, some of these risks seem to be stabilising, with inflation having peaked, and interest rate rises plateauing. The uncertainty these risks create, exacerbated by the next general election expected before the end of 2024, 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

Much uncertainty remains within the economic environment. Whilst The Nottingham has maintained a good quality lending book with historically low arrears rates, the impacts of higher costs for homeowners may yet result in borrowers finding it more difficult to maintain their mortgage payments, which could result in arrears and subsequent losses increasing. Whilst the Society remains vigilant to this, an expected increase in arrears rates has yet to materialise.

Recent communications from the Monetary Policy Committee ('MPC') have indicated that they expect inflation to continue to fall into next year, underpinning the recent maintenance of interest rates at the 5.25% level at the December MPC meeting. They have, however, stressed the primacy of the 2% inflation target, implying scope for an extended plateau or further increases if required.

In addition, potential house price reductions because of a less active mortgage market and more conservative consumer behaviour, considering the cost-of-living crisis and a potential for a 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 alert to this risk 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.

The Society 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 because of the economic uncertainty and affordability squeeze. The Society undertakes regular stress-testing, conducts an annual 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 regulatory capital requirement (TCR plus combined buffers).

Lending decision-making is supported by models which are regularly reviewed and overseen as part of the governance framework to ensure they remain relevant and accurate in an uncertain macroeconomic environment. The Society is aware that many models were created at a time when the current trading environment was not envisaged, 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 both internally and by specialist third parties.

The Society 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 in 2022 and remain elevated in 2023 to ensure that the Society effectively manages the risk of future defaults.

The Nottingham will also continue to monitor closely all relevant economic forecasts to ensure that all emerging risks and shifts in dynamics are considered.

TRADING ENVIRONMENT

Trading conditions continue to be challenging as the mortgages and savings markets remain highly competitive. As rates fall, there is a risk of margin compression.

The Society has taken steps to reassess its business model considering the ongoing trading conditions and any additional risks arising from any change of approach are being fully considered and managed as these plans are finalised.

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 several initiatives in the medium-term that will enable it to expand its lending, within an acceptable 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 to remain relevant in a world where traditional customer behaviours are changing.

The proposed plans are ambitious and will impact all principal risk categories. Of 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 manage execution risks throughout the implementation of the new strategy.

PEOPLE RISK

People remain a priority at The Nottingham. Several key appointments have been made at executive level and we have focussed on the enhancements to our colleague retention programmes and remain committed to ensuring that the Society remains an attractive place to work. The attraction of new talent is a focus, with the Society remaining committed to offering a modern and flexible way of working with a definitive hybrid approach now in place.

The attention of all colleagues has now focussed on the development and implementation of the new strategy of the Society so that it continues to meet member needs and deliver great customer outcomes in a sustainable and relevant manner. This transition will inevitably place considerable demands on colleagues across the Society. The support of colleagues through effective communication; provision of training and development; and the enhancements of target operating models and capacity plans is a significant focus of Board and Management.

Navigating the fiercely competitive recruitment market to attract talent remains a challenge, with additional costs incurred because of increased salary requirements and the use of interim resource solutions to bridge gaps. 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

In tandem with the Society's increasing digital presence, cyber security risk continues to rank highly on The Nottingham's agenda. Work is constantly undertaken to enhance and monitor the effectiveness of risk management in this space. The investment of resources to support this will continue, with the support of third parties who are working closely with the Society to ensure information security controls remain robust against the fluid external threat environment.

The measures introduced last year reflecting the heightened threat of cyber-attack resulting from the outbreak of war in Ukraine and the Middle East remain in place despite there being no detection of specific threats for The Nottingham to date. Similarly, additional checks and monitoring for sanctions will remain operational during this period of elevated risk.

The maintenance of the existing technology estate and upgrading of systems, software and infrastructure to ensure high levels of resiliency and to support an increasingly digitalised member offering continues, with the mitigation of cyber-risks remaining a high priority for the Society.

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 Nottingham continues to invest in technology to prevent and detect cyber-attacks, whilst specialists maintain an awareness of prevailing threats and can 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

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 Nottingham explores new ways of meeting the needs of its members, it is likely that the number of key strategic partners will continue to increase.

During 2022, the Society continued to expand its strategic partnership with a fintech mortgage provider and is continuing in its target to fund £600m of mortgages via this channel into 2024. The partnership reflects a shared commitment to boost home ownership.

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 Nottingham 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 the same high standards that are applied internally. Strategic partners also support the Society 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.

TECHNOLOGY CHANGE RISK

The Society continues to make significant investment in its IT infrastructure, to both enhance operational resilience and provide enhanced capability to facilitate its strategic goals.

The inherent risks associated with technological change, including potential business disruption and / or operational loss, will be at heightened levels during this transformation. This has been recognised by the Society and is being appropriately managed using a defined change framework, with additional investment in change management capabilities, including the appointment of several suitably experienced professionals.

CLIMATE CHANGE

Enhancement of the Society's approach to climate-related risks continues with greater definition around responsibility frameworks for climate risk and metrics to monitor objectives related to carbon neutrality and Net Zero. Risks remain however around interpreting the impact of climate on the Society's assets and members with modelling and the sourcing of reliable data being an industry-wide challenge.

REGULATORY CHANGE

Several regulatory requirements are currently being delivered. The implementation of Consumer Duty was completed in line with regulatory prescribed timeframes, while the potential impact of incoming Basel 3.1 requirements is a key strategic consideration for the Society. Activities for areas like Climate Risk, Operational Resilience and Consumer Duty are enduring and require continued dedication of resources to facilitate effective embedding, evolution of approaches and ongoing monitoring and management.

The volume of new regulatory activities shows no sign of abating, with further developments expected into 2024 under the PRA's 'Strong & Simple' prudential regime and potential regulatory change as an outcome of the banking data review and review of Senior Management & Certification Regime ('SMCR').

The Society monitors the regulatory environment actively to ensure that it can 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 ('LR&CC'), which oversees the Society's approach to developing new processes in line with regulatory changes.

Anthony Murphy
Chief Financial Officer
6th March 2024


The Nottingham

STAKEHOLDER ENGAGEMENT REPORT

The Board acknowledges the variety of stakeholders we have and the significance of evaluating and comprehending their requirements. We have established communication channels for each stakeholder group to guarantee that their perspectives are considered in the overall decision-making process.

The table below outlines our primary stakeholder groups and how we engage with them:

Stakeholder	Who they are	What is expected from us?	How do we listen and engage?
Members and customers	• Retail borrowers • Retail savers	• Offer mortgages that are affordable and fairly priced; • offer good value savings accounts; • provide a friendly, efficient service; • tailor help for vulnerable customers; and • support broader societal goals.	• Annual General Meeting ('AGM'); • member newsletter; • member panels; • focus groups and panels; • Society's website; • face-to-face; • telephone; • e-mails; and • volunteering.
Colleagues	• Colleagues • Contractors	• Implement equitable reward and remuneration policies; • support a good work-life balance; • encourage and support personal development and training; • foster an inclusive culture that values diversity and celebrates it; • prioritise the well-being of physical, mental, and financial aspects; • demonstrate empathy, respect, and fairness in all interactions; • show genuine concern for the physical, mental, and financial well-being of colleagues; and • show empathy, respect, and fairness to all.	• Engagement via leadership; • colleague surveys; • provide engagement via leadership teams; • connect through colleague networks; and • keep colleagues up to date on all things Society related.
Community	• Local communities • Charities and community groups	• Dedicate resources to promote the economic well-being of communities; • actively contribute to broader societal goals; • cultivate an inclusive culture that values and celebrates diversity; and • operate as a sustainable business while embodying social responsibility.	• Advocacy on matters important to stakeholders; • addressing climate change, encompassing carbon footprint reduction and achieving Net Zero emissions; • supporting local community initiatives; and • charity donations and charity days for staff to volunteer their time.

Stakeholder	Who they are	What is expected from us?	How do we listen and engage?
Partners	• Brokers • Suppliers • Auditors • Industry bodies • Investors	• Ensure ease of interaction and simplicity in dealings; • collaborate as trusted partners to achieve shared success; • provide helpful, efficient, and approachable service; and • take tangible steps to contribute to broader societal goals.	• Direct engagement through specialist teams; • direct engagement through face-to-face meetings and events; • Annual Report and Accounts; • Regulatory News Service announcements; and • investor reporting.
Regulators	• Central and local governments • PRA • FCA	• Swiftly and proactively resolve customer issues; • act within the law and regulations and in the interests of our customers; • be financially strong and secure by maintaining adequate resources, including capital and liquidity; • act with integrity and transparency; and • prioritise operational resilience.	• Operate in accordance with the law and regulations, prioritising the well-being of our members and customers; • quickly and pre-emptively address customer concerns; and • ensure financial strength and security by upholding sufficient resources, including capital and liquidity.

CORPORATE RESPONSIBILITY REPORT

As a mutual building society, it's important for us to have a meaningful and lasting impact on our local communities. This impact spans across our 31 branch locations, our Nottingham head office and our colleagues' home locations.

Our impact takes many forms: through volunteer time, given by colleagues; charitable fundraising and donation of goods to support charities and non-profit organisations, in addition to our financial donations to our chosen charities.

OUR FOCUS: TACKLING HOMELESSNESS

Throughout 2023 we moved to align our community impact strategy with the strategic purpose for the Society that we established in 2022 – to help those who have previously found it difficult to access a mortgage to own their own home. We defined the parameters of our community programmes to focus our work in supporting people who are homeless or at risk of homelessness to access both emergency and longer-term services to help them towards a safe home. This in turn led to two strategic charity partnerships that we intend to continue in the coming years. The first is with Emmanuel House, a Nottingham-based independent charity working to support people who are homeless, rough sleeping, in crisis or, at risk of homelessness in and around the city.

Our partnership with Emmanuel House included a charitable donation of £100,000 which is intended to help them develop their portfolio of temporary accommodation and wraparound support services to those at immediate risk. We know that 1 in every 201 people in Nottingham are homeless and the number of people rough sleeping in Nottingham in 2023 is 47, up from 23 in 2022.

£100,000
donation to support Emmanuel House

Emmanuel House
Sharing the journey

With provision for housing reducing, and the need for homes clearly rising, we are working with Emmanuel House to fund temporary accommodation as well as offering the time and skills of our colleagues to provide additional support to people accessing their services.

In 2023 our colleagues gave over 300 hours of volunteer time to Emmanuel House, providing practical help such as painting, donation sorting at their Support Centre and cooking meals at the charity's Winter Shelter which offers a safe space for up to 27 people each night from October - April. We are also working to develop our skills-based volunteering, where colleagues have been working with Emmanuel House's women's group to build a programme that includes financial resilience tips, practical support for managing finances and confidence building around money related conversations. In 2024 we will continue to build on this work as part of a wider coaching programme with Emmanuel House as well as continuing to collect donations for the charity in our head office, offer volunteer time and further collaborative projects.

[1]Data produced in Shelter's 'Homelessness in England 2022' report

Our work with Emmanuel House focuses support for people based in and around the Nottingham area, therefore in our second partnership, we wanted to find a cause that any of our colleagues, members or customers could signpost people to, and where assistance could be provided and accessed across the country. In December 2023 we announced a new partnership with Shelter, supported by a donation of £50,000 to contribute to the running of their Sheffield-based helpline, the UK's only dedicated call line for people at risk of homelessness and experiencing poor housing provision. As part of our partnership launch, we began a fundraising and awareness campaign with colleagues, named 'Step Out for Shelter'. Our aim was to bring colleagues across all locations together in support behind one cause, whilst enabling colleagues to understand more about the housing crisis.

We kicked off our partnership with a virtual seminar with some of the Shelter team, where all colleagues could hear about our new partnership along with the work Shelter do to fight for a safe and secure home for all. Our fundraising activities saw colleagues take part in a range of initiatives - a sponsored 30-day steps challenge, a festive jumper day, bake-offs and a Super Santa Dash from head office. Colleagues were also supported to run their own activities across all locations which saw team-members collectively fundraise over £5,000 for Shelter.

At the end of 2023 we provided an opportunity for our customers and other savers to join us in support of our charity partners through a new Community Saver Account. This account offered a competitive interest rate whilst committing a donation equivalent to 0.5% of all balances held in the account to be donated equally between Emmanuel House and Shelter. This is the first time we have brought a community savings product to the market that directly benefits our charity partners, and we're proud to have been able to share this opportunity with our customers in 2023.

SHELTER

Top left: Announcing our partnership with Emmanuel House (Rosie Needham-Smith and Denis Tully from the charity pictured with our Corporate Social Responsibility Manager Laura Thomas).
Top right: Colleagues fundraising for Shelter with a 'Santa Dash' around Nottingham city. | Bottom right: Our Technology and Transformation leadership team volunteering with foodbank Hope Nottingham.

AT THE HEART OF OUR BRANCH COMMUNITIES

Beyond our partnerships with Emmanuel House and Shelter, our colleagues worked hard in 2023 to elevate our community impact through volunteer time, donations of goods and space as well as fundraising for charities and non-profits in our local communities. Our 31 branch locations collectively gave over 1,662 volunteer hours, a material increase from 2022, where recorded hours were under 250. Our branch teams have thrived in contributing to our new community programmes, driving and organising in-house events such as fraud and scam awareness sessions, bereavement cafes and charity-led coffee mornings to bring members of our local communities together and provide a safe space for people to connect and share life experiences with one another.

Our colleagues have gone beyond the branch too, committing regular help to local organisations providing vital services to people who are homeless or at risk of homelessness. Our Arnold branch team, work with the local charity Sharewear Clothing Scheme to volunteer the time of two colleagues every week for half a day. They also ensure that one of the two volunteers has already been trained by the charity, so that they can self-manage the morning hours and maximise time that may otherwise be taken up by introducing volunteers to processes. This commitment to regular volunteering means the charity can manage tasks and make best use of their time to help more people. This is just one example of the meaningful and committed relationships our colleagues are continuing to build in their local areas.

We are proud of our work with local Stapleford charity Chayah Development Project. Chayah are dedicated to making a lasting impact on communities through tackling social issues to break down barriers. In June we offered our former Stapleford branch location to the charity on a peppercorn rent. We worked with ten of our trusted suppliers to refurb and rebrand the facility for Chayah free of charge, along with a donation of £3,000 to support them in establishing their services in the Stapleford area. Our Facilities team also gave over 70 hours of volunteer time to help get the hub ready and host an opening event with Chayah Development Project. Our local branch Beeston are now running a regular collection to support Chayah's food project which offers food parcels to people experiencing food poverty too. We will continue to support Chayah Development Project in 2024 and are pleased to have been able to repurpose a former branch for community impact.

VOLUNTEERING OUR COLLEAGUES' TIME AND SKILLS

Our branch teams are not the only ones engaging more with our community programmes, together across all locations colleagues gave over 2,462 hours of volunteer time in 2023, with 43% of people volunteering at least once, an uplift of nearly 20% compared with 2022. 80% of colleagues told us they believe The Nottingham is committed to supporting communities and creates opportunities for them to do the same in our Big Insight people survey which took place in October.

Colleagues have not only given time to personal passions and local connections, but they have also engaged with centrally organised activities such as our ThinkForward business mentoring programme, a six-week commitment working with young people identified as at risk of becoming Not in Education, Employment or Training ('NEET') when they leave secondary education. Our volunteers support the young people to build confidence in their own skills and to open their minds to the various opportunities they have beyond secondary education.

Another centrally organised cause colleagues gave practical help to is Operation Orphan, the Nottingham-based charity who work to keep orphans and vulnerable children around the world safe, warm, healthy and learning. We have been supporting Operation Orphan since 2022, and in early 2023, alongside a donation of £20,000 our colleagues spent time sorting and packing donations of essential clothing to support families in Turkey impacted by the 7.8 magnitude earthquake on 6th February. The donations were then distributed by Operation Orphan's volunteer crisis response team on the ground in Turkey who worked to reunite families and help with temporary accommodation, getting people to safety and helping them with essentials such as food, water, blankets and tents.

As we look to the months ahead, we are excited to develop our purpose-led community mission, to support people who are homeless or at risk of homelessness to access essential services. We will do this by furthering our partnerships with Emmanuel House and Shelter as well as continuing to support causes and issues impacting our local communities through empowering our colleagues to continue giving their working time and resources to make a lasting difference.

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[1]Data produced in Shelter's 'Homelessness in England 2022' report

Top left: Colleagues of The Nottingham volunteering with Sharewear and Emmanuel House

Bottom left: Kim Stewart of Chayah Development Project celebrating their hub launch.

Top right: Our branch network leadership team volunteering at Emmanuel House Support Centre.

Mid right: Colleagues volunteering with Operation Orphan to sort and pack donations of clothing.

