



ANNUAL REPORT AND ACCOUNTS

Year ended 31 December 2022



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Welcome from the Chair



In the context of a challenging year for the UK economy, the Society has performed well in 2022 and once again been able to improve its capital strength.

Following two years dominated by the COVID pandemic, 2022 promised to be a year of continued recovery for the UK economy. However, fresh pressures came from supply chain problems, labour shortages,

political instability and spiralling energy costs exacerbated by the war in Ukraine. These combined to take inflation to levels not seen in recent decades, a situation labelled by the media as the “Cost-of-Living Crisis”. The inevitable response to these inflationary pressures from central banks throughout the world (and indeed in the UK) has been a relatively sharp increase of interest rates after a long period of very low, and generally stable interest rates.

A series of base rate rises throughout the year - a trend that started in the final quarter of 2020 - saw the Bank of England’s base rate rise from 0.25% at the start of 2022 to 3.5% by the end of the year, with most commentators expecting rates to rise further in 2023. This has been the dominant issue in the stewardship of the Building Society sector over the last 12 months. Quite apart from the disruption brought about by a series of changes in rapid succession, the impact of the rising interest rates has significantly changed the landscape for both savers and borrowers.

In a world where banking has become increasingly impersonal, we still value the human touch and the opportunity to serve and connect with our members.

Whilst the prospect of rising rates has brought relief for some savers, it has brought the seemingly inexorable rise in house prices to a halt and created fresh pressures for borrowers faced with both rising prices in the wider economy and increased mortgage costs. So far, the impact on the Society’s mortgage book in terms of mortgage arrears has been slight but the Society stands ready to do all we can to assist borrowers that find themselves in difficulties. The natural tendency has been for borrowers to seek fixed-rate rather than variable-rate mortgages and the Society has actively managed its treasury positions and savings products to accommodate this trend. Rising rates have also brought a new dynamism to the savings markets with deposit takers, including Buckinghamshire Building Society, increasingly competing for savings business.

A series of rate changes has brought with it the need to carefully balance the relative interests of savers and

borrowers, and much time has been spent by management and in the Boardroom discussing how best to do this. As ever, this also entails a balance between the need to ensure the Society’s financial strength and the need to be competitive and give excellent value to our members.

Whilst we know that rate is important to our members - more so in this “Cost-of-Living Crisis” than at any other time, we also know that service also matters. In a world where banking has become increasingly impersonal, we still value the human touch and the opportunity to serve and connect with our members. The Society has invested significantly in the last two years to improve the quality of service to our members both on the mortgage and savings sides of the business, but with the aim of enhancing the human touch rather than replacing it.

Following two years in which the Society was effectively compelled by the pandemic to conduct its Annual General Meeting behind closed doors we were once again able to welcome members to our AGM in 2022. This also gave us an opportunity to highlight our involvement in the local community, which we see an inherent part of the DNA of a local Building Society.

The essence of our business remains - to give our members money for their home and a home for their money.

The Society’s Board has seen some changes in 2022. We have welcomed Chris Potter and Jo Carter to the Board as Non-Executive Directors bringing experience and skill in the areas of audit and HR respectively, and both are making a significant contribution to the Board.

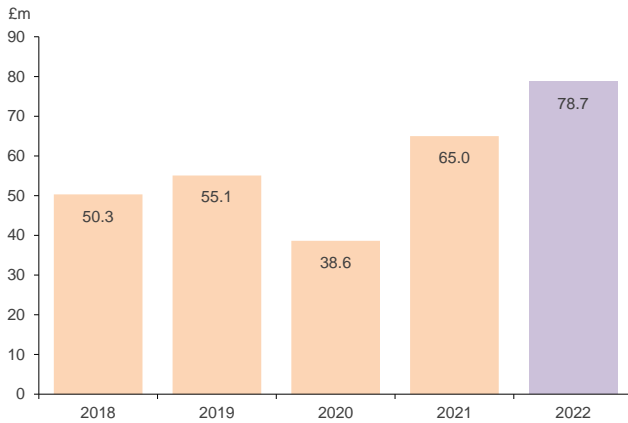
We also saw the retirement of our Chief Executive, Gerard O’Keeffe in September. Gerard made an exceptional contribution to the Society during his leadership of the Society over a 4-year period, bringing new impetus for growth, investment in the people and infrastructure of the Society and steering us successfully through the challenges of the pandemic. I am pleased to report that his successor, Dan Wass, shares Gerard’s enthusiasm, values, ambition and vision for the Society.

On arrival, Dan discovered and drew the Board’s attention to the first Rule Book of the Society from the time of its incorporation over 100 years ago. So many aspects of our working lives have been transformed over that time to the point that the founding fathers would barely recognise the business. But I was struck by the fact that the essence of our business remains - to give our members money for their home and a home for their money. And despite a dizzying century of change, those initial Rules highlight an ethos of fairness and integrity that we still find aspirational today.

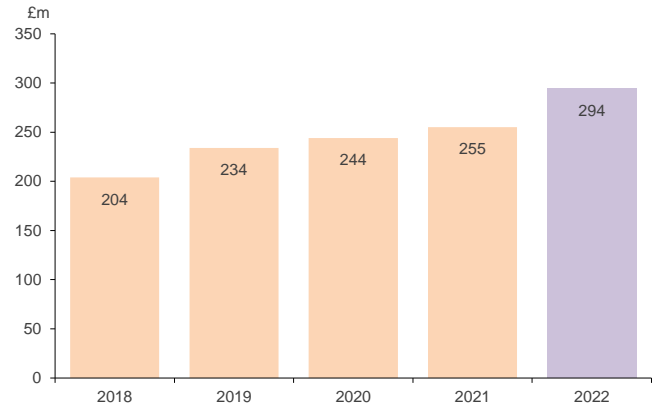
Dick Jenkins
Chair

1 March 2023

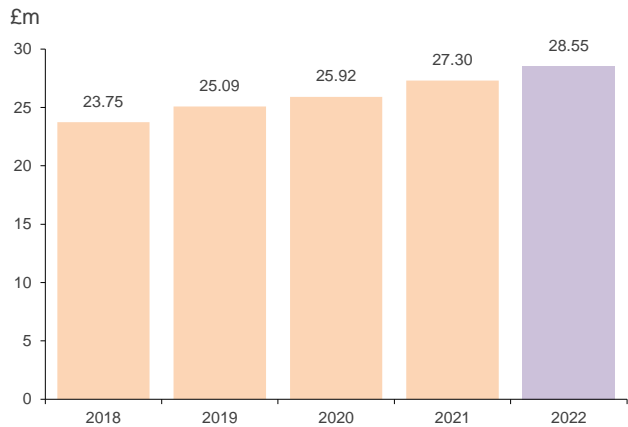
Gross lending



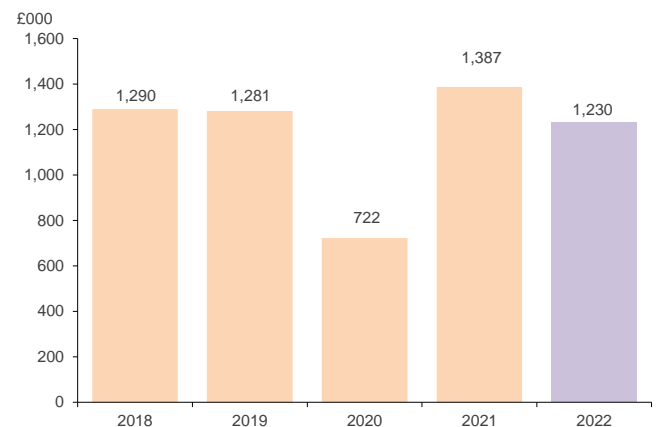
Share and deposit balances



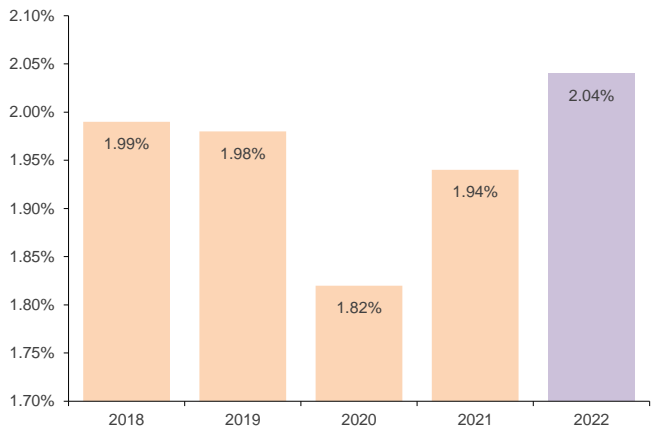
Reserves



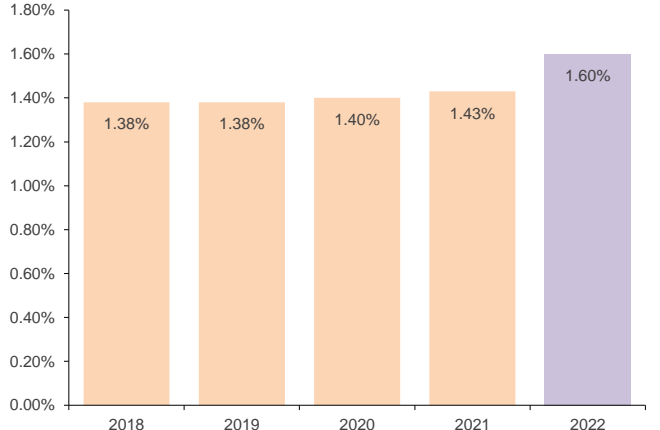
Profit after tax



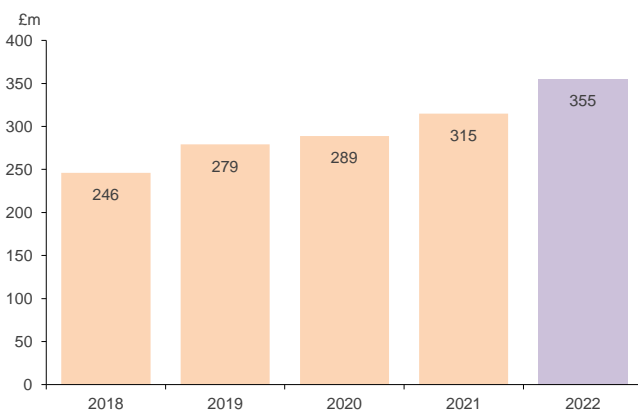
Net interest margin



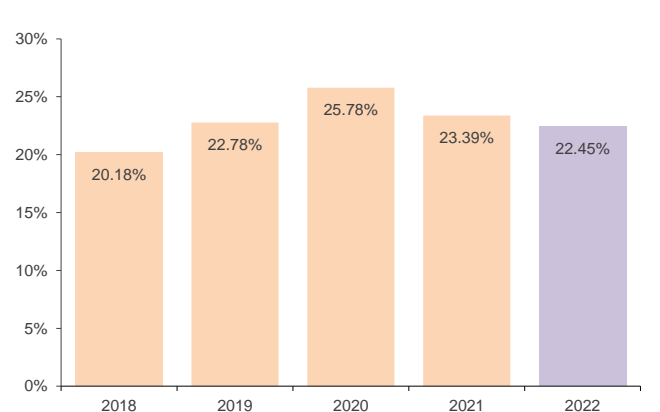
Management expense ratio



Total assets



Liquid assets ratio



Please refer to the Glossary of Terms on page 64 for a definition of what these terms mean.

Update from our CEO



It is a pleasure to bring you my first CEO statement since joining the Buckinghamshire Building Society in September 2022 and I would like to take this opportunity to thank my predecessor, Gerard O’Keeffe for his leadership and contribution to the Society over his four years as CEO.

I feel passionately about the very important role that building societies play in financial services and feel a very close alignment to the mutual values that are so strongly held across our sector. I can see that our Society has a deep-rooted purpose that underpins both its strong foundations and mutual ambitions.

Context

There’s no doubt that market conditions were challenging in 2022, but we have always aimed to recognise the value of Members savings; remain competitive for homeowners and at the same time ensure reasonable returns for the Society’s long-term sustainability. It’s that same market backdrop that makes the Society’s performance even more reassuring.

Performance Headlines

The Society has reported measured growth as we continue our strategic aims to: grow our mortgage book safely and efficiently; invest in our products and services; invest in our people capability and in turn, support our local community.

We extended £79m of new mortgage lending to members (+21% on 2021) and grew our overall mortgage portfolio by £32.9m. Our total savings balances increased by £38.2m to £293.5m (vs £255.3m in 2021), both of which underpinned the Society’s total asset growth of £39.9m (+12.7% vs 2021).

The continued growth in our balance sheet is encouraging but our aim is always to achieve growth in a way that is sustainable and preserves our ability to serve our members over the long term. We measure that sustainability through a number of performance measures:

- **Liquidity:** Total liquidity stood at £73m at the end of 2022 (+9% on 2021) and represented 22.5% of total shares, deposits and loans (well in excess of our internal appetite).
- **Margin:** The Society always strives to balance value to our savings members and maintain appropriate returns for lending across a range of needs. Society Net Interest Margin strengthened moderately through 2022 to 2.04% (vs 1.94% in 2021)
- **Costs:** As expected, the Society experienced an increase in costs both due to investments in our people, capacity and the wider inflationary

environment. Management Expense as a percentage of total assets increased to 1.60%.

- **Profit:** Profit before tax was £1.5m, marginally lower than 2021 as the Society absorbed higher than forecast costs.
- **Capital:** Capital ratio at 22% (25% in 2021) represents a strong position, well in excess of our capital requirement.

And in the context of the above, we are delighted to have seen overall Society membership grow by 7.5% to 11.4k members - growth and sustainability in member relationships that should give confidence as we look forward.

Member Focus

Through eight base rate increases in 2022 we are proud of how we have been able to support the interest of our savings members by passing on increases in savings rates whenever possible. And although the mortgage marketplace remained highly competitive, we are encouraged that our mortgage book has seen such solid growth as we have assisted members through our range of specialist products and unique service model. Our impairment levels remain extremely low at 0.07% (vs 0.11% in 2021). The broker community, through which we distribute our mortgages, awarded us a ‘four star’ rating and our lending proposition was shortlisted for a series of high profile industry awards.

Our measured growth and mutual model enable us to continue our long-term investment in our Society proposition.

I’m pleased that while navigating a path through considerable change, the Society has continued its investment in our member proposition - enhancing our mortgage origination experience; making improvements on our savings on-boarding processes; launching our new segmented broker proposition; and investment in our IT systems and resilience.

We continue to identify areas where our unique skills/services can support the more specialist lending needs. We are currently preparing to expand our product offerings in areas where we feel we have real strength and capabilities. We also would like to make it easier to meet the lending needs of new and existing members directly, by launching our Direct Advice mortgage service and enhancing our member onboarding experiences. We intend to say more to you about this in the coming year.

Listening to our members and learning from their feedback is important to us. Following our member survey in 2022, and in keeping with previous years, we are delighted to share that overall satisfaction with our service is considered to be excellent by the majority of respondents. Overall, 91.2% of our members (similar to the percentage of our members last year), were satisfied with the customer service they had received. Our members commented on the “excellent customer service, friendly staff and very competitive interest rates.” We received 26 complaints in 2022 equating to 0.2% of members and two of these

members found it necessary to refer their complaint to the Financial Ombudsman Service (“FOS”), with one being decided partly in our favour and the decision on the other still outstanding.

We also recognise that for some of our members facing financial hardship, the current economic climate is particularly challenging. If you are experiencing difficulty, we would always stress the importance of speaking to us. We have a range of support available depending on your circumstances as well as partnerships in the community that may be able to help.

Colleagues

We are proud that our people, striving to do the right thing, sit at the heart of what makes the Bucks distinct.

We were pleased to have had 100% response rate to our 2022 annual colleague survey which highlighted strong confidence in our purpose, leadership and involvement in the community. We look forward to continuing this journey in 2023 and adding greater resilience and depth to our capabilities.

Community

As a mutual that is proud to support the Buckinghamshire community, we have channelled over £15k into local causes. We remain committed to strengthening our community partnerships and shift our investment focus to projects that are both important to our members and align to our Society purpose.