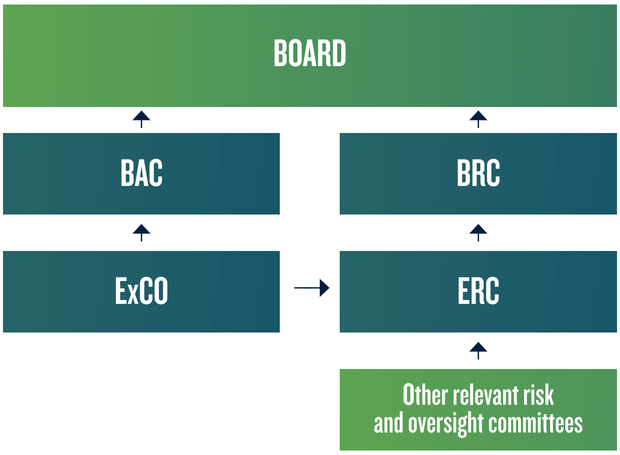
Bottom right: Sophie Harlow hosting a bake sale fundraiser for Shelter

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 ('ExCo') 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 ('BRC') and the Executive Risk Committee ('ERC') are responsible for oversight of climate-related risks.



Risk oversight committees, include the Asset & Liabilities Committee ('ALCo'), Retail Credit Committee, Operational Risk & Resilience Committee, Model Governance Committee, LR&CC and Change Management Committee ('CMC'). These committees have primary responsibility for identifying, managing, and reporting of climate-related and other risks. 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 BRC (under delegated authority from the Board) has been fully engaged with the Society's response to climate change.

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 several 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 2023 we have targeted the reduction in our Scope 1 and 2 emissions as a priority underpinned with a commitment to reduce our overall Stage 1 and 2 emissions by a minimum 16% over the year versus 2022. As detailed in our 2023 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 2023 reporting period.

During 2023 we have focused on continued deployment of Light Emitting Diode ('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. The LED rollout was completed 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.

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.

To ensure strategic decisions are informed appropriately, a range of scenario analyses are 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 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 from the scenarios are used to inform the ICAAP assessment and are also considered across the risk categories in The Nottingham's RMF. The conclusion from the ICAAP assessment is that no additional capital is required to cover climate change risk.

RISK MANAGEMENT

IDENTIFICATION

The Nottingham recognises that climate change is far reaching across its business and to capture all the material touchpoints, climate change is embedded within the Society's enterprise-wide RMF. 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.

Several 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 2023 include:

Short-term

- Physical measures taken to reduce emissions;
- Reduction in Scope 1 and 2 emissions by 16% in 2023; and

Long-term

- 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 the activities co-ordinated. The risk assessments performed via risk oversight committees at half and full year points are presented to the ERC and the BRC 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 Society'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 Society and its third parties and strategic partners operate and conduct business; and
- **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.

METRICS AND TARGETS

CARBON FOOTPRINT

We have strengthened our relationship with our long-standing utilities partner, Inspired Energy, during 2023 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 2023 we set a target to reduce our Scope 1 and 2 by a minimum of 16% against 2022 full year on a consistent basis. Whilst all natural gas supplies have been removed, emissions from other fuels have increased due to a refrigerant top-up in air conditioning units resulting in an increase in Scope 1 and 2 emissions of 18.3%. Scope 1 and 2 emissions reduced by 14.8% once the impact of other fuels is excluded.

We also set a target in 2023 to reduce our electricity against 2022 performance. We have achieved an 8.3% reduction through several measures including the completion of the 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.

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 of data to support us to monitor trends and performance against targets.

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

Results of the 2023 data analysis show that we continue to generate over 99.2% of our emissions due to Scope 3 which covers indirect emission sources. Within our Scope 3 emissions over 93.8% 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 2023.

Details of the data included in our carbon Balance Sheet are shown in the table below:

C02 in tonnes	2023		2022	
Scope 1 emissions[1] Direct emissions from owned or controlled sources				
Gas	-		22	
Other Fuels	102		-	
Travel	11		12	
Scope 2 emissions[2] Indirect emissions from purchased energy				
Electricity	254		277	
Total directly attributable emissions	**367**	**1%**	**311**	**1%**
Scope 3 emissions Other indirect emissions that occur in an entity's value chain				
Investments (mortgage portfolio)[3]	44,764		38,240	
Purchased Goods and Services	1,564		4,474	
Capital Goods	374		410	
Other[4]	672		664	
Total indirect emissions	**47,374**	**99%**	**43,788**	**99%**
Total emissions	**47,741**		**44,099**	

[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 commuting and leased assets.

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 2023 and 2022.

		Balance by annual flood probability 31st December 2023	
		Total £m	%
High	(>3.3%)	128.5	3.6
Medium	(>1.1%-3.3%)	112.7	3.1
Low	(0.1%-1.1%)	398.8	11.1
Negligible	(<0.1%)	2,836.6	79.0
Unable to categorise	N/A	115.8	3.2
Total		**3,592.4**	**100%**

		Balance by annual flood probability 31st December 2022	
		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%)	2,518.2	83.0
Unable to categorise	N / A	10.5	0.3
Total		**3,037.0**	**100.0**

	Balance by subsidence risk 2030 31st December 2023	
	Total £m	%
Probable	366.8	10.2
Possible	365.1	10.2
Improbable	2,740.3	76.3
Unavailable	120.2	3.3
Total	**3,592.4**	**100.0**

	Balance by subsidence risk 2030 31st December 2022	
	Total £m	%
Probable	221.0	7.3
Possible	268.4	8.8
Improbable	2,538.8	83.6
Unavailable	8.8	0.3
Total	**3,037.0**	**100.0**

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 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 31st December 2023	
	Number	Exposure £m
EPC Rating A-C	7,582	1,272.6
EPC Rating D-E	11,073	1,705.2
EPC Rating below E	483	78.3
No EPC available	3,693	438.3
Total	**22,831**	**3,494.4**

	Energy Performance Certificate Data As at 31st 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**

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

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 several years running KPMG's UK Financial Sector Transaction Services team, he was the global Chief Operating Officer ('COO') for KPMG's financial services business. Current directorships include ABC International Bank plc; Kingdom Bank plc and Clear Bank UK. He also Chairs Aetna Insurance Company Ltd and is on the board of three small charities.

KERRY SPOONER
SENIOR INDEPENDENT DIRECTOR AND RISK COMMITTEE CHAIR

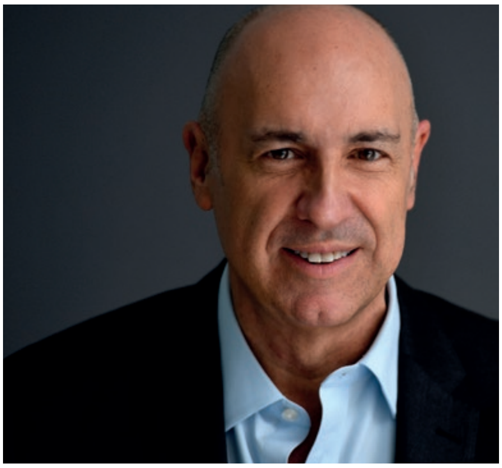
Kerry joined the Board in September 2016. Kerry had 10 years of financial services experience in the building society sector before joining the Board. She acted as a Non-Executive Director at two other building societies and has experience as Vice Chair, Senior Independent Director, Chair of Remuneration 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 independent Chair of the Remuneration Committee of The Bank of Nova Scotia, London Branch and Non-Executive Chair of the Remuneration Committee of ANZ Banking Group UK Branch.

PAUL ASTRUC
NON-EXECUTIVE DIRECTOR

Paul brings over 30 years of financial services experience after qualifying as an accountant working as Finance Director and Executive at a number of UK and International Banks. Paul became the CFO at The Nottingham in April 2021 (with additional responsibility for Technology) and joined the Board as an Executive Director in June 2022. In April 2023 Paul ceased to be CFO and an Executive Director of the Society, moving to become a non-independent Non-Executive Director of the Society to offer continuity for a period of 12-months.

SIMON LINARES
REMUNERATION COMMITTEE CHAIR

Simon joined the Board in 2019. Simon is also an Executive Mentor, 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 fast moving consumer goods, 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. Peter is a Non-Executive Director of Queen Victoria Hospital Foundation Trust and a Trustee for Cardiac Risk in the Young. Peter has a Bachelor of Commerce Degree from University College Dublin, is a fellow of Chartered Institute of Management Accounting ('CIMA') and has significant experience of both international and UK markets.

KAVITA PATEL
NON-EXECUTIVE DIRECTOR

Kavita joined the Board at the beginning of 2017 and is the Board Consumer Duty Champion. She is a Partner and Head of Investment Funds at the law firm, Shakespeare Martineau. Kavita is also a Non-Executive Director and Deputy Chair of Foresight Enterprise VCT plc. 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

ROBIN ASHTON
NON-EXECUTIVE DIRECTOR

Robin joined the Board as a Non-Executive Director in December 2023. Robin brings extensive leadership experience to the table, having served as Chair of Leeds Building Society for over seven years and held roles at Domestic & General Group and Shawbrook Group plc, overseeing expansions and digital transformations. During his tenure at Leeds Building Society, assets grew notably, and strategic investments in technology were made.

CHANGES TO THE BOARD IN THE YEAR TO 31ST DECEMBER 2023

Paul Astruc moved from an Executive Director role to a Non-Executive Director role on 7th April 2023.

Simon Baum moved from a Non-Executive Director role to an Executive Director role on 1st May 2023.

Anthony Murphy was appointed as an Executive Director on 23rd June 2023.

Robin Ashton was appointed as a Non-Executive Director on 1st December 2023.

BOARD COMMITTEES

Risk
Kerry Spooner (Chair)
Paul Astruc
Simon Linares
Peter O'Donnell
Kavita Patel

Audit
Peter O'Donnell (Chair)
Paul Astruc
Kavita Patel
Kerry Spooner

Nominations
Andrew Neden (Chair)
Simon Linares
Kerry Spooner

Remuneration
Simon Linares (Chair)
Andrew Neden
Kavita Patel
Kerry Spooner

SUE HAYES
CHIEF EXECUTIVE

Sue joined the Society in January 2022 and was appointed as CEO in March 2022. 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.

ANTHONY MURPHY
CHIEF FINANCIAL OFFICER

Anthony joined the Society in March 2023 as CFO. Anthony was previously CFO of Tandem, a digital challenger bank, playing a pivotal role in their strategic transformation and journey towards profitability. His prior experience includes CFO positions in a listed regional bank in the United Arab Emirates and senior roles in finance and strategy at Lloyds Banking Group, notably supporting the sale of their Middle East business to HSBC. Anthony's extensive international and domestic experience in challenger and established banks aligns with The Nottingham.

Anthony is a member of Chartered Institute of Management Accounting ('CIMA') and is on the Board of Bournemouth University, where he graduated from in 2001, and further demonstrates his passion for lifelong learning.

SIMON BAUM
CHIEF RISK OFFICER

Simon joined the Board as a Non-Executive Director 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 ceased to be a Non-Executive Director of the Society in May 2023, moving to become CRO and an Executive Director of the Society.

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 7 to 22.

BUSINESS OBJECTIVES AND ACTIVITIES

The Nottingham is a strong and successful mutual building society, which builds upon its 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 14 to 22.

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 14 to 22. 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 20 to 22, and our approach to managing these risks can be found in the Risk Management Report on pages 42 to 46.

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 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 2023 results, are disclosed in the Strategic Report on page 17.

RESULTS

Group statutory profit before tax for the year was £8.3m (2022: £18.9m). The Group profit after tax for the year transferred to general reserves amounted to £8.3m (2022: profit after tax of £15.8m). As at 31st December 2023, total Group reserves and equity amounted to £243.5m (2022: £231.6m).

CAPITAL

Group gross capital as at 31st December 2023 was £267.5m, (2022: £255.6m) being 6.45% (2022: 7.24%) of total shares and borrowings. Free capital, as at the same date, amounted to £251.9m (2022: £235.1m) and 6.07% (2022: 6.66%) of total shares and borrowings.

The Annual Business Statement set out on page 112 gives the explanation of these ratios. The Board remains committed to maintaining a strong capital position.

LOANS AND ADVANCES

During 2023, total new lending was £887m (2022: £659m) with the average advance being £224,191 (2022: £197,321) and the average debt at the end of the year being £152,246 (2022: £138,255). As at 31st December 2023, there were seven cases (2022: four cases) of properties being 12 or more months in arrears or in possession. The total amount of balances outstanding in those cases was £497,443 (2022: £131,151), with arrears of £77,038 (2022: £17,354).

Mortgage losses realised during the year totalled £nil (2022: £14,060). Provisions for expected credit losses total £5.2m (2022: £5.3m), representing 0.15% of mortgage balances (2022: 0.17%).

The Group offers several different forbearance options to customers including reduced payment concessions, payment plans, capitalisations and mortgage term extensions. As at 31st December 2023, the Group had 80 loans (2022: 87) 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 2023 by the Group's Facilities team, indicates that market value is £5.0m (2022: £3.2m) higher than book value.

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 31st December 2023, the total amount owed to suppliers was equivalent to 23 days' credit (2022: 17 days).

CHARITABLE AND POLITICAL DONATIONS

During the year, the Group made charitable donations of £144,979 (2022: £150,000). 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 the activities of the Society and its subsidiaries are conducted in the UK and therefore 100% of the total income, statutory profit before tax and tax shown in the Income Statement as well as employee figures disclosed in Note 7, are related to the UK. The Society and its subsidiaries have not received any public subsidies.

ENVIRONMENT AND SUSTAINABILITY

The Sustainability Report on pages 30 to 32 outlines the Society's position in line with the requirements of the Financial Stability Board's TCFD.

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 FCA and the PRA 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. 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 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 BAC report on pages 51 and 52.

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 20 to 22 and 42 to 46, 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 CEO's Review on pages 6 to 13. 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 31st March 2025 – covering a period of at least 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.

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 consistent with the planning horizon used for corporate planning.

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 the main assumptions of 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 occurring (which are outlined on pages 20 to 22 of the Strategic Report and the Risk Management Report on page 42). This includes the associated risks because 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 34 to 37. 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 31st December 2023.

In accordance with the agreement made by the Board and in line with the rules for re-election outlined on page 49, all Directors who wish to continue in role will stand for re-election at the next AGM.

AUDITOR

A resolution to reappoint Ernst and Young LLP as auditors of the Society will be proposed at the AGM.

On behalf of the Board,

Andrew Neden
Chair
6th March 2024

NOMINATION COMMITTEE REPORT

STATEMENT BY THE CHAIR OF THE NOMINATION COMMITTEE

I am delighted to introduce our 2023 Nomination Committee ('NomCo') report, offering an overview and summary of our actions throughout the calendar year. This report also provides details regarding the Committee's role and duties.

The Nomination Committee is responsible for:

- selecting and recommending candidates for Leadership roles and Non-Executive Directors;
- overseeing succession planning;
- promoting diversity;
- evaluating Leadership performance;
- managing conflicts of interest; and
- ensuring compliance with legal and ethical standards.

The Committee plays a vital role in building a capable and diverse Leadership team, enhancing governance practices, and fostering the organisation's long-term success.

COMMITTEE STRUCTURE AND OPERATIONS

The Committee membership was made up as follows:

Andrew Neden (Chair)	Non-Executive Director and Chair of the Board
Simon Linares	Non-Executive Director and Chair of the Remuneration Committee ('RemCo')
Kerry Spooner	Non-Executive Director, Senior Independent Director and Chair of the BRC

The detail of the skills and experience of the Committee members can be found in their biographies on pages 34 to 37.

The Committee met on three occasions during the year. After each meeting, the Committee Chair offers the Board updates, condensing the actions performed during the meeting and highlighting significant decisions made.

APPOINTMENTS

There were no appointments or resignations within the Committee in 2023.

COMMITTEE ACTIVITIES

During the year, the Committee has:

- recommended the appointment of one Executive Director and two Non-Executive Directors. All appointments are subject to extensive external checks and, where necessary, regulatory approval;
- reviewed and agreed the succession plans for both the Board and Senior Management;
- evaluated the diversity of skills and experience among Board members;
- reviewed the size and composition of the Board and its committees;
- reviewed the time commitments of Non-Executive Directors; and
- continued a Board development plan and associated activities to support it.

EQUITY, DIVERSITY AND INCLUSIONS

The Committee's role is to ensure that both the Board and the Senior Leadership Team mirror the Society's strategic goal of valuing and incorporating all colleagues embracing their unique perspectives.

Diversity encompasses various dimensions, including a well-rounded mix of skills, experiences, backgrounds and qualifications in our workforce. We recognise the substantial benefits that diversity brings, particularly in decision-making. Our commitment to diversity and inclusion extends beyond numerical targets. Our new strategy forms the basis for engaging all colleagues, from the Board to the branch network.

We remain a signatory to the Women in Finance Charter; however, we didn't achieve our gender diversity target of 35% this year, with a total of 32% of women in Senior Management positions. We have also set ourselves an ambitious target of gender parity by 2025.

We implemented two employee representation Groups: 'Pride' and 'Menopause at Work'. These influential groups represent various viewpoints, experiences and communities who generate thought-provoking work to enhance our business and workplace, creating a sense of belonging and opportunities for all.

Andrew Neden
Chair of the Nomination Committee
6th March 2024

RISK MANAGEMENT REPORT

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 while delivering its strategic objectives. This includes both current risks and future risks, including those associated with the implementation of strategy.

The Board reviews and approves key risk management policies annually, including the Board Risk policy, ICAAP, ILAAP and the Recovery and Resolution Plan ('RRP').