We are a mutually owned Society, so giving back to our local community is at the heart of what we do. Our charitable foundation has for many years tangibly supported local causes and in 2022, in association with Heart of Bucks, awarded an additional £75k through the Here To Help Fund, to a range of deserving local organisations.

Outlook

We are pleased with the strategic progress that we have made, indeed we feel our progress in recent years has laid the foundations for the next phase of the Society's journey.

Our strategy review at the end of 2022 supported the direction of travel and concluded that streamlining the strategic priorities would create an even sharper focus and set of outcomes.

Our purpose

“To help people achieve financial security, provide a safe home for savings and enable home-ownership.”

remains as relevant today as it was in 1907, even if the context within which it sits has been through incredible change.

In 2022 we refreshed our Vision:

“We aspire to be the best small building society, endorsed by a thriving membership locally and nationally – committed to help members achieve financial security and home ownership.”

To deliver our Vision, the Board decided to sharpen our strategy to:

Sustainably Strong | Member Centred | Community Rooted

... by introducing five distinct pillars of work for focus and delivery:

Fit for Purpose: Placing financial sustainability and operational resilience at the centre of our growth ambition.

Enduring Savings: Nurturing growth of our membership through lasting savings relationships.

Crafted Lending: Bringing the best of our capabilities, and those of our intermediary partners, to craft lending solutions.

Engaged Colleagues: Investing in engagement, development, and well-being to make Bucks an exceptional place to work.

Greater Good: Collaborating with our partners to drive purpose-aligned benefits for our communities and wider environment.

More detail surrounding the strategic priorities for the next period is included in the Directors' Report on page 7.

We end the year in a strong position financially, operationally and with substantially increased capability to take the Society forward.

The market outlook remains uncertain in the short term, but our longer-term mission is clear. I'm confident that the refreshed clarity of these streams of work will ground our thinking and guide our progress over the next strategic horizon.

We know that we can't afford to stand still or be complacent, we must move forward and make this business even better for the current and the next generation of our members. We are in a great position to do just that as a mutual building society that our members can be proud of.

I would like to thank all my colleagues for their hard work and commitment and you, our members, for your loyalty and support.

Dan Wass
Chief Executive Officer

1 March 2023

Directors' Report

Report includes a review of the Society's activities and performance in 2022, its plans for the future as well as the principal risks and uncertainties.

Purpose

The Buckinghamshire Building Society was founded in 1907 with a simple, mutual purpose...

"...to help people achieve financial security, provide a safe home for savings and enable home-ownership."

As a mutual Society, over 115 years old, our objectives are to fulfil our purpose sustainably into the future. This requires us to offer value for money products and services to our members, whilst generating sufficient return to maintain our stability, resilience, relevance and sustainability.

Vision

Our Vision is rooted in our purpose but underlines our ambitions to remain relevant and endure in a modern world:

"We aspire to be the best small building society, endorsed by a thriving membership locally and nationally – committed to help members achieve financial security and home ownership."

Strategy

After having navigated the challenges posed by the pandemic, the Society has built strong momentum over the last two years in pursuit of our strategy.

We achieved record levels of new business in 2022 and at the same time strengthened our mortgage retention performance. This growth has been enabled by increased operational efficiency and capability, rather than a change in credit risk appetite. While our balance sheet growth has been measured, our liquidity and capital bases have remained strong and we have maintained buffers at all times, in line with our financial aims and prudent for a Society our size.

Our mutual beliefs and vision for how the Society will endure, remains. But the changing environment presents the need to regularly review 'HOW' we strive to achieve our strategic aims. Our strategic aims over the recent past could be summarised as:

- Capacity, Capability and Operational Efficiency
- Measured Growth
- Conservative liquidity and capital base
- Cultural transition
- Community Engagement

Following the arrival of the new CEO (Q3 2022), and the Strategy Review (Q4 2022), the Board re-affirmed the core aspects of the strategy to date and recognised the progress made in 2021/22. In light of the current 5-year outlook, the Board also agreed that the Society should take the opportunity to more explicitly articulate the strategic agenda and how it directly links to the Society's Purpose and Vision.

To establish a stronger alignment between specific deliverables, team resources and the strategy, we identified five distinct agendas (Pillars) to take the strategy forward.

1. Fit for Purpose:

Placing financial sustainability and operational resilience at the centre of our growth ambition

Financial resilience, our risk and governance framework and our IT infrastructure are key foundations to ensure the Society remains fit for purpose and continues to deliver good outcomes as a regulated financial services provider.

2. Enduring Savings:

Nurturing growth of our membership through lasting savings relationships

Sustain growth of savings membership and longer-term relationships, by establishing a clear overall savings proposition for all generations.

3. Crafted Lending:

Bringing the best of our capabilities, and those of our intermediary partners, to craft lending solutions

Our strategy is to offer mortgage products that meet the demands of home buyers, primarily those not adequately met by the mainstream providers who value low-risk uniformity for operational and capital efficiency.

4. Engaged Colleagues:

Investing in engagement, development and well-being to make Bucks an exceptional place to work

We strive to make Buckinghamshire Building Society an exceptional place to work. There is a significant overlap between culture and brand and our aim is to begin the journey of developing brand advocates, from within, with our colleagues.

5. Greater Good:

Collaborating with our partners to drive purpose-aligned benefits for our communities and wider environment

With its long-standing history and presence in the community, we have always tried to support local businesses and charities. Now being identified as a key strategic pillar, we will consciously seek to increase the alignment between our community investment and our overall purpose where possible.

...all under the heading of:

Sustainably Strong | Member Centred | Community Rooted

Performance Overview

Buckinghamshire Building Society is a strong, independent, regional building society focused on providing residential mortgages and is funded primarily by members' savings accounts. We do not provide current accounts, consumer lending or insurance products.

2022 performance headlines are below:

Funds (Total £355m) are raised from:

- Customer deposits – 83%
- Wholesale funding – 9%
- Reserves – 8%

These funds are used to provide mortgages (Total £276m) for:

- Owner occupiers – 84%
- Buy-to-let investors – 15%
- Commercial properties – 1%

We generate income (Total £6.8m) from:

- Net Interest Income – the difference between the interest and fees charged for mortgages and the interest paid on member deposits and other funding

We incur costs (Total £5.4m) on:

- Paying our people
- Systems and technology
- Property and other operating costs
- Regulatory costs
- Professional services

We use our profits (Total £1.5m) to:

- Maintain our capital strength
- Invest in delivering improved products and services for members
- Support future growth
- Support the local community
- Pay taxes

Key Performance Indicators	2018	2019	2020	2021	2022
Member satisfaction	97%	97%	93%	91%	91%
Number of members	10,113	10,273	10,382	10,590	11,379
Capital – Common Equity Tier 1	25%	24%	25%	25%	22%
Reserves	£24m	£25m	£26m	£27m	£29m
Interest margin*	1.99%	1.98%	1.82%	1.94%	2.04%
Profit before tax (PBT)	£1.6m	£1.6m	£0.9m	£1.8m	£1.5m
Cost/income ratio	68.74%	69.05%	78.08%	73.86%	78.82%
Management expense ratio*	1.38%	1.38%	1.40%	1.43%	1.60%
Profit after tax (PAT)	£1.3m	£1.3m	£0.8m	£1.4m	£1.2m
Profit (PAT) as a % of total assets	0.53%	0.49%	0.25%	0.46%	0.37%
Gross mortgage lending	£50m	£55m	£39m	£65m	£79m
Growth in mortgage assets	5%	10%	0%	12%	13%
Total loans	£199m	£219m	£219m	£245m	£276m
Mortgage arrears*	0.83%	0.77%	0.58%	0.43%	0.46%
Retail shares and deposits*	£204m	£234m	£244m	£255m	£294m
Liquidity ratio*	20.18%	22.78%	25.78%	23.39%	22.45%
Total assets	£246m	£279m	£289m	£315m	£355m

* refer to the Glossary of Terms on page 64 for a definition of these terms

Each of the following sections represents key performance indicators and are measured against actual performance on a regular basis.

Capital

This is an important measure of financial strength - the ability to absorb financial stresses and hence protect members' interests. Over 99% of the Society's capital consists of retained earnings accumulated over many years. This capital is described as Tier 1 Capital and is considered to be the highest quality of capital by our regulators. The Society also holds capital in the form of a revaluation reserve and collective loan loss provisions. The Society's gross capital ratio is 8.8% (9.5% in 2021). Free capital (see Glossary of Terms on page 64) is 8.3% (9.0% in 2021).

The Society's Core Equity Tier 1 ratio (CET1) which is calculated as Core Tier 1 Capital divided by Risk Weighted

Assets was 22% as at 31 December 2022 (25% in 2021). The CET 1 ratio has remained ahead of current regulatory requirements throughout the financial reporting period and is expected to remain ahead of regulatory requirements for the foreseeable future. The Society's CET1 ratio is expected to compare favourably to the rest of the mutual sector.

The Society's latest Pillar 3 disclosures can be obtained from the Society Secretary or the Society's website www.bucksbs.co.uk.

Liquidity

Our liquidity ratio measures liquid assets held in the form of cash and investments as a percentage of shares and borrowings. It is a key measure of the Society's ability to meet its financial commitments as they fall due. These commitments include withdrawal requests from savers and investors, new mortgage lending and the funding of general

business activities. Our liquidity ratio at the end of the year was 22.45% (23.39% in 2021), which will be used to grow the mortgage assets as part of the 2023 strategy and continues to remain well ahead of the regulatory requirements.

Funding

Our balance sheet is predominantly funded by retail savings and deposits. In addition, the Society has access to wholesale funding when required. The Society holds a total of £31m of funding from the Bank of England's (BoE) Term Funding Scheme with Additional Incentives for Small to Mid-size Enterprises (TFSME), (£31m in 2021); this provides funding to the Society at base rate.

Total income

Total Income increased by 17% in 2022 compared to 2021. The increase has been mainly driven by strong business volumes as well as increase in the return on funds held at the Bank of England. The continued growth in our balance sheet is encouraging but our aim is always to achieve growth in a way that is sustainable and preserves our ability to serve our members over the long term.

Costs

Management expense ratio increased to 1.60% (1.43% in 2021) as we continued to build our people capability by adding experienced hires to add resilience and minimise key person risk. The challenges of a severely competitive employment market along with unprecedented high rates of inflation and the cost-of-living crisis made it necessary for the Society to offer a level of remuneration to our colleagues to attract and retain talent. Therefore, not surprisingly, the most significant element of our cost increase relates to inflationary pressures on salaries and additional IT expenses, as we migrated our operating system to a cloud-based solution. The cost income ratio increased to 78.8% from 73.9% in 2021, however both our management expense ratio and our cost/income ratio (see Glossary of Terms on page 64) compare favourably with the mutual sector.

Profit

The Society achieved a profit before tax of £1.5m in 2022 (£1.8m in 2021). The Board is pleased with this performance as it continues to be in line with the agreed strategy, to balance the objectives of generating sufficient profits to maintain our financial strength and operational resilience, whilst also delivering value to our members by providing competitive mortgages and savings products.

Savings

Personal savers' balances increased by 18.5% during the year and corporate deposit balances decreased by 8.1%. Overall, the combined total of personal and corporate balances increased by 15.3% (compared to an increase of 4.6% in 2021) to a total of £294m (£255m in 2021). The increase in 2022 was higher than that of 2021, as the Society's mortgage pipeline has been continuously increasing, thereby resulting in a need to actively seek a stable and consistent level of inflows.

The Board has sought to maintain rates above the market for as long as possible for existing members and this

strategy continued throughout 2022. Providing value to members remains at the core of our savings strategy. Starting from late 2021 and continuing throughout 2022, we are proud of how we have been able to support the interest of our savings members by passing on increases in savings rates whenever possible.

Lending

Gross lending for 2022 was £79m, up 21% from £65m in the previous year. Although the mortgage marketplace remained highly competitive, we are encouraged that our mortgage book has seen such solid growth as we have assisted members through our range of specialist products and unique service model. Our lending continued to be spread over a number of different sectors of the market but included first time buyers, self-build, shared ownership, lending into and in retirement, lending to those with non-standard income or some minor adverse credit history and borrowers investing in buy-to-let properties.

Repayments and redemptions increased to £46m (£39m in 2021), which was a direct result of the increase in maturities in 2022. The combination of these resulted in a net lending increase of £32.9m (£26m in 2021) and the mortgage book growing to £276.3m at the year-end (£244.8m in 2021).

The level of retentions from expiring mortgage products was in line with 2021 as the Society has continued to focus on retention of mortgage customers. The mortgage book comprises of 84% residential owner-occupied mortgages, 15% buy-to-let mortgages and 1% commercial lending. The mortgage book continues to remain of high quality, with an overall indexed loan-to-value of 50% and around 9% of balances with an indexed loan to value of 80% or more.

Forbearance and arrears

The Society's arrears statistics continue to remain low and compare favourably to the financial services industry.

As at 31 December 2022, the Society had 2 (2021: 2) mortgage loans that were 12 months or more in arrears. The total balance outstanding on these loans was £816k (2021: £789k) and the total arrears outstanding were £75k (2021: £52k). The Society holds individual allowances for impairment of £Nil (2021: £Nil) against these loans as both loans have low loan-to-value ratios (below 50%). Loan balances of 3 or more months in arrears represent 0.49% of the overall mortgage book (0.4% in 2021). The actual number of customers in arrears remains low at 10 (7 in 2021). UK Finance publishes data based on the number of cases where the arrears balance represents 2.5% or more of the mortgage debt. The Society had 0.46% cases in this category (0.43% in 2021) compared to a UK Finance average of 0.74% (0.78% in 2021).

The Society had one property in possession as at 31 December 2022 (nil in 2021).

The Board understands that the personal and financial circumstances of our borrowers can change over time. When this happens, our borrowers benefit from our policy to exercise as much forbearance as reasonably possible and to ensure their fair treatment at all times. These measures can include payment arrangements, temporary switch to

interest only and term extensions. As at 31 December 2022, the Society had offered forbearance measures to 13 customers (13 in 2021).

All loans are individually underwritten by a team of experienced underwriters, under the lending policy agreed by the Board. Responsible lending and affordability are the key criteria when making a lending decision. This approach has proved successful in the past and underpins the low arrears and default position experienced.

To reflect the current levels of credit risk in the mortgage book and favourable performance of our arrears, loan impairment provisions have decreased in 2022 to 0.07% of the mortgage book (0.11% in 2021).

Outlook/future developments

The market forces evident now and developing over the next few years represent a significant challenge – maintaining measured, sustainable, growth through the immediate term will present a challenge for a small Society such as ours. In many ways our continued success will be determined by HOW we respond to rapidly shifting conditions – clarity of agenda/priorities, agility, adaptability, collaboration and resilience.

The COVID pandemic (impacts on supply chains); Brexit transition (impacts on trade and employment) and the war in Ukraine (impacts on energy), clearly represent 3 very significant economic events – the combined effects of which will set the direction for the economy (globally and UK specific) in the near and middle term.

The knock-on inflationary consequences and economic re-alignment to higher prices started in 2022. Current base rate forecast ranges project base rate reaching 4.5% by mid-2023. While some stability in the markets has returned – until base rate, and the corresponding savings and mortgage rates settle, the market conditions are likely to remain uncertain. It is expected that the UK will be in recession through 2023 with various projections as to the outlook beyond. The optimistic scenarios follow a steady decline in inflation (and so rates) as the higher energy costs from 2022 roll out of the datasets in 2023 but there is a reasonable argument that inflation reduction will be slow to come through.

For balance, we can take some comfort that the mortgage market has shown resilience through economic challenges, borrowers have been assessed for affordability on rates that are still well above current mortgage rates; borrowers have not used housing equity to finance a spending boom of the kind that preceded previous downturns; and owner-occupiers as a group have never had such a strong cushion of housing equity to fall back on. Market stability or at least sustained settling of market conditions would represent a positive phase for the market, easing of rates and gradual return of confidence.

We have defined our path to sustainability. That path is based on meeting the needs of more specialist/complex mortgage niches and getting that exceptional capability recognised by our key distribution channel. It is based on connecting consistently and credibly with a customer base

that values us for being a different type of financial institution – mutual, local, serving for a purpose rather than for profit maximisation.