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 SMCR.

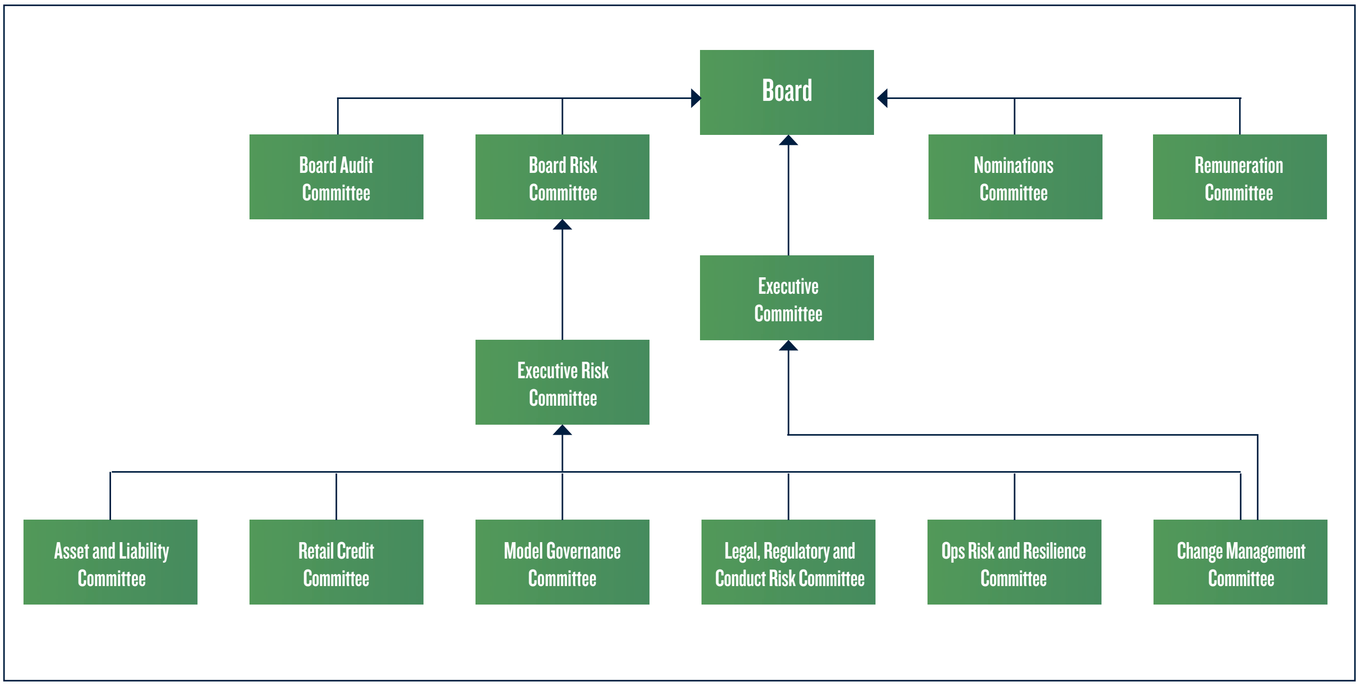
THE BOARD RISK FRAMEWORK

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

The RMF is approved annually by the BRC and is based on the 'three lines of defence' model (described on page 50) and focuses on:

- clear accountability and ownership;
- defined roles and responsibilities;
- 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 ERC, which oversees the Society's risk committees, as detailed in the diagram below.



BOARD RISK COMMITTEE

As detailed on page 47, the membership of the BRC comprises of Non-Executive Directors. 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 BRC 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 BRC extends to all types of risk faced by the Group with the management of certain risks delegated to the ERC, ExCo and relevant management committees. The responsibilities of these committees are described below.

EXECUTIVE COMMITTEE

The ExCo 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 CEO and comprises all Executive team members.

STRATEGIC RISK

When discussing future strategy, the ExCo 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 affect 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 ExCo 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 ERC is responsible for acting on behalf of the Board and the BRC 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 BRC to fulfil its role by ensuring that:

- there is executive level oversight of the RMF;
- 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 RRP which fully reflects the requirements of the Board and regulators;
- conduct related risks are appropriately identified, managed and reported up to the BRC; and
- The Nottingham has identified climate-related risks and has embedded them within its RMF, 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 several 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 CRO and includes all Executive Directors, certain members of the ExCo and other senior colleagues.

ASSETS AND LIABILITIES COMMITTEE

The 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 CFO 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 & Interest Rate Risk policy, which is developed, defined and recommended by ALCo and considered and approved ultimately by the BRC.

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

The Prudential Risk team measures the levels of interest rate risk in the Society's Balance Sheet, as well as subjecting the Balance Sheet to stress tests designed to measure the likely impact of a sudden change in interest rates. This is assessed weekly for stresses to economic value and monthly for stresses to net interest income 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 using 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 ILAAP, as required by the PRA.

The Society is required to be compliant with the LCR, which measures the amount of HQLA 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 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 an RRP, 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 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 Prudential Risk team and reported to ALCo. A detailed analysis of the Society's liquidity profile can be found on page 19.

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 BoE Reserve Account. The composition of the treasury assets can be found on page 19.

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 several factors including minimum acceptable credit ratings approved by the BRC, 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 BRC. 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 Prudential Risk team to ensure all exposures remain within risk appetite. This information is shared with ALCo.

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 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.

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 19.

RETAIL CREDIT COMMITTEE

RCC is comprised of relevant senior managers and chaired by the CRO. It is responsible for oversight of the Society's retail credit risks, which includes exposures to residential and BTL mortgages, limited company buy-to-let mortgages and SBL.

RETAIL CREDIT RISK

The Society defines retail credit risk as the risk of loss stemming from a borrower's failure to repay a loan or otherwise meet a contractual obligation. 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 RCC, reviewed by ERC and considered and approved by the BRC. 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 regular monthly information on key risk appetite limits.

Exposure to retail credit risk is carefully monitored by the RCC. 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 the Board.

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 limit concentration risk. Similarly, The Nottingham continues to follow its 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 its borrowers to the impact of future rate rises. The mortgage portfolio shows resilience to the impact of recent rate rises, but the Society ensures adequate monitoring and analysis are in place to ensure early detection of any potential deterioration. Considering 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 using application scorecards. Credit reference bureaux 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, using 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 ('SME's) 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 12.2% as at 31st December 2023.

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 ERC 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".

The Committee, which is made up of relevant senior managers and is chaired by the CRO, 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 AND CONDUCT RISK COMMITTEE

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

The LR&CC oversees how The Nottingham manages legal, regulatory and conduct risk to ensure that all services are conducted in a clear, transparent and fair manner, delivering good outcomes for customers.

The Committee is chaired by the General Counsel, 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.

During 2023, the LR&CC has overseen the implementation of required policy and operational changes resulting from the implementation of the regulatory requirements of Consumer Duty.

OPERATIONAL RISK AND RESILIENCE COMMITTEE

Operational Risk & 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 Technology and Transformation Officer ('CTTO') supported by relevant senior managers.

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 quarterly ORRC meeting, covering the full range of operational risks including review and approval of the operational risk dashboard and oversight of operational resilience; and
- 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

CMC is responsible for the oversight and management of the Transformation and Change risk category; for which it reports to ERC. 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 also reports to ExCo. The Change Management Committee acts on behalf of the ExCo and ERC 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 CMC is informed by the Group corporate plan and specifically owns the change execution plan on behalf of the ExCo, 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 RMF, 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 ExCo and the Board.

RISK OVERSIGHT

The RMF 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.

BOARD RISK COMMITTEE REPORT

STATEMENT BY THE CHAIR OF THE BOARD RISK COMMITTEE

The Board Risk Committee ('BRC') is tasked with ensuring fit for purpose risk management arrangements are in place and for reviewing the Society's risk exposures on an ongoing basis, on behalf of the Board. It assesses applicable policies to ensure that the Society operates in a manner that safeguards and efficiently administers the Society's assets, delivering benefits to members via savings and mortgages, all while adhering to legal requirements, regulations, and the agreed-upon risk appetites of the Board.

COMMITTEE STRUCTURE

The BRC is a Board Risk Committee and at 31st December 2023, the Committee membership was made up as follows:

Kerry Spooner (Chair)	Senior Independent Director and Chair of the BRC
Paul Astruc	Non-Executive Director
Simon Linares	Non-Executive Director and Chair of the RemCo
Peter O'Donnell	Non-Executive Director and Chair of the BAC
Kavita Patel	Non-Executive Director and Chair of Conduct Sub-Committee within BRC

The detail of the skills and experience of the Committee members can be found in their biographies on pages 34 to 37.

The Committee met on six occasions during the year. After each meeting, the Committee Chair reports to the Board the activities of the BRC highlighting significant decisions made.

APPOINTMENTS

In May 2023, the Board appointed Simon Baum to the executive role of CRO (SMF 4). In line with the requirements of the SMCR regime, he stepped down as Chair of the BRC (SMF 10) to assume this role. He continues to be an attendee at the Board Risk Committee, but is no longer a voting member.

Following appointment by the Board, Kerry Spooner assumed duties as Chair of the BRC (SMF 10), which was formally approved at the meeting of the BRC in July 2023.

COMMITTEE RESPONSIBILITIES

The BRC provides support in monitoring the Society's overall risk exposure. The BRC enables the Committee to fulfil its role by ensuring:

- there is executive-level oversight of the Risk Management Framework;
- accountability and responsibility for managing risk are clearly defined;
- the risk culture of the Society is defined and embedded;
- the nature and extent of the top risks of the Society are determined and understood, including the nine principal risk types 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 RRP
- conduct-related risks are appropriately identified, managed, and reported up to the BRC; and
- The Nottingham has identified climate-related risks and has embedded them within its RMF.

COMMITTEE ACTIVITIES

The following outlines the Committee's activities and areas of focus during the year:

Strategy & risk appetite	• Review of strategic risk appetite statements; • review of operational resilience annual assessment; and • review of strategic risk dashboards.
Policy	• Annual review and approval of Capital Adequacy and Liquidity and Funding Risk policies; • annual review and approval of Retail Credit Risk policy; • annual approval of LR&CC policy and Compliance Monitoring Plan; and • approval of Financial Crime policy.
Stress testing	• Annual review and recommendation of the ICAAP to the Board; • annual review and recommendation of the ILAAP to the Board; • annual review and recommendation of the Recovery and Resolution Plan to the Board; and • annual review and recommendation of Pillar 3 Disclosure to the Board.
Risk management	• Review of credit risk profile of mortgage portfolios; and • review of annual Money Laundering Reporting Officer's report.
Risk monitoring	• Review of risk exposure relative to appetite and tolerance measures; • review of CRO's report; • horizon scanning; • oversight of ERC and subsidiary risk management committees; • review of compliance and conduct risk monitoring activity; and • in tandem with the RemCo, review the management of key risks in determining the variable pay awards due to the Executive Directors and Senior Management.

Kerry Spooner
Chair of the Board Risk Committee
6th March 2024

CORPORATE GOVERNANCE REPORT

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

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 2023 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 31st December 2023, the Board consisted of seven Non-Executive Directors (including the Chair) and three Executive Directors, providing a complementary balance of skills and expertise.

The Board held nine meetings, two strategy review meetings and one business planning meeting during 2023. 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 Society 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 can 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 General Counsel and the Company Secretary.

DIVISION OF RESPONSIBILITIES

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

The CEO 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, 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 up to September 2024, to ensure that there is an appropriate transition period as the Society moves to 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 with the exception of Paul Astruc (who is considered non-independent as a result of his employment with the Society prior to his appointment as a Non-Executive Director) 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 34.

EFFECTIVENESS

COMPOSITION OF THE BOARD

The names of the Directors together with brief biographical details are set out on pages 34 to 37.

The Board has four committees ('BRC'; 'NomCo'; 'RemCo' and 'BAC') 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 36.

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 attended; the number to the right is the number of meetings the Director was eligible to attend during 2023.

Director	Board	Risk	Nominations	Remuneration	Audit
R Ashton	-	-	-	-	-
P Astruc	8/8	4/4	-	-	4/4
S Baum	8/8	3/3	-	-	1/1
S Hayes	8/8	-	-	-	-
S Linares	8/8	6/6	3/3	4/4	-
A Murphy	3/3	-	-	-	-
A Neden	8/8	-	3/3	4/4	-
P O'Donnell	8/8	6/6	-	-	5/5
K Patel	8/8	6/6	-	4/4	5/5
K Spooner	8/8	6/6	3/3	4/4	5/5

P Astruc attended 3 Board Meetings as an Executive Director and 5 Board Meetings as a Non-Executive Director.
S Baum attended 5 Board Meetings as a Non-Executive Director and 3 Board Meetings as an Executive Director.

The minutes of committee meetings are available to 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 ExCo and ERC to support the Board in managing the day-to-day operations of the Group. The Executive and ERC 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 clearly 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 pages 42 to 46 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 NomCo 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 considers 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 NomCo 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 FCA and PRA including, where appropriate, receiving regulatory approval.

COMMITMENT

Prior to appointment, Non-Executive Directors are required to disclose their other significant commitments. In addition, 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 CEO 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 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, the last review having been undertaken by board evaluator, Ian White, in 2022.

The results of that review confirmed that the Board and its committees operated effectively and the enhancements noted in that review have been considered and, where accepted as appropriate, implemented through 2023.

RE-ELECTION

In 2024, all Directors with the exception of Paul Astruc will submit themselves for election at the AGM in accordance with the Code.

Non-Executive Directors can serve up to a maximum of three three-year terms. The tenure of the Chair was extended in 2022 up to September 2024 to provide a suitable timeframe to appoint a new Chair and to enable an appropriate transition period.

The Code requires that the independence of all Non-Executive Directors is considered as part of the Annual Report of the Society. It is confirmed that, with the exception of Paul Astruc all of the Non-Executive Directors are considered to be independent, and in particular (noting the requirements of the Code) Andrew Neden is considered to be independent, notwithstanding that his tenure was extended beyond the Code limit of nine years, and as a result of the enhanced check and challenge he has offered to the Management team as they roll out the new strategy.

The NomCo 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 considering knowledge, skills and experience required.

ACCOUNTABILITY AND AUDIT

FINANCIAL AND BUSINESS REPORTING

The Directors' Report on pages 38 to 40 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.

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 CEO's Review on pages 8 to 12, the Strategic Report on pages 14 to 22 and within the Annual Report and Accounts taken as a whole.

VIABILITY STATEMENT

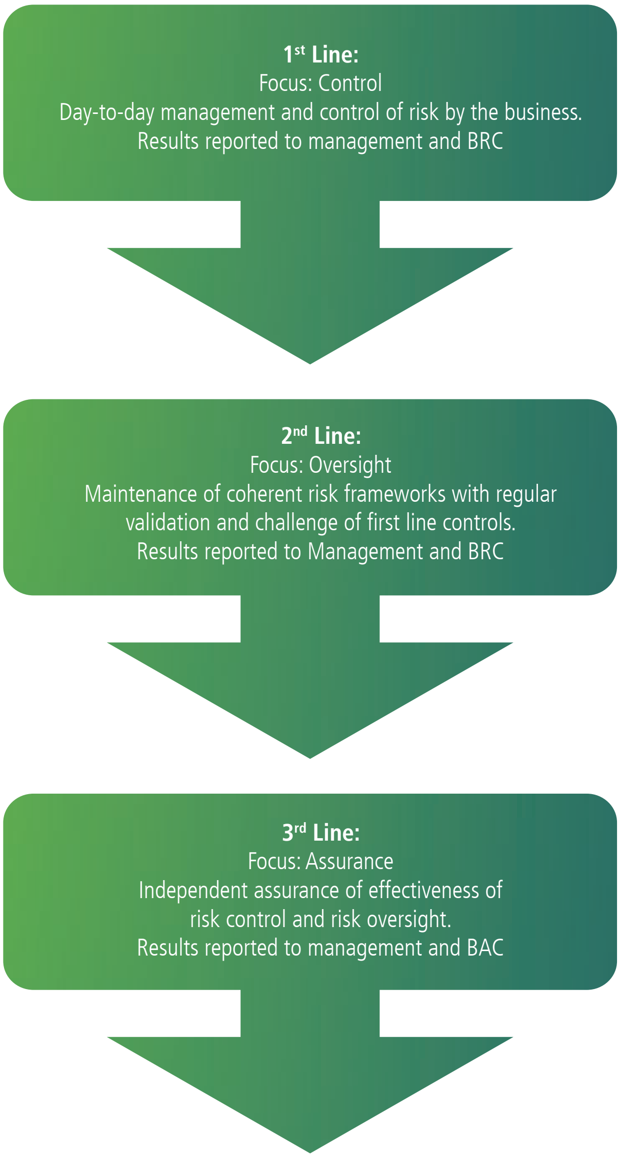
In accordance with the requirements of the Code, the Board has assessed the prospects of the Society over a period longer than the 12-months required by the going concern provision. The Viability Statement is considered on page 40 within the Directors' Report.

RISK MANAGEMENT AND INTERNAL CONTROL

The responsibilities and activities of the BRC are outlined within the Board Risk Committee Report on page 47.