To survive and prosper, we will need to stand out from our peer group as a well-managed Society aiming to strike a balance in order to manage near term macro-economic headwinds, optimise returns for medium term sustainability (and investment) and maintain our path to measured growth.

Principal risks and uncertainties

The Board has overall responsibility for risk management and ensure that the Society's policies, procedures and conduct are consistent with its risk appetite, business strategy and objectives. The various Board Committees (see Corporate Governance Report on pages 18 to 24) have Terms of Reference setting out specific responsibilities and report to the full Board. The Risk Committee establishes the risk management framework, oversees risk management across the business and ensures a strong culture of risk awareness and ownership.

Further details of the Society's approach to risk management and its risk exposures are set out in the Pillar 3 Disclosures, which can be obtained from the Society Secretary at our Head Office or from our website www.bucksbs.co.uk.

The principal categories of risk to which the Society's business is exposed, together with how they are controlled as set out below should be read along with the Outlook/Future Developments section of the Report:

- **Business Risk (including capital)** - the risk of the Society failing to achieve sufficient long-term profitability to maintain sustainable capital adequacy.

The Board regularly discusses strategic issues and make decisions aimed at delivering long-term sustainability, capital and liquidity strength, financial and operational resilience. External macroeconomic and regulatory matters are carefully considered, together with a range of key risk indicators designed to optimise the position of the business. The Society conducts an annual assessment of capital adequacy covering all risks to determine the level of capital required to support current and future risks in the business, including any changes in business volumes, mix of assets and multiple stress scenarios. This assessment is approved by the Board and monitored quarterly. The assessment is utilised by the regulators to set the Society's overall capital requirement. At the present time and over the planning horizon the Society has capital that significantly exceeds the regulatory requirements.

During 2022, the mortgage and savings markets were relatively volatile in the context of rising rate environment and inflationary pressures on cost of living. We responded to market pressures and opportunities, delivering for underserved markets and optimising the mix and volume of business on both sides of the balance sheet. We maintained our focus on service and delivery of good outcomes to our Members and continued to invest in the business. During 2023 we

expect macroeconomic pressures around inflation and interest rates will impact affordability and market sentiment but we will continue to strive to deliver housing and savings solutions to underserved markets.

- **Credit Risk** - the risk that losses arise because of the Society's borrowers or treasury counterparties failing to meet their obligations to repay.

All mortgage applications are individually underwritten under the Lending Policy, which is reviewed by the Risk Committee and approved by the Board. Underwriting mandates are controlled to ensure that only those with suitable expertise can commit the Society to lend. All cases are reviewed by Credit Committee, chaired by the Chief Risk Officer. During 2022, we have continued to enhance our portfolio management information to improve understanding of future risks in the context of the expected macroeconomic environment. If the personal circumstances of borrowers change, the Society applies our Arrears and Forbearance Policy to work proactively with borrowers to seek arrangements to enable them to resolve their difficulties. During 2023 we expect an increase in borrowers experiencing financial difficulties and have therefore broadened the resource pool available to manage such an eventuality. The Board has set a Risk Appetite designed to avoid losses by targeting a balanced portfolio of assets that match expertise and experience of underwriters.

- **Liquidity and Funding Risk** - the risk that the Society either does not have sufficient financial resources to enable it to meet its obligations as they fall due or can secure such resources only at excessive cost.

The Financial Risk Management Policy is a key policy regarding managing credit risk of treasury assets. It is overseen by the Assets & Liabilities Committee (ALCO) and approved by the Board. The Board has set conservative counterparty limits based on credit ratings and other indicators of financial strength.

The Financial Risk Management Policy also sets out how the Society maintains liquid assets at all times that are adequate both in terms of quality and quantity, both in business as usual and reasonably foreseeable stressed scenarios, in order to mitigate this risk and maintain public confidence. The Society has a Liquidity Contingency Plan to support other extreme scenarios. The Society conducts an assessment of liquidity adequacy covering all risks to determine the level of High Quality Liquid Assets required to support current and future risks in the business. Specific limits are monitored daily by the Finance Team and reported to ALCO. At the present time and over the planning horizon the Society has liquidity that significantly exceeds the regulatory requirements.

- **Interest Rate Risk (including market risk)** - the risk that assets and liabilities re-price at different times and/or on different bases, adversely affecting the net interest margin.

This risk is managed through approved limits within the Financial Risk Management Policy, by matching the re-pricing dates of assets and liabilities and by using derivative financial instruments to hedge. While some stability in the markets has returned – until base rate, and the corresponding savings and mortgage rates settle, the market conditions are likely to remain uncertain. Specific liquidity limits are monitored daily by the Finance Team.

- **Operational Risk (including conduct risk)** - the risk of loss or negative impact to the Society or adverse outcomes to our Members; resulting from inadequate or failed processes, systems or controls; from external events; or human error.

The principal operational risks at the current time relate to cyber security, financial crime and how our staff interact with customers throughout the product lifecycle. The Risk Committee considers a range of metrics and reports from management to ensure that the Society continues to operate within a robust control framework that maintains operational resilience and protects Members and staff. During 2022, we have tested a range of Business Continuity and Contingency Plans; invested in staff development, cross-training and better use of systems; and enhanced our self-assessment of operational resilience.

- **Climate Change Risk** - cuts across several different risk categories such as credit, reputational and operational risks.

As the Society is not listed, we are not obliged to meet the requirements of the Taskforce on Climate Related Financial Disclosures (TCFD). However, the Board recognise it is important that we play our part in tackling climate change and so have chosen to provide disclosures consistent with those standards.

Strategy:

Our strategic consideration of climate change, documented in our Board approved Climate Change Strategy, is aligned to our broader Society Strategy. We channel our energy to three specific commitments:

- **Sustainably Strong** - Continuously evolve and improve the way we assess and mitigate climate risks, building environmental resilience into our business.
- **Member Centred** - Provide options and tools to help Members play their part in reducing climate impact e.g. through home improvements.
- **Community Rooted** - Understand our carbon footprint, actively reduce emissions and minimise wastage, to reduce our environmental impact.

Our Risk and Control Register considers all material risks arising from Climate Change. Rising global temperatures are expected to create more extreme weather conditions, causing damage to property, through floods, coastal erosion and subsidence. Transitional risks may arise from changing regulatory and borrower behaviour and expectations around

energy efficiency, for example. Therefore, credit risk arises in relation to the value and saleability of properties taken as security for mortgages; reputational risks primarily relating to how we compare with other similar firms; and operational risks primarily relating to our own security, useful life of our assets, resilience, continuity, costs and impact on the environment.

There are also a range of opportunities to support the changing needs of our Members that we target through our Climate Change Strategy particularly in relation to borrowers that need support to improve their homes.

To assess the resilience of our strategy we have partnered with Landmark to obtain data in relation to physical and transitional risks in our mortgage book. The data focusses on flood, subsidence, coastal erosion and energy efficiency. The analysis considers the impact on the Society in the range of Climate Biennial Exploratory Scenarios (CBES). These scenarios consider Representative Concentration Pathways (RCP) of changes in atmospheric concentration of greenhouse gasses and consequent changes in temperature leading to severe and chronic climate events. These scenarios range from low emissions (RCP 2.6) to high emissions (RCP 8.5), over a range of time horizons from 10 years to 40 years. We carried out our own analysis of climate change risk in our Internal Capital Adequacy Assessment Process (ICAAP), utilising the granular property risk data and our own Probabilities of Default and severe stress tests. This concluded that an additional £256k capital allocation for climate change risk not already accounted for under other capital risk assessments was required.

Governance:

The Board has overall responsibility for oversight of climate risk and opportunities, with the support of Risk Committee, which receives quarterly reports from the CRO in relation to climate change, including trend analysis in relation to our risk appetite and advisory indicators. The Board approves the annual Climate Change Strategy, which is carefully aligned to the overall business strategy and determines areas for investment and management focus. Climate Change responsibilities are reflected in Committee terms of reference.

The management role in assessing and managing climate related risks and opportunities is shared across the team. In 2019, we appointed the CRO as the Senior Manager responsible for climate related financial risk under the Senior Managers Regime. He attends the Risk Committee and full Board. Individual job descriptions for Underwriters, Marketing and IT team for example also reflect specific climate related responsibilities. In 2022 our Environment, Social and Governance ("ESG") Forum met eight times. The Forum supports the Society in delivering its Climate Change Strategy, meeting regulatory expectations and help us to be a good corporate citizen. The Forum has representatives from all key areas across the business,

to drive proactive coordinated engagement and deliver meaningful results.