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 20 to 22 of the Strategic Report and further information on risk management is given in the Risk Management Report on pages 42 to 46.

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.



The operation of these three lines of defence is embodied in the terms of reference of the Society's risk committees. The BRC 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.

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 RemCo.

The RemCo's work and the Society's compliance with the Code principles relating to remuneration is covered in the Directors' Remuneration Report on pages 53 to 56.

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 several 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. The Society also encourages its members to attend its AGM where they can ask questions and voice their opinions. During 2023, 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 BAC, NomCo, BRC and RemCo are, therefore, available to answer questions.

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.

BOARD AUDIT COMMITTEE REPORT

BOARD AUDIT COMMITTEE

The principal role of the BAC 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 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;
- to 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;
- to approve and review progress of the annual Internal Audit Plan;
- prior to the members' vote at the AGM, 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, considering 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 BAC consists of four Non-Executive Directors. The members of the Committee are Peter O'Donnell, Kavita Patel, Kerry Spooner and Paul Astruc (who joined the Committee in April 2023), 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 CEO, CFO, CRO, Head of Internal Audit and Head of External Reporting, may be invited to attend all or part of any meeting as and when appropriate. The external auditor was invited to attend all the Committee's meetings held in 2023.

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 2023 and during the year:

- Reviewed the results and draft Annual Report and Accounts for the year ended 31st December 2022;
- 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 BRC) 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 must make during the preparation of the statements, particularly in respect of large or unusual transactions. During 2023, 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 uncertain macroeconomic environment, inflation and affordability stresses.
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.
Fair value of derivative financial instruments	Considering 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.
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 31st 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.
Going concern assumption	The Committee evaluated whether the going concern basis of accounting was appropriate by considering forecast profitability, liquidity, funding availability and regulatory capital positions. The review also considered the external environment because of the impact of the uncertain 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 2023, the Society tendered its external audit relationship in line with best practice and Ernst & Young LLP were re-engaged and therefore have now been in post for nine years as at 31st December 2023.

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.

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 2023, 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 several areas for minor improvement and the implementation of those findings is now being undertaken.

The Committee 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 pages 48 to 50, the Board and each of the committees formally evaluate their own performance and effectiveness annually. The Committee discussed the results of the 2023 review in February 2024 and concluded that, overall, the Committee continued to be effective and was adequately discharging its responsibilities.

Peter O'Donnell
Chair of the Board Audit Committee
6th March 2024

DIRECTORS' REMUNERATION REPORT

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 31st December 2023.

The Nottingham is committed to best practice in its remuneration of Directors. This report explains how the Society 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 2023.

In 2023, the RemCo membership was made up as follows:

Simon Linares	Non-Executive Director and Chair of the RemCo
Kerry Spooner	Senior Independent Director and Chair of the BRC
Andrew Neden	Non-Executive Director, Chair of the Board and Chair of the NomCo
Kavita Patel	Non-Executive Director and Chair of Conduct Sub-Committee within BRC

2023 PERFORMANCE AND AWARDS

The Chair's Statement, CEO's Review and Strategic Report on pages 6 to 22 describe 2023 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 £4.5 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 2023. The 2023 Annual Bonus is based on the financial and strategic performance of The Nottingham, as well the personal performance of each employee.

In 2023, the Committee reviewed and approved payment of the deferred element of the 2019 Bonus Plan.

REMUNERATION COMMITTEE

The primary objective of the RemCo, 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 2023 and is made up of a minimum of three Non-Executive Directors, as detailed within the table above. The CEO, CPO, Legal Counsel and Company Secretary attend the meetings by invitation.

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 RemCo's activities in 2023 also included:

- agreeing a new annual bonus plan for 2023;
- reviewing regulatory updates and assessing the impact on The Nottingham;
- review of the Remuneration Policy for 2023 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 ExCo in relation to reward;
- agreeing the terms for any appointments and leavers for executive level roles, other Material Risk Taker ('MRT') roles; and
- considering the annual pay review for all eligible employees.

RemCo intends to review the construct of the Annual Bonus Plan in 2024.

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.

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 RemCo.

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 RemCo 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.

EXECUTIVE DIRECTORS' TOTAL REMUNERATION

Executive Directors' emoluments comprise a basic salary, variable pay, pension entitlement and other taxable benefits as outlined on pages 55 to 56.

The total remuneration received by Executive Directors is detailed on page 56. The information has been audited and shows remuneration for the years ended 31st December 2022 and 31st December 2023 as required under the Building Societies (Accounts and Related Provisions) Regulations 1998.

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

The CEO is the Society's highest paid employee and no employee earns more than the CEO.

The salary of Executive Directors increased by 5% in 2023. This is in line with the wider Society, with the basic salary increase for colleagues ranging from 6% to 14% depending on grade, with minimum salaries implemented.

CHIEF EXECUTIVE OFFICER PAY RATIO

The CEO pay ratio is presented as follows to promote transparency and encourage good governance. The CEO 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
2023	20:1	15:1	8:1
2022	20:1	15:1	9:1

	25th percentile	Median	75th percentile
2023			
Total remuneration	£23,721	£31,919	£57,849
Salary	£21,204	£27,649	£48,429
2022			
Total remuneration	£22,357	£30,186	£48,504
Salary	£19,174	£25,937	£42,272

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

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 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 RemCo, together with the Society's CEO, without the Chair being present.

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

Non-Executive Directors are reimbursed for reasonable expenses incurred during 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 RemCo. 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 BAC and approved by the RemCo), are proposed by the Executive and all decisions are recommended to the RemCo 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.

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% 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; and
			  ◦ 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 1st 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 RemCo in line with market practice.

ANNUAL REPORT ON REMUNERATION

Executive Director remuneration

Audited Society	2023 Sue Hayes £000	2023 Anthony Murphy £000	2023 Simon Baum £000	2023 Paul Astruc £000	2023 Total £000	2022 David Marlow £000	2022 Sue Hayes £000	2022 Paul Astruc £000	2022 Total £000
Fixed remuneration									
Salary[1]	375	146	173	67	**761**	55	300	137	**492**
Benefits	11	15	8	3	**37**	2	9	5	**16**
Variable remuneration									
Annual bonus[2]	62	46	29	10	**147**	127	49	20	**196**
	448	**207**	**210**	**80**	**945**	**184**	**358**	**162**	**704**
Pension contribution	-	7	-	-	**7**	8	-	-	**8**
Payments in lieu of pension	30	-	19	5	**54**	-	22	10	**32**
	478	**214**	**229**	**85**	**1,006**	**192**	**380**	**172**	**744**

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

[1] Paul Astruc ceased to be an Executive Director on 6th April 2023, Anthony Murphy became an Executive Director with effect from 23rd June 2023 and Simon Baum became an Executive Director with effect from 1st May 2023 (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 unpaid deferred elements of the annual bonus scheme are as follows:

Executive Directors	Due 2024	Due 2025[1]	Due 2026[1]	Due 2027[1]	Total Deferred
Performance Year	2020	2021	2022	2023	
	£000	£000	£000	£000	£000
Paul Astruc	-	27	40	10	**77**
Simon Baum	-	-	-	29	**29**
Sue Hayes	-	-	58	62	**120**
David Marlow	-	54	15	-	**69**
Anthony Murphy	-	-	-	46	**46**
	-	**81**	**113**	**147**	**341**

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

Non-Executive Directors	2023 **£000**	2022 **£000**
Paul Astruc (transferred from Executive Director on 6th April 2023)	40	-
Robin Ashton	5	-
Simon Linares	69	58
Simon Baum (transferred to Executive Director on 30th April 2023)	23	64
Michael Brierley	-	21
Andrew Neden (Chair)	113	98
Peter O'Donnell	69	59
Kavita Patel	59	53
Kerry Spooner	88	70
Total emoluments for services as directors	**466**	**423**

Simon Linares
Chair of the Remuneration Committee
6th March 2024

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 31st December 2023 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 31st December 2023 which comprise:

Group	Society
Income Statement for the year ended 31st December 2023	Income Statement for the year ended 31st December 2023
Statement of Comprehensive Income for the year ended 31st December 2023	Statement of Comprehensive Income for the year ended 31st December 2023
Statement of Financial Position as at 31st December 2023	Statement of Financial Position as at 31st December 2023
Statement of Changes in Members' Interests for the year ended 31st December 2023	Statement of Changes in Members' Interests for the year ended 31st December 2023
Cash Flow Statement for the year ended 31st December 2023	Cash Flow Statement for the year ended 31st December 2023
Related Notes 1 to 36 to the financial statements, including material accounting policy information, except for tables in Note 31 labelled as "unaudited"	
Directors' Remuneration Report tables 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 at least 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 ongoing macroeconomic uncertainty;
- 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; and
- we reviewed the going concern disclosures included in the Annual Report in order to assess whether 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 31st March 2025 – at least twelve months from the date of 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.
	•	Application of hedge accounting
Materiality	•	Overall Group materiality of £1.1m which represents 0.45% of 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 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 (2022: two reporting components), we selected both of these components which are both entities within the UK. 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.

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 UK.

CLIMATE CHANGE

There has been increasing interest from stakeholders as to 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 30 to 32 in the Sustainability Report, in the 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 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.

The Group and Society has explained in Note 1, Accounting policies, the articulation of how climate change has been reflected in the financial statements including how this aligns with their commitment to the aspirations of the Paris Agreement to achieve Net Zero emissions by 2050. These disclosures also explain that 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. The degree of certainty of these changes may also mean that they cannot be taken into account when determining asset and liability valuations and the timing of future cash flows under the requirements of UK adopted international accounting standards.

Our audit effort in considering climate change 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 and liability 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 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.

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 – 31st December 2023: £5.2m (2022: £5.3m).** *Refer to the Board Audit Committee Report (pages 51-52); Accounting policies (page 71); and Note 15 of the Consolidated Financial Statements (page 81)* Valuation and completeness of expected credit loss ('ECL') provisions is an area of estimation that requires management judgement. The ongoing cost-of-living pressures have an 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; and • the completeness and valuation of post model adjustments. Furthermore, there is a risk that financial disclosures do not comply with the requirements of UK adopted international accounting standards.	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, including the valuation of collateral. 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 applied by management. 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 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 models construction and implementation, the significant assumptions within the models and data inputs were materially appropriate. We considered that the application of staging criteria was materially appropriate and aligned to the requirements of IFRS 9. 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 expected credit loss provisions were in compliance with the requirements of IFRS.
Risk of fraud in relation to revenue recognition of mortgage related income **Group and Society – 31st December 2023, income included within Interest receivable and similar income: £114.1m (2022: £75.5m), and Fees and commissions receivable: £2.5m (2022: £3.1m).** *Refer to the Board Audit Committee Report (pages 51-52); Accounting policies (page 70); and Note 3 of the Consolidated Financial Statements (page 76).* 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 fee incoming 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 fee income 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.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Application of hedge accounting **Group and Society – 31st December 2023, fair value adjustment for hedged risk relating to mortgages: £39.4m (2022: £109.2m), and savings: £1.4m (2022: £4.8m), net (losses) / gains from derivative financial instruments: £(14.2)m (2022: £10.2m).** *Refer to the Board Audit Committee Report (pages 51-52); Accounting policies (page 70); and Notes 13 and 14 of the Consolidated Financial Statements (pages 80-81).* The Group and Society uses derivative instruments to hedge against interest rate risk exposures on mortgage portfolios and accounts for hedging relationships using the provisions of IAS 39. Valuation techniques applied in the industry have led to greater volatility and complexity, particularly in relation to fair value hedge accounting. As a result of the high interest rate environment in the UK, the size of the hedge accounting adjustments on the balance sheet has increased. The Group and Society's hedge accounting process involves elements of manual calculation which give rise to a risk of management override of controls. Areas of risk and audit focus include: • valuation of derivatives and underlying hedged items; • hedge effectiveness calculations; and • hedge documentation and compliance with the requirements of accounting standards.	We understood and evaluated the design effectiveness of key controls over the hedge accounting process and adopted a substantive approach. We engaged EY derivative valuation specialists and re-performed the valuation of a sample of derivatives and underlying hedged items. We independently recalculated hedge effectiveness for a sample of hedges, including performing a sample of both prospective and retrospective effectiveness tests. We assessed the completeness and accuracy of the data used in the hedging calculations and performed tests to assess whether data was being interpreted and categorised appropriately. We corroborated the adequacy and appropriateness of the disclosures made within the financial statements for compliance with accounting standards. We obtained and reviewed the relevant hedge accounting documentation to evaluate and assess whether each hedge was compliant with the requirements of accounting standards.	We communicated that we were satisfied that the hedge accounting methodology applied by the Group and Society was compliant with accounting standards. We communicated that our independent recalculation of underlying hedge calculations did not identify any material differences. We concluded that disclosures relating to hedge accounting were in compliance with the requirements of IFRS.

With regards to changes to the key audit matters disclosed in the table above, following a reassessment of the audit risk considering the inherent complexity, recent volatility and quantum of the associated balances, we included the Application of hedge accounting as a key audit matter, in the current year.

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 £1.1m million (2022: £0.9 million), which is 0.45% (2022: 0.40%) of total members' interests.

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 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% (2022: 75%) of our planning materiality, namely £0.80m (2022: £0.68m). 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 £0.80m.

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 (2022: £0.05m), which is set at 5% of planning 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 6 to 56 and 112 to 117, including, Key highlights, Chairman's Statement, Chief Executive's Review, Strategic Report, Stakeholder Engagement Report, Corporate Responsibility Report, Sustainability Report, Your Board of Directors, Directors' Report, Nomination Committee Report, Risk Management Report, Board Risk Committee Report, Corporate Governance Report, Board Audit Committee Report, Directors' Remuneration Report, Annual Business Statement 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.

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 39;
- 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 39;
- Directors' statement on fair, balanced and understandable set out on page 39;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 38;
- the section of the Annual Report that describes the review of effectiveness of risk management and internal control systems set out on page 38; and
- the section describing the work of the Audit Committee set out on page 52.

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 39, 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.

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; and
- 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 24th March 2015 to audit the financial statements for the year ended 31st December 2015 and subsequent financial periods.

The period of total uninterrupted engagement including previous renewals and reappointments is nine years, covering the years ended 31st December 2015 to 31st December 2023.

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
6th March 2024

INCOME STATEMENTS

for the year ended 31st December 2023

	Notes	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Interest receivable and similar income					
Calculated using the effective interest rate method	3	200.6	97.7	203.1	99.3
Other	3	4.9	1.1	0.1	(0.1)
Interest receivable and similar income		**205.5**	**98.8**	**203.2**	**99.2**
Interest payable and similar charges	4	(125.2)	(36.0)	(123.3)	(36.3)
Net interest income		**80.3**	**62.8**	**79.9**	**62.9**
Fees and commissions receivable		2.5	3.1	2.5	**3.1**
Fees and commissions payable		0.4	(1.5)	0.4	**(1.5)**
Net (losses) / gains from derivative financial instruments	5	(14.2)	10.2	(22.3)	**5.7**
Total net income		**69.0**	**74.6**	**60.5**	**70.2**
Administrative expenses	6	(52.3)	(42.8)	(52.2)	**(42.7)**
Depreciation and amortisation	17,18,19	(6.7)	(10.7)	(6.7)	**(10.7)**
Operating profit before impairment and loss on disposal of treasury assets		**10.0**	**21.1**	**1.6**	**16.8**
Impairment credit / (charge) - loans and advances to customers	15	0.1	(2.2)	0.1	**(2.2)**
Loss on disposal of treasury assets		(1.8)	-	(1.8)	-
Profit before tax		**8.3**	**18.9**	**(0.1)**	**14.6**
Tax charge	8	-	(3.1)	-	(3.1)
Profit after tax for the financial year		**8.3**	**15.8**	**(0.1)**	**11.5**

The Income Statement only includes income and expenditure from continuing operations.

The notes on pages 69 to 111 form part of these accounts.

STATEMENTS OF COMPREHENSIVE INCOME

for the year ended 31st December 2023

	Notes	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Profit for the financial year		**8.3**	**15.8**	**(0.1)**	**11.5**
Items that will not be re-classified to the Income Statement					
Remeasurements of defined benefit obligation	28	0.1	0.1	0.1	0.1
Tax on items that will not be re-classified	8	(0.1)	(0.1)	(0.1)	(0.1)
Items that may subsequently be re-classified to the Income Statement					
Fair Value through Other Comprehensive Income reserve					
Valuation gains / (losses) taken to reserves	12	2.8	(4.1)	2.8	(4.1)
Loss on disposal of treasury assets taken to Income Statement		1.8	-	1.8	-
Tax on items that may subsequently be reclassified	8	(1.0)	0.8	(1.0)	0.8
Other comprehensive income / (expense) for the period net of income tax		3.6	(3.3)	3.6	**(3.3)**
Total comprehensive income for the year		**11.9**	**12.5**	**3.5**	**8.2**

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 69 to 111 form part of these accounts.