Risk Management:

The financial implications for the Society are most likely to manifest primarily in the value of houses taken as security for mortgage loans. We have therefore embedded climate change risk management within the way we underwrite new mortgages, with a particular focus on valuation reports, EPC certificates and buildings insurance available on normal terms.

In terms of our back book, the scenario analysis described above is critical in identifying and assessing the level of risk we are exposed to and potentially identifying opportunities to support our borrowing Members. In terms of operational risk in 2022 we carried out a desk-based business continuity test including a climate change scenario, which provided assurance that we could continue to offer important business services within impact tolerances. We have integrated climate change risk management into the wider framework facilitating three lines of defence. We also engaged Internal Audit to assess our approach to climate change risk management and they were able to provide independent assurance.

The work of the ESG Forum continues to be critical in managing the risks and taking advantage of opportunities. We provided our first Climate Change training to all colleagues including the Board in 2022, to ensure understanding of roles within the business and how they can make a difference in terms of climate change. We utilized our staff survey to gauge engagement and request ideas from colleagues to maintain momentum. We are looking at a range of third-party relationships to provide access to more granular data, tools and model analytics to better enable us to meet the changing needs of our Members. We continue to look to develop products that also help to meet these needs.

Metrics & Targets:

There are a range of metrics that we currently use to assess climate change risks and opportunities, including:

- Additional capital required for physical and transitional climate risks.
- Colleagues completing training & Board meetings discussing climate.
- Improving EPC profile on front book and back book.
- Profile of securities insurable on normal terms.

Whilst we do not yet fully meet the TCFD requirements for metrics and targets, We have set out priority actions for 2023 within our Climate Change Strategy to continuously improve our approach:

- Simple TCFD aligned climate change disclosures.
- Deliver new training on climate change strategy and roles to all colleagues.

- Engage with third parties to implement an effective API to populate property, valuation and climate change data.
- Obtain a new cut of data for ICAAP from the best provider available.
- Revise Climate Change Strategy each year to remain fresh and aligned to overall Society Strategy.
- Engage with third parties for data to support our Members, mortgage business and reputation for climate innovation.
- Design new products for new mortgages, further advances, retention products and savings products.
- Explore how the launch of Direct Advice and proactive borrower contact could assist higher risk mortgage holders (e.g. low EPC score or exposure to climate perils) to meet home efficiency and improvement needs.
- Develop and regularly update website green hub.
- Utilise 2022 data on gas and electricity usage to create a baseline for scope 1 and 2 emissions for the Society from which we plan to set % reduction targets based on the potential of our infrastructure. Scope 3 emissions are more challenging as they will require proxies to estimate, and we will need the assistance of a third party in applying the appropriate methodology.
- Undertake projects to make initial assessment of Head Office carbon footprint and commence initiatives to reduce emissions and wastage.
- Investigate local ESG initiatives to make a difference in our community.
- Measure our carbon footprint and obtain Board decision regarding road map to carbon neutral.

Our colleagues across the Society feel passionately about climate change and we are keen to do our bit to reduce our impact on the environment. In terms of moving towards net zero, we will need to take time to work out transitional plans, specify targets and start monitoring performance to meet those targets.

Directors

The Board is comprised of six Non-Executive Directors and two Executive Directors, providing a balance of skills and experience appropriate for the requirements of the business. Brief biographies of the Board members are available on pages 15 to 17. The following persons served as directors of the Society during the year and to the date of this report:-

- Dick Jenkins - Chair
- Eric Leenders - Vice Chair
- Rebecca McBride
- Andy Lucas
- Chris Potter (Appointed w.e.f. 4 Jan 2022)
- Jo Carter (Appointed w.e.f. 4 Oct 2022)
- Christine Higgins (Resigned w.e.f. 20 April 2022)
- Nigel Montgomery (Resigned w.e.f. 30 April 2022)
- Gerard O’Keeffe (Resigned w.e.f. 21 Sep 2022)
- Dan Wass (Appointed w.e.f. 19 Sep 2022 and approved by the regulators w.e.f. 7 December 2022)
- Darrin Ramdeen

Dan Wass and Jo Carter, having been appointed to the Board during 2022 will, in accordance with the Society Rules and as recommended by the Board of Directors, offer themselves for election at the AGM in April 2023.

In accordance with the Society Rules, directors must periodically stand for re-election. Eric Leenders having being on the Board for nine years is offering himself for re-election at the 2023 AGM. The Board, considering his contributions as Vice Chair and for ensuring continuity in context of the recent changes on the Board is recommending an extension of Eric’s term on the Board. Also retiring by rotation this year, is Dick Jenkins who being eligible is offering himself re-election.

Other Matters

Going concern statement

As at the end of 2022 the Society met its liquidity requirements, held a liquidity buffer and the overall level of capital is considered adequate. Both the liquidity and capital positions have been stress tested against a significant worsening of economic conditions. The stress tests were performed as part of the internal assessment of adequacy of capital and liquidity. The key elements assessed by the Directors in the stress testing include material decline in house prices, rising arrears and default rates, availability and cost of funding sources and declining margins from interest rates at continuing low levels. These scenarios show the Society maintains a capital surplus above regulatory requirements over a five-year planning horizon and maintains sufficient liquidity to manage a stress scenario over a twelve-month period. Having considered the above, the Directors are satisfied that the Society has adequate resources to continue in business for the foreseeable future and that there are no material uncertainties that lead to doubt on the Society’s ability to continue in business. For this reason, the accounts continue to be prepared on the going concern basis.

Post-balance sheet events

The Directors do not consider that any event since the year end has had a material effect on the position of the Society.

Land and buildings

The Directors consider that the overall recoverable amount of the land and buildings held by the Society is in excess of the book value recognised within the Society’s Balance Sheet.

Supplier statement policy

The Society’s policy concerning the payment of its trade creditors for the next financial year is to pay in accordance with agreed terms where invoices are submitted for products or services which have conformed to requirements specified by the Society.

Charitable and Political Donations

Charitable donations during the year amounted to £7k (2021: £2k). The incentive of charitable contribution from member votes at the Annual General Meeting in April 2022, rounded off by the Society to £500 (2021: £500) was donated to the Chiltern Foodbank. No political donations have been made during 2022 (2021: Nil) which require disclosure under the Act.

Regulation

The Society is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

Auditors

At the Annual General Meeting held on 20 April 2022, Mazars LLP was re-appointed as External Auditor to the Society. Mazars LLP has expressed its willingness to continue in office in accordance with Section 77 of the Building Societies Act 1986. A resolution for re-appointment of Mazars LLP as Auditor is proposed at the AGM on 19 April 2023. Each of the persons who is a Director at the date of approval of this report confirms that:

- So far as the Director is aware, there is no relevant audit information of which the Society's Auditor is unaware;

- And the Director has taken all the steps that should be taken by a director in order to be aware of any relevant audit information and to establish that the Society's Auditor is aware of that information.

On behalf of the Board

Dick Jenkins
Chair

1 March 2023

Directors and Officers

Non-Executive Directors as at 31 December 2022



Board Chair – Richard David Jenkins

Dick Jenkins was appointed as the Chair of the Board of the Buckinghamshire Building Society in October 2019, having joined the Board as a non-executive director in April 2018. He also sits on the Society's Assets and Liability Committee, and its Nomination and Remuneration Committees.

Following an early career in market research Dick has spent much of his career in the Building Society sector with the Bristol and West Building Society and from 2003 to 2018 as Chief Executive of the Bath Building Society, a society of a similar size and profile to the Buckinghamshire Building Society. Dick also held the position of the Chair of the Building Societies Association from 2015 to 2017.

Dick studied geography at Cambridge University and is an enthusiastic gardener, golfer and musician.



Vice Chair and Risk Committee Chair – Eric John Leenders

Eric Leenders was appointed on the Board as a non-executive director in April 2014 and Chair of the Risk Committee in May 2017. He is currently Vice Chair, Senior Independent Director, and Chair of the Risk Committee. He also sits on the Audit Committee and Nomination Committee of the Board.