STATEMENTS OF FINANCIAL POSITION

as at 31 December 2023

	Notes	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Assets					
Cash in hand and balances with the Bank of England	9	430.2	290.1	430.2	290.1
Loans and advances to credit institutions	10	31.0	16.0	19.0	8.4
Debt securities	12	340.1	413.2	340.1	413.2
Derivative financial instruments	13	105.2	142.6	90.1	136.1
Loans and advances to customers	14	3,543.9	2,922.8	3,543.9	2,922.8
Amounts due from subsidiary undertakings	16	-	-	33.4	26.6
Other assets		4.8	4.4	4.8	4.4
Current tax asset		3.0	0.7	3.0	0.7
Property, plant and equipment	17	8.4	8.3	8.4	8.3
Right of use assets	18	1.2	1.1	1.2	1.1
Intangible assets	19	6.0	11.1	6.0	11.1
Deferred tax assets	20	1.1	2.2	1.1	2.2
Total assets		**4,474.9**	**3,812.5**	**4,481.2**	**3,825.0**
Liabilities					
Shares	21	3,565.9	3,009.7	3,565.9	3,009.7
Amounts owed to credit institutions	22	288.1	419.0	288.1	419.0
Amounts owed to other customers	23	48.8	8.4	48.8	8.4
Amounts owed to subsidiary undertakings	24	-	-	266.9	109.4
Debt securities in issue	25	246.2	91.0	-	-
Derivative financial instruments	13	43.9	14.4	43.9	14.4
Other liabilities and accruals	26	11.4	9.3	11.3	9.3
Lease liabilities	18	1.8	2.2	1.8	2.2
Retirement benefit obligations	28	1.3	2.9	1.3	2.9
Subscribed capital	29	24.0	24.0	24.0	24.0
Total liabilities		**4,231.4**	**3,580.9**	**4,252.0**	**3,599.3**
Reserves					
General reserves		243.3	235.0	229.0	229.1
Fair value reserves	30	0.2	(3.4)	0.2	(3.4)
Total reserves attributable to members of the Society		**243.5**	**231.6**	**229.2**	**225.7**
Total reserves and liabilities		**4,474.9**	**3,812.5**	**4,481.2**	**3,825.0**

The Notes on pages 69 to 111 form part of these accounts.

These accounts were approved by the Board of Directors on 6th March 2024 and signed on its behalf:

Andrew Neden
Chair

Sue Hayes
Chief Executive Officer

Anthony Murphy
Chief Financial Officer

STATEMENTS OF CHANGES IN MEMBERS' INTERESTS

for the year ended 31st December 2023

Group 2023	Notes	General reserve £m	FVOCI reserve £m	Total £m
Balance as at 1st January 2023		235.0	(3.4)	231.6
Profit for the year		8.3	-	8.3
Other comprehensive expense for the period (net of tax)				
Net gains from changes in fair value		-	3.6	3.6
Total other comprehensive expense		-	3.6	3.6
Total comprehensive income / (expense) for the period		8.3	3.6	11.9
Balance as at 31st December 2023		**243.3**	**0.2**	**243.5**

Group 2022				
Balance as at 1 January 2022		219.2	(0.1)	219.1
Profit for the year		15.8	-	15.8
Other comprehensive income / (expense) for the period (net of tax)				
Net losses from changes in fair value		-	(3.3)	(3.3)
Total other comprehensive income / (expense)		-	(3.3)	(3.3)
Total comprehensive income / (expense) for the period		15.8	(3.3)	12.5
Balance as at 31st December 2022		**235.0**	**(3.4)**	**231.6**

Society 2023				
Balance as at 1st January 2023		229.1	(3.4)	225.7
Profit for the year		(0.1)	-	(0.1)
Other comprehensive expense for the period (net of tax)				
Net gains from changes in fair value		-	3.6	3.6
Total other comprehensive expense		-	3.6	3.6
Total comprehensive income / (expense) for the period		(0.1)	3.6	3.5
Balance as at 31st December 2023		**229.0**	**0.2**	**229.2**

Society 2022				
Balance as at 1st January 2022		217.6	(0.1)	217.5
Profit for the year		11.5	-	11.5
Other comprehensive income / (expense) for the period (net of tax)				
Net gains / (losses) from changes in fair value		-	(3.3)	(3.3)
Total other comprehensive income / (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**

The Notes on pages 69 to 111 form part of these accounts.

CASH FLOW STATEMENTS

for the year ended 31st December 2023

	Notes	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Cash flows from operating activities					
Profit before tax from continuing operations		8.3	18.9	(0.1)	14.6
Depreciation and amortisation		6.7	10.7	6.7	10.7
Interest on subscribed capital		2.0	2.0	2.0	2.0
Interest on lease payments		-	0.1	-	0.1
Loss on disposal of treasury assets		1.8	-	1.8	-
Amortisation of debt securities		0.2	0.4	0.2	0.4
(Decrease) / increase in impairment on loans and advances		(0.1)	2.2	(0.1)	2.2
		18.9	**34.3**	**10.5**	**30.0**
Changes in operating assets and liabilities					
(Increase) / decrease in loans and advances to credit institutions		(8.4)	1.3	(8.4)	1.3
(Increase) / decrease in loans and advances to customers		(621.0)	85.9	(621.0)	85.9
Decrease / (increase) in prepayments, accrued income and other assets		36.8	(117.2)	196.2	(148.6)
Increase in shares	21	556.2	135.1	556.2	135.1
(Decrease) / increase in amounts owed to other credit institutions and other customers	22,23	(90.5)	58.4	(90.5)	58.4
Increase / (decrease) in debt securities in issue	25	155.2	(36.1)	-	-
Increase in accruals, deferred income and other liabilities		31.2	10.9	31.0	10.9
Decrease in retirement benefit obligation	28	(1.6)	(1.4)	(1.6)	(1.4)
Taxation (paid) / received		(2.2)	(4.1)	(2.2)	(4.1)
Net cash generated from operating activities		**74.6**	**167.1**	**70.2**	**167.5**
Cash flows from investing activities					
Purchase of debt securities		(169.9)	(286.5)	(169.9)	(286.5)
Disposal of debt securities		245.9	129.1	245.9	129.1
Purchase of property, plant and equipment		(1.1)	(0.3)	(1.1)	(0.3)
Purchase of intangible assets		(0.2)	(1.5)	(0.2)	(1.5)
Net cash used in investing activities		**74.7**	**(159.2)**	**74.7**	**(159.2)**
Cash flows from financing activities					
Interest paid on subscribed capital	34	(1.9)	(1.9)	(1.9)	(1.9)
Principal element of lease payments		(0.7)	(0.8)	(0.7)	(0.8)
Net increase in cash and cash equivalents		**146.7**	**5.2**	**142.3**	**5.6**
Cash and cash equivalents at 1st January		292.4	287.2	284.8	279.2
Cash and cash equivalents at 31st December	**11**	**439.1**	**292.4**	**427.1**	**284.8**

The Notes on pages 69 to 111 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 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 considered when determining asset and liability valuations and the timing of future cash flows under the requirements of applicable accounting standards. At 31st December 2023, 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 30 to 32. 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 20 to 22 and 42 to 46, 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 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 31st March 2025 – 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 & FUTURE ACCOUNTING DEVELOPMENTS

There are no new issued standards or amendments effective in the period that have a material impact on the Group's accounting policies.

Several amendments and improvements to accounting standards have been issued by the International Accounting Standards Board ('IASB') with an effective date of 1st January 2024 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's accounts consolidate the assets, liabilities and results of the Society and all its subsidiaries, eliminating intercompany balances and transactions. All entities have accounting periods ending on 31st 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 vehicle

The Society has transferred the beneficial interest in certain loans and advances to customers to a Special Purpose Funding Vehicle ('SPV'). This SPV enables a subsequent raising of debt to investors who gain the security of the underlying assets as collateral. The SPV is fully consolidated into the Group's 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 SPV is 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.

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 Fair Value through Other Comprehensive Income ('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 Fair Value through Profit and Loss ('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.

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 1st January 2018 or initial recognition.

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 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 BoE;
- 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, valuation 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

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

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 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 ('GDP').

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

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 Probability of Default ('PD') exceeds relative threshold of 100% and absolute threshold of 0.5%; or • in forbearance.
Loans and advances to customers - Secured Business Lending	• 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.

1. ACCOUNTING POLICIES (CONTINUED)

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 has applied four (2022: 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:** 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, except for capitalisation of arrears, and the customer's normal contractual payment is restored.

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 based on 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.

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; or
- 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 31st 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 OCI 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.

1. ACCOUNTING POLICIES (CONTINUED)

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.

The lease terms are as follows:

- leasehold premises over 10 to 15 years;
- equipment, fixtures and fittings over 3 to 5 years; or
- 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.

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 OCI, 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 Society 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 OCI 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

Whilst 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 monthly 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 71 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.

Expected mortgage life

In determining the expected life of fixed rate 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. Following managements approach to deliver an enduring member centric lending proposition and its increasing conviction that no member should remain on SVR for any meaningful period of time at the end of their product term, it is recognised that the level of repayment immediately post-maturity of the fixed rate deal is a key sensitivity within the EIR assumptions. Assessments of post-maturity sensitivity and assessing the period of time spent on a SVR will continue to be performed regularly throughout the year with the expected life of mortgage assets reassessed for reasonableness. These estimates will continue to be reviewed on a regular basis to ensure they reflect the actual performance.

It is determined due to operation changes that sensitivity analysis on post-maturity behaviour would result in immaterial increase / decrease in the value of loans on the Statement of Financial Position.

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.

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 £2.2m.

As we continue to increase the number of mortgage members we retain at the end of their product term, our change in accounting estimate and resulting write down of the mortgage EIR asset reflects our increasing conviction that no member should remain on our SVR for any meaningful period of time at the end of their product term. This prudent step also reflects our intention to begin to refine the way we charge for mortgages over the next two years or so, as we carry out work to develop the capability to individually price each member's mortgage, based on their own distinct characteristics.

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 0.25% in the discount rate will change liabilities by approximately £1.4 million (2022: £1.4 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 reduces the uncertainty associated with determining fair values.

OTHER NOTABLE ESTIMATES AND JUDGEMENTS

Change in accounting estimate – amortisation of broker portal

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 £0.7 million amortisation charge in 2023. The remaining intermediary portal carrying value of £0.8 million will be amortised to the Income Statement in 2024.

Change in accounting estimate – Shepshed deferred gains

As a result of accelerated customer mortgage repayments, the Society has accelerated the release of deferred fair value gains associated with the acquisition of Shepshed Building Society. This change in accounting estimate has resulted in a £1.0 million gain being recognised within 'interest receivable and other income' in 2023. The remaining deferred gain of £0.1 million will be amortised to the Income Statement in future periods.

Change in accounting estimate – valuation fees

Due to growth in the Society's lending volumes and an increase in the associated valuation fees, the Society has decided to spread valuation fee expenditure over the expected life of a mortgage product as opposed to expensing as incurred. This has resulted in a one-off gain of £0.6 million in 2023 relating to fees previously expensed.

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.

3. INTEREST RECEIVABLE AND SIMILAR INCOME

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
On loans fully secured on residential property	94.5	64.3	94.5	64.3
On other loans	19.6	11.2	19.6	11.2
On amounts due from group undertakings	-	-	2.5	1.6
On liquid assets	13.5	4.3	13.5	4.3
On instruments held at amortised cost	**127.6**	**79.8**	**130.1**	**81.4**
On debt securities held at FVOCI	16.2	4.8	16.2	4.8
On derivatives hedging of financial assets	56.8	13.1	56.8	13.1
On instruments calculated on an EIR basis	**200.6**	**97.7**	**203.1**	**99.3**
On derivatives not in a hedge accounting relationship	4.9	1.1	0.1	(0.1)
	205.5	**98.8**	**203.2**	**99.2**

Interest on debt securities includes £3.1 million (2022: £1.7 million) arising from fixed income investment securities.

Included within interest income is £0.2 million (2022: £nil) in respect of interest income accrued on impaired loans three or more months in arrears.

4. INTEREST PAYABLE AND SIMILAR CHARGES

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
On shares held by individuals	91.8	23.9	91.8	23.9
On amounts due to group undertakings	-	-	3.1	2.5
On deposits and other borrowings	26.5	8.7	21.5	6.5
On subscribed capital	2.0	2.0	2.0	2.0
On leases	-	0.1	-	0.1
On derivative hedging of financial liabilities	4.9	1.3	4.9	1.3
	125.2	**36.0**	**123.3**	**36.3**

5. NET (LOSSES) / GAINS FROM DERIVATIVE FINANCIAL INSTRUMENTS

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Derivatives in designated fair value hedge relationships	(71.0)	89.1	(71.0)	89.1
Adjustments to hedged items in fair value hedge accounting relationships	59.8	(78.8)	59.8	(78.8)
Derivatives not in designated fair value hedge relationships	(3.0)	(0.1)	(11.1)	(4.6)
	(14.2)	**10.2**	**(22.3)**	**5.7**

The Group's net losses from derivative financial instruments of £14.2 million (2022: net gains of £10.2 million) represents the net fair value movement on derivatives in fair value hedge relationships, including: £2.8m of losses (2022: gains of £5.8m) on swaps held against the mortgage pipeline; £6.6m of amortisation losses (2022: gains of £1.4m) from the reversal of net gains; and £4.5m of losses (2022: gains of £3.1m) due to movements in the effectiveness of the macro FV hedge accounting portfolio. The remaining gains / losses in both Group and Society relate to the derivatives hedging the secured funding balance.

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 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Continuing operations				
Wages and salaries	22.2	20.1	22.2	20.1
Social security costs	2.2	2.0	2.2	2.0
Other pension costs	1.2	1.0	1.2	1.0
Total employee costs	**25.6**	**23.1**	**25.6**	**23.1**
Other administrative costs	26.7	19.7	26.6	19.6
	52.3	**42.8**	**52.2**	**42.7**

The restructuring costs relating to continuing operations included in wages and salaries for the Group and Society in 2023 amounts to £0.3 million (2022: £1.1 million).

Other administrative costs have increased primarily due to investment in technology and other initiatives such as the implementation of Consumer Duty.

	Group 2023 £000	Group 2022 £000	Society 2023 £000	Society 2022 £000
Other administrative costs include: Remuneration of auditors and associates (excluding VAT)				
Fees payable to the auditor for the audit of the Annual Accounts	378	346	378	346
Fees payable to the auditor for other services:				
- Audit of the accounts of subsidiary undertakings	11	10	-	-
- Audit of associated pension schemes	18	14	18	14
- Audit related assurance services	71	64	71	64
- Non-audit services	-	-	-	-
Total audit fees for the financial year	**478**	**434**	**467**	**424**

7. EMPLOYEES

	Group 2023 Number	Group 2022 Number	Society 2023 Number	Society 2022 Number
Continuing operations				
The average number of persons employed during the year was:				
Full-time	361	369	361	369
Part-time	117	144	117	144
	478	**513**	**478**	**513**
Building Society				
Central Administration	296	283	296	283
Branches	182	230	182	230
	478	**513**	**478**	**513**

The average number of employees on a full-time equivalent basis in the Society was 444 (2022: 472) and all of these are employed within the UK.

8. TAX CHARGE

	Notes	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Current tax charge		0.4	3.0	0.4	3.0
Adjustments for prior years		-	0.2	-	0.2
Total current tax		**0.4**	**3.2**	**0.4**	**3.2**
Deferred tax		(0.3)	-	(0.3)	-
Adjustments for prior years		(0.1)	(0.1)	(0.1)	(0.1)
Total deferred tax	20	**(0.4)**	**(0.1)**	**(0.4)**	**(0.1)**
		-	**3.1**	**-**	**3.1**

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

	Notes	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Profit before taxation		**8.3**	**18.9**	**(0.1)**	**14.6**
Expected tax charge at 23.5% (2022: 19%)		2.0	3.6	-	2.8
Expenses not deductible for corporation tax		-	0.1	-	0.1
Effective securitisation		(2.0)	(0.8)	-	-
Adjustment for prior years		-	0.2	-	0.2
		-	**3.1**	**-**	**3.1**

	Notes	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Tax recognised directly in other comprehensive income					
Tax expense / (credit) on FVOCI assets		1.0	(0.8)	1.0	(0.8)
Tax expense on pension scheme		0.1	0.1	0.1	0.1
Tax expense / (credit) for the year		**1.1**	**(0.7)**	**1.1**	**(0.7)**

The Society as a standalone entity incurred a loss in 2023 primarily due to losses on derivative financial instruments associated with the Group's secured funding vehicle, Arrow Mortgage Finance No. 1 Ltd ('Arrow'). A corresponding gain was recognised within Arrow and as such these transactions are broadly neutral from a Group perspective.

The tax charge for Arrow has been calculated in accordance with the permanent regime for taxation of securitisation companies and its corporation tax is calculated by reference to its retained profits and not its accounting profit and loss. As the gains on derivative financial instruments will not be retained by Arrow, this has resulted in a negligible tax charge within this entity on a standalone basis and a lower level of taxation within the Group in 2023.

Factors affecting standard rate of tax

The Finance Act 2021, which was enacted in May 2021, increased the rate of tax from 19% to 25% with effect from 1st April 2023.

The blended rate of tax for the year ended 31st December 2023 amounts to 23.5% (2022: 19%).

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 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Cash in hand	1.1	1.1	1.1	1.1
Balances with the Bank of England	429.1	289.0	429.1	289.0
	430.2	**290.1**	**430.2**	**290.1**

Balances with the Bank of England ('BoE') includes cash ratio deposits of £6.7 million (2022: £7.1 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 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Repayable on call and short notice	15.6	9.3	3.6	1.7
Other loans and advances to credit institutions	15.4	6.7	15.4	6.7
	31.0	**16.0**	**19.0**	**8.4**

As at 31st December 2023 £15.4 million (2022: £6.7 million) of cash has been deposited by the Group and Society as collateral against derivative contracts.

11. CASH AND CASH EQUIVALENTS

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Cash in hand and balances with the Bank of England	423.5	283.1	423.5	283.1
Loans and advances to credit institutions	15.6	9.3	3.6	1.7
	439.1	**292.4**	**427.1**	**284.8**

12. DEBT SECURITIES

Group and Society	**Notes**	**2023 £m**	**2022 £m**
Debt securities			
Gilts		19.9	67.0
Treasury Bills		43.2	59.7
Fixed rate notes		-	52.2
Floating rate notes		28.8	53.8
Mortgage backed securities		97.9	63.3
Floating covered bonds		150.3	117.2
		340.1	**413.2**
Movements on debt securities during the year may be analysed as follows:			
As at 1st January		413.2	260.3
Additions		169.9	286.2
Disposals and maturities		(247.6)	(129.2)
Loss on disposal of treasury assets taken to Income Statement		1.8	-
Net gains from changes in fair value recognised in other comprehensive income	30	2.8	(4.1)
		340.1	**413.2**

Of this total £63.1 million (2022: £178.9 million) is attributable to fixed income debt securities.

Debt securities include items with a carrying value of £nil (2022: £nil) which have been pledged as collateral under BoE facilities.

13. DERIVATIVE FINANCIAL INSTRUMENTS

Group	2023 Contract / notional amount £m	2023 Fair value of assets £m	2023 Fair value of liabilities £m	2022 Contract / notional amount £m	2022 Fair value of assets £m	2022 Fair value of liabilities £m
Derivatives not in a hedge accounting relationship						
Interest rate swaps	665.0	14.1	(17.5)	412.4	7.8	(7.0)
Derivatives designated as fair value hedge						
Interest rate swaps	2,412.0	91.1	(26.4)	2,132.0	134.8	(7.4)
	3,077.0	**105.2**	**(43.9)**	**2,544.4**	**142.6**	**(14.4)**

Society	2023 Contract / notional amount £m	2023 Fair value of assets £m	2023 Fair value of liabilities £m	2022 Contract / notional amount £m	2022 Fair value of assets £m	2022 Fair value of liabilities £m
Derivatives not in a hedge accounting relationship						
Interest rate swaps	397.5	(0.5)	(17.5)	298.7	1.2	(7.0)
Derivatives designated as fair value hedge						
Interest rate swaps	2,412.0	90.6	(26.4)	2,132.0	134.9	(7.4)
	2,809.5	**90.1**	**(43.9)**	**2,430.7**	**136.1**	**(14.4)**

Derivative fair values have fallen 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	2023 £m	2022 £m
Loans fully secured on residential property		3,155.0	2,702.3
Other loans fully secured on land		437.4	334.7
Loans gross balance		**3,592.4**	**3,037.0**
Effective interest rate adjustment		(3.9)	0.3
Provision for impairment losses on loans and advances	15	(5.2)	(5.3)
Fair value adjustment for hedged risk		(39.4)	(109.2)
		3,543.9	**2,922.8**

Other loans fully secured on land represents 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 BoE.

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

Group and Society 2023	Mortgages pledged £m	Held by third parties £m	Held by the Group drawn £m	Held by the Group undrawn £m
Bank of England	**857.5**	-	335.0	522.5
Other secured funding	**267.7**	267.7	-	-
	1,125.2	267.7	335.0	522.5

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**	-	423.5	396.8
Other secured funding	**112.2**	112.2	-	-
	932.5	112.2	423.5	396.8

Other secured funding

As at 31st December 2023 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 SPV consolidated into the Group's Accounts. All of the loans pledged, with a book value of £267.7 million (2022: £112.2 million) and a fair value of £258.0 million (2022: £108.0 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 £246.2 million (2022: £91.0 million) of funding for the Group (Note 25) and £279.6 million (2022: £117.6 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 2023 £m	Other loans fully secured on land 2023 £m	Total 2023 £m	Loans fully secured on residential property 2022 £m	Other loans fully secured on land 2022 £m	Total 2022 £m
Gross carrying amount							
Stage 1		2,780.0	405.2	3,185.2	2,186.8	305.7	2,492.5
Stage 2		357.5	27.4	384.9	499.4	25.3	524.7
Stage 3		17.5	4.8	22.3	16.1	3.7	19.8
	14	**3,155.0**	**437.4**	**3,592.4**	**2,702.3**	**334.7**	**3,037.0**

Group and Society	Notes	Loans fully secured on residential property 2023 £m	Other loans fully secured on land 2023 £m	Total 2023 £m	Loans fully secured on residential property 2022 £m	Other loans fully secured on land 2022 £m	Total 2022 £m
Expected credit loss allowance							
Stage 1		2.7	1.3	4.0	2.5	1.5	4.0
Stage 2		0.5	0.3	0.8	0.5	0.4	0.9
Stage 3		0.1	0.3	0.4	0.1	0.3	0.4
		3.3	**1.9**	**5.2**	**3.1**	**2.2**	**5.3**

The Society's ECL coverage ratio, as a percentage of gross loans is 0.15% at 31st December 2023 (2022: 0.17%) for the total book.

At 31st December 2023, £4.5m of balances were over 3-months in arrears (2022: £4.8 million), representing 0.13% of the total mortgage book (2022: 0.16%). As at 31st December 2023, 0.34% (2022: 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 31st December 2023 and 2022 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.

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

Post model adjustment

Due to the level of uncertainty in the economy, at 31st December 2023, 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 cost-of-living crisis, global inflationary pressures and the higher interest rate environment to manage inflation. An overlay ECL allowance of £4.1 million has been recognised at 31st December 2023 (2022: £4.2 million).

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. Due to easing of inflation at the end of 2023, the PD Uplift associated with cost-of-living and inflation has reduced to an absolute 7% PD uplift (2022: 8%) to retail and 4% PD uplift (2022: 5%) for commercial Stage 1 and 2 accounts. The post model adjustment associated with future property prices has been removed in 2023.

The (release) / charge to the Income Statement comprises:

Group & Society	Notes	Loans fully secured on residential property 2023 £m	Other loans fully secured on land 2023 £m	Total 2023 £m	Loans fully secured on residential property 2022 £m	Other loans fully secured on land 2022 £m	Total 2022 £m
(Release) / charge of provision for impairment		0.2	(0.3)	(0.1)	1.4	0.7	2.2
		0.2	**(0.3)**	**(0.1)**	**1.4**	**0.7**	**2.2**

There have been no recoveries of debts previously written off.

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

Gross balances	Non-credit impaired		Credit impaired	
	Subject to 12 month ECL Stage 1 £m	Subject to lifetime ECL Stage 2 £m	Subject to lifetime ECL Stage 3 £m	Total £m
At 1st January 2023	**2,492.5**	**524.7**	**19.8**	**3,037.0**
Stage transfers:				
Transfers from Stage 1 to Stage 2	(258.8)	258.8	-	-
Transfers to Stage 3	(4.0)	(2.2)	6.2	-
Transfers from Stage 2 to Stage 1	255.9	(255.9)	-	-
Transfers from Stage 3	0.5	2.2	(2.7)	-
Net movement arising from transfer of stage	(6.4)	2.9	3.5	-
New assets originated	993.4	22.5	2.1	1,018.0
Net further lending / repayments and redemptions	(294.3)	(165.2)	(3.1)	(462.6)
At 31st December 2023	**3,185.2**	**384.9**	**22.3**	**3,592.4**

Expected credit loss allowance	Non-credit impaired		Credit impaired	
	Subject to 12 month ECL Stage 1	Subject to lifetime ECL Stage 2	Subject to lifetime ECL Stage 3	Total
	£m	£m	£m	£m
At 1st January 2023	**4.0**	**0.9**	**0.4**	**5.3**
Stage transfers:				
Transfers from Stage 1 to Stage 2	(0.3)	0.3	-	-
Transfers to Stage 3	-	-	-	-
Transfers from Stage 2 to Stage 1	0.3	(0.3)	-	-
Transfers from Stage 3	-	0.1	(0.1)	-
Net movement arising from transfer of stage	-	0.1	(0.1)	-
New assets originated[1]	1.7	0.1	-	1.8
Further lending / repayments and redemptions	(1.4)	(0.4)	(0.1)	(1.9)
Changes in risk parameters in relation to credit quality	(0.2)	-	0.2	-
At 31st December 2023	**4.1**	**0.7**	**0.4**	**5.2**

[1]New assets originated enter at Stage 1. The balances presented are the final position as at 31st December 2023.

Gross balances	Non-credit impaired		Credit impaired	
	Subject to 12 month ECL Stage 1	Subject to lifetime ECL Stage 2	Subject to lifetime ECL Stage 3	Total
	£m	£m	£m	£m
At 1st 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	(587.6)	(37.8)	(3.6)	(629.0)
At 31st December 2022	**2,492.5**	**524.7**	**19.8**	**3,037.0**

Expected credit loss allowance	Non-credit impaired		Credit impaired	
	Subject to 12 month ECL Stage 1	Subject to lifetime ECL Stage 2	Subject to lifetime ECL Stage 3	Total
	£m	£m	£m	£m
At 1st 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]	627.0	5.6	1.2	633.8
Net further lending / repayments and redemptions	(587.9)	(37.8)	(3.6)	(629.3)
Changes in risk parameters in relation to credit qualit	-	0.2	0.1	0.3
At 31st 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 31st December 2022.

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 considers key economic impacts such as the Covid-19 pandemic. 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 has applied four scenarios in the model calculations. In both the current and prior year, the Society applied a four-scenario approach, with weightings of 40% Base (2022: 30%), 30% Upside (2022: 20%), 23% Downside (2022: 35%) and 7% Severe Downside (2022: 15%) applied. These scenarios continue to be consistently provided by a reputable third party.

As at 31st December 2023	Weighting
Base The Base economic scenario assumes that the growth will be below potential for some time. Inflation declines but does not fall below the target until the end of 2024. BoE rates will not rise and will start to fall in mid-2024. Neither the invasion of Ukraine nor Israel's war against Hamas escalate beyond the regions.	40%
Upside The Upside scenario assumes that the Russia's invasion of Ukraine is resolved much faster than the baseline case. Growth is stronger than the baseline with a reduction in unemployment rate. Inflation remains weaker than the baseline as the increase in demand is met by an increase in supply. The terminal rate of the BoE interest rate is higher than in the baseline, taking longer to converge to the long-run interest rate.	30%
Downside In the Downside scenario, there are worries that the conflicts in the Middle East and Ukraine will escalate further. The BoE cuts rates sooner than the baseline with interest rates above the neutral level but above zero. There is a moderate recession, and inflation drops below zero before increasing but remains below target for some time. House prices reduce by 23% peak to trough.	23%
Severe Downside In the Severe Downside scenario, there are worries that the conflicts in the Middle East and Ukraine will escalate further. The BoE cuts rates sooner than the baseline with interest rates becoming close to zero. The economy is in a severe recession with a strong and immediate decline in inflation with inflation remaining below target for a prolonged period. House prices reduce by 31% peak to trough.	7%

As at 31st 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 BoE 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 BoE 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 BoE 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 BoE 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%

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 31st December 2023		2024	2025	2026	2027	2028
		%	%	%	%	%
Unemployment rate	Upside	4.1	3.8	3.9	4.2	4.5
	Base	4.6	4.7	4.8	4.8	4.9
	Downside	6.5	7.4	7.4	7.0	6.4
	Severe Downside	7.7	8.5	8.4	8.1	7.4
House price index	Upside	8.2	6.2	2.1	(1.5)	(0.9)
	Base	(5.1)	3.1	4.7	2.6	1.5
	Downside	(15.5)	(6.3)	4.0	5.4	4.7
	Severe Downside	(21.3)	(10.3)	4.4	4.1	4.0
BoE interest rate	Upside	4.8	2.7	2.3	2.3	2.3
	Base	4.6	2.7	2.3	2.3	2.3
	Downside	3.2	1.0	1.2	1.5	1.8
	Severe Downside	2.6	0.7	0.5	0.7	0.8

As at 31st 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

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 31st December 2023 reported ECL position output is shown below:

31st December 2023	ECL provision	(Decrease) / increase	(Decrease) / increase
	£m	£m	%
IFRS 9 weighted average	5.2	-	-
Base	4.1	(1.1)	(21.2)
Downside	8.1	2.9	55.8
Severe Downside	13.4	8.2	157.7
Upside	2.6	(2.6)	(50.0)

31st December 2022	ECL provision	(Decrease) / increase	(Decrease) / increase
	£m	£m	%
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)

16. AMOUNTS DUE FROM SUBSIDIARY UNDERTAKINGS

Society	2023 Amount due £m	2022 Amount Due £m
As at 1st January	26.6	26.6
Further advances	6.7	-
Interest payments / expenses	0.1	-
	33.4	**26.6**

The Society has the following active undertaking, which operates and has a registered office in the UK and is included in the Group's accounts:

Name of subsidiary undertaking	Principal business activity	Registration number	Ownership interest
Arrow Mortgage Finance No. 1 Ltd	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 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's 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.

17. PROPERTY, PLANT AND EQUIPMENT

Group and Society	2023 Land and buildings £m	2023 Equipment, fixtures, fittings £m	2023 Total £m	2022 Land and buildings £m	2022 Equipment, fix-tures, fittings £m	2022 Total £m
Cost						
As at 1st January	14.7	27.6	42.3	14.7	27.3	42.0
Additions	-	1.2	1.2	-	0.3	0.3
Disposals	(5.0)	(18.4)	(23.4)	-	-	-
As at 31st December	**9.7**	**10.4**	**20.1**	**14.7**	**27.6**	**42.3**
Depreciation						
As at 1st January	9.1	24.9	34.0	8.8	23.2	32.0
Charge for the year	0.1	1.0	1.1	0.3	1.7	2.0
On disposals	(5.0)	(18.4)	(23.4)	-	-	-
As at 31st December	**4.2**	**7.5**	**11.7**	**9.1**	**24.9**	**34.0**
Net Book Value						
As at 31st December	**5.5**	**2.9**	**8.4**	**5.6**	**2.7**	**8.3**

The Society has undertaken an exercise during the year to identify obsolete assets and recognised these as a disposal from the fixed asset register. The carrying value of the disposed assets amounted to £nil.

Group and Society	2023 £m	2022 £m
The net book value of land and buildings comprises:		
Freehold	5.4	5.5
Short Leasehold	0.1	0.1
	5.5	**5.6**

Group and Society	2023 £m	2022 £m
The net book value of land and buildings occupied for own use:		
Building Society	5.1	5.3
Non-Group	0.4	0.3
	5.5	**5.6**

18. LEASES

The Statement of Financial Position shows the following amounts relating to leases:

Group and society	**2023**	**2023**	**2023**	**2023**	**2022**	**2022**	**2022**	**2022**
Right of use assets	**Property £m**	**Equipment £m**	**Motor vehicles £m**	**Total £m**	**Property £m**	**Equipment £m**	**Motor vehicles £m**	**Total £m**
Cost								
As at 1st January	4.6	0.3	0.2	5.1	4.9	0.3	0.2	5.4
Additions	0.3	-	-	0.3	-	-	-	-
Lease modifications	-	-	-	-	(0.3)	-	-	(0.3)
Disposals	(1.2)	-	-	(1.2)	-	-	-	-
As at 31st December	**3.7**	**0.3**	**0.2**	**4.2**	**4.6**	**0.3**	**0.2**	**5.1**
Depreciation								
As at 1st January	3.5	0.3	0.2	4.0	2.1	0.2	0.2	2.5
Charge for the year and impairment	0.2	-	-	0.2	1.4	0.1	-	1.5
Charge on disposals	(1.2)	-	-	(1.2)	-	-	-	-
As at 31st December	2.5	0.3	0.2	3.0	3.5	0.3	0.2	4.0
Net Book Value								
As at 31st December	**1.2**	**-**	**-**	**1.2**	**1.1**	**-**	**-**	**1.1**

Group and Society	2023 £m	2022 £m
Lease liabilities		
Current	0.3	0.4
Non-current	1.5	1.8
	1.8	**2.2**

The Income Statement shows the following amounts relating to leases:

Group and Society	Notes	2023 £m	2022 £m
Depreciation charge for assets		0.2	1.5
Interest expense (included in interest payable and similar charges)	4	-	0.1
Expense relating to short-term leases (included in administrative expenses)	6	0.3	0.3

The total cash outflow for leases in 2023 was £0.6m (2022: £0.7m) for the Group, of which £0.6m (2022: £0.7m) related to the Society.