Eric is a career banker with over thirty years' experience in retail banking, and is currently the Managing Director, Personal Finance and Prudential, Reporting and Taxation at UK Finance. He is also a non-executive director and Chair of the HR and Remuneration Committee at Registry Trust Limited, having stepped down as a director of BBA (Enterprises) Limited and the Lending Standards Board in 2017.

He is professionally qualified as a chartered banker, holding an MSc in Banking Practice and Management and is a fellow of the London Institute of Banking and Finance and the Chartered Banker Institute. He is also a member of the Institute of Credit Management and the Worshipful Company of International Bankers and holds a post-graduate diploma in public relations.



Non-Executive Director – Joanne Frances Carter

Jo Carter joined the Board as a Non-Executive Director in October 2022 and is a member of the Audit, Remuneration and Nomination Committees of the Board.

Jo's career spans FTSE100 companies, private and public sectors, charity, mutual and not-for-profit organisations in multinational, complex and unionised environments. With a background in Human Resources, she has a strong track record in leading and delivering transformational change and organisational development in both established businesses and start-ups. Having begun her career in a number of roles in investment banking, the latter part of Jo's career has focussed on strategic and operating model development, process re-engineering, organisation change and development, succession planning, talent management and leadership development. An accredited coach and mentor, Jo enjoys working with senior leaders and Boards to enable them to overcome challenges and flourish.

Amongst the activities she undertakes in her spare time, Jo is a member of a choir, the West Kent Lord's Taverners and also plays in a samba drum band.



Non-Executive Director - Andrew Spencer Lucas

Andy Lucas joined the Board as a non-executive director in May 2021 and is a member of the Risk, Assets and Liabilities, Remuneration and Nomination Committees.

He started his career in marketing and sales and much of his experience has been centred on financial services, particularly savings & investments, mortgages and insurance. He has managed eCommerce developments for over 20 years and led product, customer service, change management and technology operations. After senior roles at Prudential and ACE Insurance Group, he was Director and Chief Operating Officer at The Cambridge Building Society, where he worked for over 9 years.

Andy is a non-executive director of Cirencester Friendly Society, a Trustee of YMCA Trinity Group and Vice-Chair of The Christian Conference Trust, as well as a member of The Chartered Institute of Marketing. Away from work he likes to travel, being a keen walker and photographer, or relax in the kitchen tackling a new recipe!



Non-Executive Director – Rebecca McBride

Rebecca McBride joined the Board as a non-executive director on 1 May 2020 and is a member of the Risk, Assets and Liabilities and Nomination Committee. Rebecca has also chaired the Remuneration Committee of the Board over the last year.

Rebecca has nearly 30 years of experience in financial services from both a regulatory and business perspective. She is currently Head of Group Regulatory Policy at Lloyds Banking Group where she is responsible for developing and coordinating regulatory policy strategy and advocacy. Prior to joining Lloyds in 2018, Rebecca spent 17 years as a regulator at the Financial Services Authority, Prudential Regulation Authority and most recently the Bank of England. Over her career in regulation, she supervised a range of institutions including UK Banks, Building Societies, Life Assurers, Asset Managers and Central Counterparties.

Rebecca is married with two daughters and lives in Wimbledon.



Non-Executive Director – Christopher William Potter

Chris Potter joined the Board as a non-executive director in January 2022 and was appointed as the Chair of the Audit Committee in July 2022. He is also a member of the Risk Committee and Nomination Committee of the Board.

Chris spent 35 years working for PwC, since 1999 as a partner in the UK audit practice, where his clients included major financial services providers. He specialises in managing technology risk and cyber security, audit of internal control, and digital transformation.

Chris is a qualified accountant, CISA and member of the Chartered Institute of Information Security Professionals. Since 2019 he has been a trustee and the Chair of the Audit & Risk Committee for the Royal Institution of Great Britain. He is a visiting senior lecturer on the information security management MSc course at Royal Holloway, University of London. He is also strategic advisor for Inflo, an audit technology provider. Chris is interested in history and learning from the past, and also in how science and technology can help us meet the challenges in the future.

Executive Directors as at 31 December 2022



Chief Executive Officer – Daniel Mark Wass

Dan Wass joined the Society in September 2022 as Chief Executive Officer. He is the Chair of the Assets & Liabilities Committee and is a member of the Nomination Committee, as well as being a regular attendee at the Audit, Risk and Remuneration Committees.

Dan has over 20 years' experience in Financial Services, most recently as Director of Member Propositions, Banking, Insurance and Investments at Nationwide - leading through a period of record membership growth. Prior to that, he spent over 15 years at Barclays undertaking a variety of senior roles in the UK Bank. He started his career in Financial Services at the Woolwich.

A graduate in Geography from the University of Leeds, Dan enjoys the outdoors - particularly running and cycling, and live music. He is married with two sons.



Finance Director – Darrin Narendra Ramdeen

Darrin Ramdeen joined the Society as Finance Director in July 2019. Darrin is a member of the Assets and Liabilities, Nomination and Risk Committees, and is also a regular attendee at the Audit and Remuneration Committees.

Darrin is a Chartered Accountant with almost 20 years of experience in the financial services sector, having held senior positions in banking, insurance and reinsurance, both in the UK and overseas. Over the past 13 years Darrin's main focus has been on corporate strategy and performance improvement, transformational change and mergers and acquisitions. He has extensive experience in enterprise software for banks and financial services, having led a number of major system implementation projects over the years.

Darrin was appointed to the Board of the Building Societies Trust Limited in December 2020 and has taken up the position of the Treasurer to the Royal British Legion (Muswell Hill) in January 2023.

Corporate Governance Report

The UK Corporate Governance Code (the “Code”), published by the Financial Reporting Council in July 2018 broadens the definition of governance and emphasises the importance of a clear purpose and strategy aligned with healthy culture.

Whilst the Society is not required to comply with the Code, as it is not a listed company, the Prudential Regulation Authority (PRA) requires the Society to have regard to the Code in establishing and reviewing corporate governance arrangements.

Board Leadership & Company Purpose

Code Principle A:

A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.

Board Comment:

The Board strongly believes in the long-term strategy of the Society to deliver on its fundamental purpose of helping our members achieve financial security, provide a safe home for savings and enable homeownership.

The Board provided strategic guidance and support to the Society, helping it to deliver a strong performance in 2022 and at the same time remain invested in the future of the business. Navigating through the challenges of a highly volatile economic environment in 2022, the Board provided objective leadership and support to the management. The investments made in 2022 has increased the capability and capacity of the Society, which along with the optimal usage of the capital strength and continued engagement with our members and local community, will help the Society move towards a sustainable future.

The Board met nine times in 2022 and set aside a separate day in November 2022 to focus exclusively on reviewing and sharpening the Society’s strategy for a resilient and sustainable future. The Schedule of matters reserved for the Board includes approval of the Society’s Strategic Plan, Risk Appetite and Annual Report and Accounts. The Board is well supported by the following Committees to consider specific areas in more detail:

Audit Committee

The Committee is responsible for assessing the effectiveness of systems and controls; assessing the accuracy and completeness of financial information; reviewing accounting policies; and ensuring the existence of effective whistleblowing arrangements. It reviews the fairness of disclosures and recommends the approval of the Annual Report and Accounts to the Board. It negotiates and agrees audit fees and monitors the scope of work undertaken by both the internal auditors and external auditors as well as their performance, independence and effectiveness. The Committee is responsible for recommending the appointment, re-appointment or removal of external auditors and internal auditors. It also oversees and assesses the adequacy of the compliance assurance

function. The Audit Committee is comprised of three Non-Executive Directors and is chaired by Chris Potter, who has strong financial and audit experience. The Committee, as a whole has relevant experience of the industry. The Chief Executive Officer, the Finance Director, the Chief Risk Officer, and representatives from the internal and external audit functions attend the Committee meetings by invitation.

The Audit Committee’s report can be found on pages 30 to 31.