19. INTANGIBLE ASSETS

Group and Society	2023 Purchased Software £m	2023 Developed Software £m	2023 Total £m	2022 Purchased Software £m	2022 Developed Software £m	2022 Total £m
Cost						
As at 1st January	8.6	40.6	49.2	8.3	39.4	47.7
Disposals	(7.4)	(12.8)	(20.2)	-	-	-
Additions	0.1	0.1	0.2	0.3	1.2	1.5
As at 31st December	**1.3**	**27.9**	**29.2**	**8.6**	**40.6**	**49.2**
Amortisation						
As at 1st January	8.0	30.1	38.1	7.8	23.1	30.9
Disposals	(7.4)	(12.8)	(20.2)	-	-	-
Charge for the year	0.3	5.0	5.3	0.2	7.0	7.2
As at 31st December	**0.9**	**22.3**	**23.2**	**8.0**	**30.1**	**38.1**
Net Book Value						
As at 31st December	**0.4**	**5.6**	**6.0**	**0.6**	**10.5**	**11.1**

The Society has undertaken an exercise during the year to identify obsolete assets and recognised these as a disposal from the fixed asset register. The carrying value of the disposed assets amounted to £nil.

£3.9m of research expenditure relating to intangible projects was expensed during the year as it did not meet the development criteria of IAS 38 and has therefore been expensed as incurred.

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 £0.7m amortisation charge in 2023. The remaining intermediary portal carrying value of £0.8 million will be amortised to the Income Statement in 2024.

20. DEFERRED TAX

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
At 1st January	2.2	1.7	2.2	1.7
Credit to the Income Statement	0.4	0.1	0.4	0.1
Recognised directly in other comprehensive income	(1.5)	0.4	(1.5)	0.4
At 31st December	**1.1**	**2.2**	**1.1**	**2.2**

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

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Property plant and equipment	0.2	(0.2)	0.2	(0.2)
Intangible assets	(0.1)	(0.1)	(0.1)	(0.1)
Tax losses	(0.5)	0.2	(0.5)	0.2
	(0.4)	**(0.1)**	**(0.4)**	**(0.1)**

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Origination and reversal of temporary differences	(0.3)	-	(0.3)	-
Adjustment in respect to prior periods	(0.1)	(0.1)	(0.1)	(0.1)
	(0.4)	**(0.1)**	**(0.4)**	**(0.1)**

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

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Deferred tax assets				
Pensions and other post-retirement benefits	0.3	0.7	0.3	0.7
Property, plant and equipment	0.3	0.5	0.3	0.5
Fair value reserves	-	1.1	-	1.1
Tax losses	0.5	-	0.5	-
Other timing differences	0.2	0.2	0.2	0.2
	1.3	**2.5**	**1.3**	**2.5**
Deferred tax liabilities				
IFRS transitional adjustments	0.2	0.2	0.2	0.2
Intangibles	-	0.1	-	0.1
	0.2	**0.3**	**0.2**	**0.3**
Net deferred tax asset	**1.1**	**2.2**	**1.1**	**2.2**

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.

21. SHARES

Group	2023 £m	2022 £m
Held by individuals	3,567.3	3,014.5
Fair value adjustment for hedged risk	(1.4)	(4.8)
	3,565.9	**3,009.7**

22. AMOUNTS OWED TO CREDIT INSTITUTIONS

Group and Society	2023 £m	2022 £m
Amounts owed to credit institutions	288.1	419.0
	288.1	**419.0**

23. AMOUNTS OWED TO OTHER CUSTOMERS

Group and Society	2023 £m	2022 £m
Demand accounts		
Retail customers	0.6	0.7
Other	0.2	0.2
	0.8	**0.9**
Term deposits		
Local authorities and universities	48.0	7.5
	48.0	**7.5**
	48.8	**8.4**

24. AMOUNTS OWED TO SUBSIDIARY UNDERTAKINGS

Society	2023 £m	2022 £m
At 1st January	109.4	145.2
Advance	203.8	-
Repayment	(46.3)	(35.8)
At 31st December	**266.9**	**109.4**

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 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Senior secured debt	246.2	91.0	-	-
	246.2	**91.0**	**-**	**-**

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.

26. OTHER LIABILITIES AND ACCRUALS

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Trade creditors	0.7	1.0	0.7	1.0
Accruals and deferred income	7.5	4.8	7.3	4.8
Other creditors	3.2	3.5	3.3	3.5
	11.4	**9.3**	**11.3**	**9.3**

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.

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 31st 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 31st March 2020. This review showed that the market value of the scheme assets as at 31st 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.

The High Court issued a ruling in respect of Virgin Media vs. NTL Pension Trustees II Limited in relation to the validity of rule amendments made to defined benefit pension schemes contracted-out on a Reference Scheme Test basis between 6th April 1997 and 5th April 2016. Pension scheme amendments during this period required confirmation from the Scheme's Actuary that the Reference Scheme Test would continue to be met and in the absence of such a confirmation, the amendments would be considered void. There is still uncertainty in relation to the High Court judgement, with a Court of Appeal hearing for the case set for 25th June 2024 as well as the potential for overriding government legislation to be introduced. The Society has been made aware of this decision and is engaging with the Scheme's Actuary and Trustees to verify the existence of these actuarial confirmations. As this process is ongoing, no allowance has been made for the potential impact of this ruling within the defined benefit scheme deficit presented below.

An updated actuarial valuation at 31st December 2023 was carried out on a market value basis by a qualified independent actuary, as follows:

Group and Society	**2023**	**2022**
The principal actuarial assumptions used were as follows:		
Discount rate	4.50%	4.85%
Rate of increase in salaries	3.20%	3.40%
Rate of increase in pensions	3.75%	3.60%
Inflation	**3.20%**	**3.35%**
Post-retirement mortality	S3PMA_L (Male) / S3PFA (Female) base table with CMI_2022 improvement model, a long-term trend rate of 1% p.a., a smoothing factor of 7, an initial addition parameter of A0.5% and a w parameter of 10% (above core)	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 31st December 2023 were higher (2022: higher) than the anticipated rate of future inflation.

The table below shows the assumptions used for expected life at 31st December based on an expected normal retirement age of 62.

Group and Society	**2023 Male Years**	**2023 Female Years**	**2022 Male Years**	**2022 Female Years**
Expected life at retirement for a new pensioner	26.5	28.0	26.6	27.7
Expected life at retirement in 20 years' time	25.5	26.8	28.0	29.2

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**	**2023 £m**	**2022 £m**
Principal actuarial assumption			
Discount rate	-0.25%	(1.4)	(1.4)
Rate of increase in salaries	-0.25%	0.1	0.1
Rate of increase in pensions	-0.25%	0.2	0.5
Mortality age adjustment	+0.25%	0.2	0.3
Inflation	-0.25%	0.2	0.6

28. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

Group and Society	2023 £m	2022 £m
Fair value of scheme assets:		
As at 1st January	43.3	67.7
Interest on pension scheme assets	2.1	1.3
Contributions by employer	1.5	1.5
Benefits paid	(2.1)	(2.3)
Gain / (loss) on asset returns	1.0	(24.9)
As at 31st December	**45.8**	**43.3**
Present value of defined benefit obligations:		
As at 1st January	(42.1)	(63.4)
Interest on pension scheme liabilities	(2.0)	(1.2)
Benefits paid	2.1	2.3
Experience loss on liabilities	(0.5)	(0.9)
Gain on changes in demographic assumptions	1.1	-
(Loss) / gain on changes in financial assumptions	(1.5)	21.1
As at 31st December	**(42.9)**	**(42.1)**
Surplus in scheme at 31st December	**2.9**	**1.2**
Impact of asset ceiling	(4.2)	(4.1)
Liability in the Statement of Financial Position as at 31st December	**(1.3)**	**(2.9)**

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 gain of £3.1 million (2022: £23.7 million loss).

The major categories of plan assets are as follows:

Group and Society	2023 £m	2022 £m
Investments quoted in active markets		
Listed equity investments	5.9	4.9
Multi asset growth	9.8	9.4
High yield credit	11.0	10.6
Cash and cash equivalents	2.1	6.6
Unquoted investments		
Liability driven investments	16.0	10.7
Secured pensioners	1.0	1.1
Fair value of scheme assets	**45.8**	**43.3**

Group and Society	2023 £m	2022 £m
Amounts recognised in finance cost in Income Statement:		
Interest cost on pension scheme liabilities	(2.1)	(1.3)
Interest income on pension scheme assets	2.0	1.2
	(0.1)	**(0.1)**

The movement in the liability recognised in the Statement of Financial Position is as follows:

Group and Society	2023 £m	2022 £m
Opening defined benefit obligation at 1st January	(2.9)	(4.4)
Amount recognised in Income Statement	(0.1)	(0.1)
Employer contributions	1.5	1.5
Remeasurement gains	0.2	0.1
Closing defined benefit obligation as at 31st December	**(1.3)**	**(2.9)**

A) DEFINED BENEFITS OBLIGATIONS

The amount recognised in the Statement of Other Comprehensive Income for remeasurement gains and losses is as follows:

Group and Society	2023 £m	2022 £m
Actual return less expected return on plan assets	(4.7)	(24.9)
Experience loss arising on scheme liabilities	(0.4)	(0.9)
Changes in financial assumptions underlying the present value of the scheme liabilities	3.6	21.1
Changes in demographic assumptions underlying the present value of the scheme liabilities	1.1	-
Change in impact of asset ceiling	0.5	4.8
Remeasurement of defined benefit obligation	**0.1**	**0.1**

The average duration of the defined benefit obligation as at 31st December 2023 is 13 years (2022: 13 years). This number can be analysed as follows:

Group and Society	2023 Years	2022 Years
Active members	16	16
Deferred members	17	17
Retired members	11	11

The scheme is subject to the funding legislation outlined in the Pensions Act 2004. This, together with documents issued by the Pensions Regulator, and Guidance Notes adopted by the Financial Reporting Council, sets out the framework for funding defined benefit occupational pension schemes in the UK. During the year, the Group made contributions of £1.5 million (2022: £1.5 million) as part of its funding plan. The Group and Society have committed to contribute £1.5 million in 2024 under the agreed funding plan.

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 £1.1 million (2022: £1.0 million) and for the Society to £1.1 million (2022: £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	2023 £m	2022 £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 2023 £m	FVOCI reserve 2022 £m
At 1st January	(3.4)	(0.1)
Fair value gains / (losses) on treasury assets	2.8	(4.1)
Loss on disposal of treasury assets recycled to Income Statement	1.8	-
Deferred tax (expense) / credit	(1.0)	0.8
At 31st December	**0.2**	**(3.4)**

31. FINANCIAL INSTRUMENTS

CLASSIFICATION & MEASUREMENT

A financial instrument is a contract that gives rise to a financial asset or financial liability. The Nottingham 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 ('LR&CC') and the Change Management Committee ('CMC') monitor the individual areas of risk and report to the BRC quarterly.

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 RCC 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 RCC.

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 31st December 2023 are shown in Note 13.

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	Amortised cost Accounted for at settlement date

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	**Financial assets and liabilities at amortised cost**	**Fair value through other comprehensive income**	**Derivatives designated as fair value hedges**	**Unmatched derivatives**	**Total**
As at 31st December 2023	**£m**	**£m**	**£m**	**£m**	**£m**
Financial assets					
Cash in hand and balances with the Bank of England	430.2	-	-	-	430.2
Loans and advances to credit institutions	31.0	-	-	-	31.0
Debt securities	-	340.1	-	-	340.1
Derivative financial instruments	-	-	91.1	14.1	105.2
Loans and advances to customers	3,543.9	-	-	-	3,543.9
Other assets	24.5	-	-	-	24.5
	4,029.6	**340.1**	**91.1**	**14.1**	**4,474.9**
Financial liabilities					
Shares	3,565.9	-	-	-	3,565.9
Amounts owed to credit institutions	288.1	-	-	-	288.1
Amounts owed to other customers	48.8	-	-	-	48.8
Debt securities in issue	246.2	-	-	-	246.2
Derivative financial instruments	-	-	27.8	16.1	43.9
Subscribed capital	24.0	-	-	-	24.0
Other liabilities	14.5	-	-	-	14.5
	4,187.5	**-**	**27.8**	**16.1**	**4,231.4**

31. FINANCIAL INSTRUMENTS (CONTINUED)

CLASSIFICATION & MEASUREMENT (CONTINUED)

Carrying values by category	Held at amortised cost	Held at fair value			
Group	Financial assets and liabilities at amortised cost	Fair value through other comprehensive income	Derivatives designated as fair value hedges	Unmatched derivatives	Total
As at 31st December 2022	£m	£m	£m	£m	£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**

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 31st December:

Group		2023 Book value	2023 Fair value	2022 Book Value	2022 Fair value
		£m	£m	£m	£m
Financial assets					
Cash in hand and balances with the Bank of England	a	430.2	430.2	290.1	290.1
Loans and advances to credit institutions	b	31.0	31.0	16.0	16.0
Loans and advances to customers	c	3,543.9	3,498.6	2,922.8	2,914.9
Financial liabilities					
Shares	d	3,565.9	3,551.0	3,009.7	2,990.2
Amounts owed to credit institutions	d	288.1	288.1	419.0	419.0
Amounts owed to other customers	d	48.8	49.0	8.4	8.4
Debt securities in issue	e	246.2	246.2	91.0	91.0
Subscribed capital	f	24.0	24.8	24.0	24.2

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.

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	2023 Level 1 £m	2023 Level 2 £m	2023 Total £m	2022 Level 1 £m	2022 Level 2 £m	2022 Total £m
Financial assets							
FVOCI – Debt securities	12	340.1	-	340.1	413.2	-	413.2
Derivative financial instruments – interest rate swaps	13	-	105.2	105.2	-	142.6	142.6
		340.1	**105.2**	**445.3**	**413.2**	**142.6**	**555.8**
Financial liabilities							
Derivative financial instruments – interest rate swaps	13	-	(43.9)	(43.9)	-	(14.4)	(14.4)
		-	**(43.9)**	**(43.9)**	**-**	**(14.4)**	**(14.4)**

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.

31. FINANCIAL INSTRUMENTS (CONTINUED)

FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES CARRIED AT FAIR VALUE (CONTINUED)

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.

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	2023 £m	2022 £m
Credit risk exposure		
Cash in hand and balances with the Bank of England	430.2	290.1
Loans and advances to credit institutions	31.0	16.0
Debt securities	340.1	417.7
Derivative financial instruments	105.2	142.6
Loans and advances to customers	3,543.9	2,922.8
Total Statement of Financial Position exposure	**4,450.4**	**3,789.2**
Off Balance Sheet exposure – mortgage commitments	262.5	281.5
	4,712.9	**4,070.7**

A) LOANS AND ADVANCES TO CREDIT INSTITUTIONS, DEBT SECURITIES AND DERIVATIVE FINANCIAL INSTRUMENTS

The ERC, 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 Prudential risk team and reviewed monthly by the ALCo.

The Group's policy only permits lending to central government (which includes the BoE), 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	2023 £m	2023 %	2022 £m	2022 %
Industry sector				
Banks	164.0	20.5	112.9	15.7
Building Societies	101.6	12.7	76.7	10.7
Multilateral Development Banks	43.5	5.4	114.0	15.8
Central Government	492.2	61.4	415.7	57.8
	801.3		**719.3**	

Group	2023 £m	AAA %	AA %	A %	2022 £m
Geographic region					
United Kingdom	757.8	30.8%	65.2%	4.0%	605.3
Multilateral Development banks	43.5	100%	-	-	114.0
North America	-	-	-	-	-
	801.3				**719.3**

A) LOANS AND ADVANCES TO CREDIT INSTITUTIONS, DEBT SECURITIES AND DERIVATIVE FINANCIAL INSTRUMENTS

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 UK 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 31st December 2023 (2022: £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 98.

Loans and advances to customers are predominantly made up of retail loans fully secured against UK residential property of £3,155.0 million (2022: £2,702.3 million), split between residential and buy-to-let loans with the remaining £437.4 million (2022: £334.7 million) being secured on secured business lending.

The Group operates throughout England and 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	**2023** %	**2022** %
Geographical analysis		
Eastern	9.9	9.5
East Midlands	13.3	15.8
London	13.0	9.4
North East	4.2	5.1
North West	11.2	12.2
South East	16.0	14.0
South West	9.3	8.5
Wales	3.5	3.6
West Midlands	9.2	9.7
Yorkshire & Humberside	10.3	11.9
Other	0.1	0.3
	100.0	**100.0**

31. FINANCIAL INSTRUMENTS (CONTINUED)

CREDIT RISK (CONTINUED)

B) LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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 51% (2022: 46%). 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	2023 Residential %	2023 Buy-to-let %	2022 Residential %	2022 Buy-to-let %
Loan to Value analysis				
< 60%	43.6	74.2	54.6	85.0
60% - 80%	37.4	25.8	37.4	15.0
80% - 90%	14.7	-	6.8	-
> 90%	4.3	-	1.2	-
	100.0	**100.0**	**100.0**	**100.0**
Average loan to value of loans	50.2	49.5	45.5	47.6
Average loan to value of new business	70.3	60.8	70.5	66.1

The quality of the Group's retail mortgage book is reflected in the number and value of accounts in arrears. By volume 0.17% (2022: 0.16%) of loans are three months or more in arrears and by value it is 0.11% (2022: 0.22%).

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.

The table below shows the fair value of collateral held for residential mortgages.

Group and Society	2023 Indexed £m	2023 Unindexed £m	2022 Indexed £m	2022 Unindexed £m
Value of collateral held:				
Stage 1: 12-month expected credit losses	5,767.3	4,719.3	4,981.3	3,758.0
Stage 2: Lifetime expected credit losses	796.6	615.3	1,183.0	862.4
Stage 3: Lifetime expected credit losses	43.2	30.1	45.6	28.1
	6,607.1	**5,364.7**	**6,209.9**	**4,648.5**

The collateral held consists of residential property. Collateral values are adjusted by the ONS Property Price Index to derive the indexed valuation at 31st 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 £13.6 million as at 31st December 2023 (2022: £12.2 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 decrease in the collateral held in relation to loans classified in Stage 2 and the increase 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.

The Group's residential mortgage exposures and provisions may be disaggregated by probability of default ranges as follows:

Group and Society PD %	2023 Gross loans £m	2023 Expected Credit Loss £m	2022 Gross loans £m	2022 Expected Credit Loss £m
0% - 2.5%	1.8	-	-	-
2.5% - 5.0%	3.4	-	5.9	-
5.0% - 7.5%	261.3	0.2	3.0	-
7.5% - 10.0%	2,672.1	2.4	1,983.4	1.9
10 – 100%	216.3	0.6	710.3	1.2
	3,154.9	**3.2**	**2,702.6**	**3.1**

The movement in the exposures to lower PD bands in the year is reflective of an improved macroeconomic outlook at the end of 2023 compared to 2022.

Retail loans (continued)

The table below provides information on retail gross loans and ECL stages split by the number of days past due:

Group and Society	2023 Gross loans £m	2023 Expected Credit Loss £m	2022 Gross loans £m	2022 Expected Credit Loss £m
Stage 1: 12-month expected credit losses				
< 30 days past due	2,780.0	2.7	2,186.8	2.5
Stage 2: Lifetime expected credit losses				
< 30 days past due	349.9	0.5	493.1	0.5
> 30 days past due	7.6	-	6.3	-
Stage 3: Lifetime expected credit losses				
< 90 days past due	14.0	0.1	11.9	0.1
> 90 days past due	3.5	-	4.2	-
	3,155.0	**3.3**	**2,702.3**	**3.1**

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 and the LR&CC 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	2023 Number	2022 Number
Type of Forbearance		
Interest only concessions	-	1
Reduced payment concessions	-	4
Payment plans	21	29
Capitalisations	38	38
Mortgage term extensions	34	35
Less: cases with more than one form of forbearance	(34)	(35)
	59	**72**

These cases are covered by an IFRS 9 ECL allowance of £19,644 (2022: £23,000). In total, £4.4 million (2022: £5.1 million) of loans are subject to forbearance.

31. FINANCIAL INSTRUMENTS (CONTINUED)

CREDIT RISK (CONTINUED)

B) LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Secured Business Loans

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 31st December is as follows:

Unaudited Group and Society	2023 £m	2023 %	2022 £m	2022 %
Owner occupied	37.6	8.6	38.8	11.6
Investment property	399.8	91.4	295.9	88.4
	437.4	**100.0**	**334.7**	**100.0**

The table below provides information on the original LTV of the Group's SBL mortgage portfolio:

Group and Society	2023 %	2022 %
Loan to Value analysis		
< 60%	21.0	19.9
60% - 80%	77.7	78.2
80% - 90%	1.2	1.8
> 90%	0.1	0.1
	100.0	**100.0**
Average loan to value of loans	59.2	67.1
Average loan to value of new business	65.3	70.1

The table below shows the fair value of collateral held for SBL loans:

Group and Society	2023 Indexed £m	2023 Unindexed £m	2022 Indexed £m	2022 Unindexed £m
Value of collateral held:				
Stage 1: *12-month expected credit losses*	720.8	680.8	562.4	520.8
Stage 2: *Lifetime expected credit losses*	46.5	44.2	44.9	41.8
Stage 3: *Lifetime expected credit losses*	11.3	10.8	7.6	8.3
	778.6	**735.8**	**614.9**	**570.9**

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 (21% of the SBL book has had a desktop valuation (2022: 24%)).

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 £3.6 million as at 31st December 2023 (2022: £2.9 million).

The Group's SBL mortgage exposures and provisions may be disaggregated by probability of default ranges as follows:

Group and Society PD %	2023 Gross loans £m	2023 Expected Credit Loss £m	2022 Gross loans £m	2022 Expected Credit Loss £m
0% - 2.5%	0.2	-	0.1	-
2.5% - 5.0%	0.2	-	0.2	-
5.0% - 7.5%	22.3	0.1	1.7	-
7.5% - 10.0%	314.7	1.0	229.0	0.9
10 – 100%	100.0	0.8	103.7	1.3
	437.4	**1.9**	**334.7**	**2.2**

The table below provides information on SBL gross loans and ECL stages split by the number of days past due:

Group and Society	2023 Gross loans £m	2023 Expected Credit Loss £m	2022 Gross loans £m	2022 Expected Credit Loss £m
Stage 1: *12 month expected credit losses*				
< 30 days past due	405.2	1.3	305.7	1.5
Stage 2: *Lifetime expected credit losses*				
< 30 days past due	25.0	0.2	23.1	0.4
> 30 days past due	2.4	0.1	2.2	-
Stage 3: *Lifetime expected credit losses*				
< 90 days past due	3.9	0.2	3.1	0.2
> 90 days past due	0.9	0.1	0.6	0.1
	437.4	**1.9**	**334.7**	**2.2**

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:

Group and Society	2023 Number	2022 Number
Type of Forbearance		
Interest only concessions	19	13
Mortgage term extensions	4	6
Less: cases with more than one form of forbearance	(2)	(4)
	21	**15**

These cases are covered by an IFRS 9 ECL allowance of £97,000 (2022: £23,000). In total, £3.2 million (2022: £2.5 million) of loans are subject to forbearance.

31. FINANCIAL INSTRUMENTS (CONTINUED)

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 ERC and BRC.

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 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.

The Society's liquid resources comprise high quality liquid assets, including a BoE 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 19.3% compared to 20.4% at the end of 2022.

The Society maintains a contingency funding plan, as part of its RRP 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 (2022: 4.3 years). Conversely, retail deposits repayable on demand generally remain on the Balance Sheet much longer.

Group Residual maturity as at 31st December 2023	**On demand**	**Not more than three months**	**More than three months but not more than one year**	**More than one year but not more than five years**	**More than five years**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Financial assets						
Liquid assets						
Cash in hand and balances with the Bank of England	423.5	-	6.7	-	-	430.2
Loans and advances to credit institutions	15.6	15.4	-	-	-	31.0
Debt securities	-	29.9	62.8	247.4	-	340.1
Total liquid assets	439.1	45.3	69.5	247.4	-	801.3
Derivative financial instruments	-	2.7	11.6	89.4	1.5	105.2
Loans and advances to customers	384.6	21.2	61.7	380.9	2,695.5	3,543.9
Other assets	-	2.4	5.6	1.0	15.5	24.5
	823.7	**71.6**	**148.4**	**718.7**	**2,712.5**	**4,474.9**
Financial liabilities and reserves						
Shares	1,037.8	900.6	778.0	849.5	-	3,565.9
Amounts owed to credit institutions	19.3	61.0	-	207.8	-	288.1
Amounts owed to other customers	-	19.3	29.5	-	-	48.8
Debt securities in issue	-	-	-	246.2	-	246.2
Derivative financial instruments	-	-	1.3	40.8	1.8	43.9
Subscribed capital	-	0.1	-	-	23.9	24.0
Reserves	-	-	-	-	243.5	243.5
Other liabilities	2.7	7.0	0.5	2.6	1.7	14.5
	1,059.8	**988.0**	**809.3**	**1,346.9**	**270.9**	**4,474.9**
Net liquidity gap	**(236.5)**	**(916.4)**	**(660.5)**	**(628.2)**	**2,441.6**	**-**

Group Residual maturity as at 31st December 2022	On demand	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	Total
	£m	£m	£m	£m	£m	£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	14.1	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**	**-**

There is no material difference between the maturity profile for the Group and that for the Society. As at 31st December 2023, £1,125.2 million (2022: £932.5 million) of the Group's assets were encumbered.

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

Group 31st December 2023	Repayable on demand	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	Total
	£m	£m	£m	£m	£m	£m
Shares	1,188.1	900.6	779.1	849.8	-	3,717.6
Amounts owed to credit institutions	19.4	61.6	-	207.8	-	288.8
Amounts owed to other customers	0.8	19.4	29.7	-	-	49.9
Debt securities in issue	-	16.8	38.6	206.8	-	262.2
Derivative financial instruments	-	-	0.9	40.3	1.8	43.0
Subscribed capital	-	0.5	1.5	7.9	23.9	33.8
Total liabilities	**1,208.3**	**998.9**	**849.8**	**1,312.6**	**25.7**	**4,395.3**
Group 31st December 2022						
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**

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% 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 ERC and BRC.

The table below summarises the Group's exposure to interest rate risk:

Group and Society	2023 £m	2022 £m
Changes in market value from a 2% parallel upward shift in interest rates	**(0.7)**	5.1

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	2023 Gross amounts £m	2023 Financial collateral * £m	2023 Net amounts £m	2022 Gross amounts £m	2022 Financial collateral * £m	2022 Net amounts £m
Financial assets						
Derivative financial instruments	105.2	(105.2)	-	142.6	(142.6)	-
Total financial assets	**105.2**	**(105.2)**	**-**	**142.6**	**(142.6)**	**-**
Financial liabilities						
Derivative financial instruments	43.9	(43.9)	-	14.4	(14.4)	-
Total financial liabilities	**43.9**	**(43.9)**	**-**	**14.4**	**(14.4)**	**-**

* Financial collateral disclosed is limited to the amount of the related financial asset and liability.

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	2023 Contract / notional amount £m	2023 Fair value of Assets £m	2023 Fair value of Liabilities £m	2023 Changes in fair value used for calculating hedge ineffectivesness £m
Derivatives designated as fair value hedges for interest rate risk (Note 13)				
Fixed rate mortgages	2,087.0	88.8	(24.9)	74.5
Fixed rate savings	325.0	2.3	(2.9)	(3.5)
Subscribed capital	-	-	-	-
	2,412.0	**91.1**	**(27.8)**	**71.0**

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 ineffectivesness £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**

The following table details the hedge exposures covered by the Group's hedging strategies:

Group and Society	2023 Carrying amount of hedged item Assets £m	2023 Liabilities £m	2023 Accumulated amount of fair value adjustments on the hedged item Assets £m	2023 Liabilities £m	2023 Balance Sheet line item	2023 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	2,206.0	-	(39.4)	-	Loans & advances to customers	63.2
Fixed rate savings	-	351.1	-	1.4	Shares	(3.4)
Subscribed capital	-	-	-	-	Subscribed capital	-
	2,206.0	**351.1**	**(39.4)**	**1.4**		**59.8**

NOTES TO THE ACCOUNTS

31. FINANCIAL INSTRUMENTS (CONTINUED)

MARKET RISK (CONTINUED)

Fair value hedges (Continued)

Group and Society	2022	2022	2022	2022	2022	2022
	Carrying amount of hedged item		Accumulated amount of fair value adjustments on the hedged item		Balance Sheet line item	Change in fair value of hedged item for ineffectiveness assessment
	Assets £m	Liabilities £m	Assets £m	Liabilities £m		£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)**

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	2023 Hedge ineffectiveness recognised in Income Statement £m	2023 Income Statement line item that includes reclassified amount £m
Fair value hedges		
Interest rate swaps		
Fixed rate mortgages	(11.2)	Net losses from derivative financial instruments
Fixed rate savings	0.1	Net losses from derivative financial instruments
	(11.1)	

Group and Society	2022 Hedge ineffectiveness recognised in Income Statement £m	2022 Income Statement line item that includes reclassified amount £m
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
	10.0	

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 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 2023, 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 19.

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.

33. RELATED PARTY TRANSACTIONS

TRANSACTION WITH GROUP COMPANIES

During the year, The Nottingham has received £0.1 million (2022: £0.1 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:

	2023 Amount owed to subsidiaries £m	2023 Amount owed by subsidiaries £m	2022 Amount owed to subsidiaries £m	2022 Amount owed by subsidiaries £m
Arrow Mortgage Finance No. 1 Limited	(266.9)	33.4	(109.3)	26.6
	(266.9)	**33.4**	**(109.3)**	**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.

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 £1.5 million (2022: £1.2 million) and a breakdown is disclosed on page 56 in the Directors' Remuneration Report.

In addition, the following transactions were undertaken through the normal course of business:

Group and Society	2023 Number of key management personnel and their close family members Number	2023 Amounts in respect of key management personnel and their close family members £000	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
Loans and advances*				
Net movements in the year	-	-	(2)	(107)
Balances outstanding 31st December	-	-	-	-
Share accounts				
Net movement in the year	2	122	-	29
Balances outstanding 31st December	9	286	7	164
Subscribed capital				
Net movement in the year	-	(2)	(1)	(6)
Balances outstanding 31st December	1	5	1	7
Interest receivable on loans and advances		-		-
Interest payable on share accounts		-		-
Interest payable on subscribed capital		-		-

*The loan related to a director, or connected person, who resigned from his post in 2022.

DIRECTORS' LOANS AND TRANSACTIONS

As at 31st December 2023 there were no (2022: none) 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 31st December 2023, will be available for inspection at the head office for a period of 15 days up to and including the AGM.

34. NOTES TO THE CASH FLOW STATEMENTS

Group and Society	Notes	2023 £m	2022 £m
Changes in liabilities arising from financing activities			
Subscribed capital at 1st January		23.9	23.9
Accrued interest		1.9	1.9
Interest paid		(1.9)	(1.9)
Balance at 31st December	29	**23.9**	**23.9**

35. LOAN COMMITMENTS

Group and Society	Notes	2023 £m	2022 £m
Mortgage commitments		198.4	281.5
Committed facilities to fintech mortgage provider		64.1	170.0
Balance at 31st December		**262.5**	**451.5**

The Society has entered into a strategic partnership with a fintech mortgage provider and the outstanding balance from this commitment is presented above.

36. REGISTERED OFFICE

The Nottingham is a building society, incorporated and domiciled in the UK. The address of its registered office is Nottingham House, 3 Fulforth Street, Nottingham, NG1 3DL.

ANNUAL BUSINESS STATEMENT

1. STATUTORY PERCENTAGES

	2023	Statutory limit
	%	%
Lending limit		
Proportion of business assets not in the form of loans fully secured on residential property	**12.21**	**25**
Funding limit		
Proportion of shares and borrowings not in the form of shares held by individuals	**14.05**	**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

	2023	Statutory limit
	%	%
As a percentage of shares and borrowings:		
Gross capital	6.45	7.24
Free capital	6.07	6.66
Liquid assets	19.31	20.39
As a percentage of mean total assets:		
Profit after taxation	0.20	0.44
Management expenses (Group)	1.42	1.44
Management expenses (Society)	1.42	1.43
As a percentage of year-end assets		
Return on assets	0.19	0.42

The above percentages have been calculated from the Group's financial statements.

'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.

3. INFORMATION ABOUT THE DIRECTORS AT 31ST DECEMBER 2023

Director's name	Date of appointment	Age	Business occupation	Other directorships and offices
Robin Ashton	01.12.23	65	Director	Domestic and General Limited Domestic and General Insurance Europe AG
Paul Astruc	21.06.22	57	Director	Rocket Sense Limited
Simon Baum Chief Risk Officer	18.06.18	61	Building Society Executive	Baum Associates Ltd
Sue Hayes Chief Executive	08.03.22	56	Building Society Executive	UK Finance Mortgage Board
Simon Linares	01.12.19	59	Director	Dreams Come True charity Reflective Limited
Andrew Neden Chair	17.09.14	61	Director	ABC International Bank plc Aetna Insurance Company Ltd Eltham College Ltd Grace Church Dulwich Ltd Kingdom Bank Limited (from December 2023) Northgate (Warwick) Developments Ltd The Great St Helen's Trust Ltd (renamed to Gospel Support and Homes Trust from February 2023) Wesleyan Assurance Society (and subsidiaries) – until November 2023 ClearBank UK Ltd (from January 2024)
Anthony Murphy Chief Financial Officer	23.06.23	44	Building Society Executive	Bournemouth University
Peter O'Donnell	01.01.21	57	Director	Cardiac Risk in the Young Queen Victoria Hospital
Kavita Patel	01.01.17	47	Director	Ampa Holdings LLP Foresight Enterprise VCT PLC Meaujo Incorporations Ltd Philsec Ltd Shakespeare Martineau LLP Sprecher Grier Halberstam LLP
Kerry Spooner	01.09.16	63	Non-Executive	ANZ UK branch The Bank of Nova Scotia, London Branch

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 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')	CRD is made up of the Capital Requirements Regulation ('CRR') and the Capital Requirements Directive, 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.

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.

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.
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 and 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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