Risk Committee

The Committee is responsible for agreeing the approach to risk management and ensuring the risk management framework is sufficiently robust, forward looking and integrated across the Society. It reviews and recommends the approval of the Risk Appetite Statement and Management Framework, Internal Capital Adequacy Assessment Process (ICAAP), Operational Resilience Self-Assessment and Climate Change Strategy along with various other policies to the Board. Eric Leenders, the Chair of the Risk Committee is also the Consumer Duty champion and provides guidance and oversight around the implementation of the Consumer Duty regulation across the organisation. On an ongoing basis, the Committee reviews the emerging risks including but not limited to market risk, credit risk, operational and cyber risks as well as climate change risks. The Risk Committee is comprised of four Non-Executive Directors and the meetings of the Committee are attended by the Chief Executive Officer, Finance Director, Chief Risk Officer, Head of Operations, Head of Mortgages Sales and the Deputy Chief Risk Officer.

Assets & Liabilities Committee

The Committee is responsible for monitoring the balance between the Society’s assets and liabilities, controlling financial risk and reviewing control procedures including limits, reporting lines and mandates. The Committee focusses on balance sheet management and treasury activities, including funding, liquidity, interest rate risk basis risk and refinancing risk. The Committee is responsible for reviewing and recommending the approval of the Recovery Plan, Internal Liquidity Adequacy Assessment Process (ILAAP) and Treasury Strategy. The Assets & Liabilities Committee, chaired by the Chief Executive Officer has three Non-Executive Directors, the Finance Director and the Chief Risk Officer as its members. The Committee is supported by the Management ALCO (“MALCO”), comprised of members of the management. The MALCO has been meeting at least fortnightly to review treasury and balance sheet management as well as navigate and respond in a timely and prudent manner, to the various base rate changes announced during 2022.

Nomination Committee

The Committee is responsible for succession planning for both Executive and Non-Executive Director positions on the Board. It also keeps under review the structure, size and composition of the Board and its Committees and oversees the wider organisation structure and succession planning for

the management roles within the Society. The Committee has consideration for the balance and diversity of skills, background, knowledge and experience along with gender, ethnicity and background of the Board as well as the rest of the Society. The Committee also oversees the process for the appraisal of the Non-Executive Directors, reviews the skills matrix of the Board as well as the Management Responsibility Map in compliance with the Senior Managers and Certificate Regime and recommends the Corporate Governance Report to the Board for approval.

The Committee led the process for the recruitment of Board appointments in 2022, both for the Executive and Non-Executive positions, making sure that the final selections were based on merit and assessed against objective criteria. The Nomination Committee comprises of all members of the Board.

Remuneration Committee

The Committee is responsible for reviewing the Remuneration Policy as well as the reward and remuneration arrangements for the Board and our colleagues, including their fixed and variable pay, where applicable. Under advice, it determines the terms and conditions of employment of the Executive Directors and recommends Non-Executive Directors' remuneration to the Board, based on benchmarking and assessment of a number of internal and external factors. Considering the highly dynamic macro-economic environment and the inflationary pressures on the cost of living this year, the Remuneration Committee had to take a balanced view, in making sure that the remuneration being offered to our colleagues including Executive Board members is fair and equitable and recognises the challenges of the macroeconomic environment as well as the current employment market. The Remuneration Committee is chaired by Rebecca McBride and is comprised of four Non-Executive Directors. Meetings of the Committee are also attended by the Chief Executive Officer, the Finance Director and the HR Manager. Principles P, Q and R of the Corporate Governance Code in the Directors' Remuneration Report on pages 25 to 28 elaborate on the work of this Committee.

Terms of Reference

The Board and its Committees have their terms of reference closely aligned with the strategic outcomes for the Society. They are available from the Society Secretary on request.

Division of Responsibilities

Code Principle B:

The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.

Board Comment:

The Board has endorsed the Society's purpose and helped in defining the vision and refreshing the strategy for the successful delivery of the 2023 priorities. More detail is set out in the Directors' Report beginning on page 7.

The fundamental purpose of the Society is to help people achieve financial security, provide a safe home for savings and enable homeownership. As a mutual Society, our

objectives are to fulfil our purpose, sustainably into the future. The Board believes that our Vision is rooted in our purpose and underlines our ambitions to remain relevant and endure, by enabling our members to achieve financial security and homeownership, particularly where their circumstances require a bespoke lending approach. This ties in with our culture of being accessible and providing good outcomes for our members by crafting mutual solutions that enable them to achieve their savings and homeownership goals. This culture, led by effective leadership and engagement with our members and our local community is the core of our sustainability. The culture of the Society also has a direct impact on our ability to attract, retain and engage with our colleagues whose values resonate with our purpose. The Directors act with integrity and uphold the cultural ethos and desired behaviours identified by our colleagues.

Code Principle C:

The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.

Board Comment:

The Society has invested in its systems, processes, and colleagues over the last couple of years to facilitate the achievement of its strategic priorities. The management information is being continuously refined for better alignment with the strategic pillars by developing a Society dashboard and a comprehensive Management Information framework. This will provide the Board with performance data on each area of the business, along with trends and comparisons. The management information will be supplemented by benchmarking analysis and market data, where available to provide a better understanding and context for the Society's performance. As part of the risk management framework, the Board and Committees sit above the three lines of defence and provide oversight. The Board is the governing body, accountable for the strategic plan and how it links with our Risk Appetite. The Board has reviewed and approved the ICAAP, ILAAP, Recovery Plan, Liquidity Contingency Plan, Financial Risk Management Policy, Risk Management Framework & Appetite Statement and the Operational Resilience Self-Assessment in 2022. These documents take into account the external environment, the challenges faced by the industry and a wide range of credit and operational stress and scenario analyses. Further information on the Society's risk management framework is set out under Code Principal O below.

Code Principle D:

In order for the company to meet its responsibilities to members and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.

Board Comment:

As a mutual organisation the Society's membership consists entirely of individuals who are also the Society's customers, and the Board recognises the importance of effective engagement with them. The Society communicates with its

members in person at the branch, through periodic newsletters as well as on social media platforms and through our website, all of which encourage engagement and feedback. Our Annual General Meeting (“AGM”) is a great opportunity for our members to engage with us. Members are invited to attend the AGM, where they can ask questions and voice their opinions. All members of the Board are present at the AGM each year and the Chairs of the Board and of its committees are available to answer questions. The Business Review Document sent to our members along with the AGM pack includes the Summary Financial Statement and Summary Directors’ Report among other communications giving them a record of the Society’s performance as well as engagement within the community. The AGM pack is accompanied by a member feedback form, to encourage our members to express their opinion and suggest areas of improvement for the Society. Our members also get a chance to engage with us and vote for their chosen charity to which the Society then makes a financial contribution. Being a mutual and having a considerable presence in the community, the Society continues to support local businesses and charities in line with our strategic priority.

Code Principle E:

The board should ensure that workforce policies and practices are consistent with the company’s values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.

Board Comment:

Identified as a key strategic pillar, engaged colleagues and a transparent and positive culture are important priorities for the Board. All workforce policies and practices are aligned to the long-term strategic deliverables and reviewed on a periodic basis to ensure they remain relevant and in compliance with regulatory changes. Eric Leenders as the Vice Chair and Senior Independent Director is the Whistleblowing champion and designated non-executive director for workforce engagement. The Society’s policies encourage all staff to escalate or bring to his attention or any of the other Board members, any matters of concern. Workforce engagement is facilitated utilising a variety of forums, including annual surveys, colleague meetings, coffee mornings, workshops, newsletters and engagement groups. The Board meets a cross section of colleagues over lunch once every quarter and this exercise has facilitated a culture of openness and transparency. Post-pandemic, the Society has introduced more flexibility and choice for our colleagues in terms of place and pattern of work. The Board is keen to encourage an inclusive culture across the organisation where everyone feels comfortable in speaking up and contributing, in challenging and being challenged in a positive manner.

Code Principle F:

The chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all non-

executive directors, and ensures that directors receive accurate, timely and clear information.

Board Comment:

The Chair sets the direction of the Board and promotes a culture of openness and debate by facilitating the contribution of Non-Executive Directors and maintaining constructive relations between Executive and Non-Executive Directors. The Chair leads the effectiveness reviews of the Board and Committees, considering the areas of improvement and identifying the actions for enhancement of the governance framework.

The Board, in 2022 decided to engage an external facilitator for undertaking an independent Board Effectiveness Review, covering a number of aspects, including but not limited to purpose, culture, governance, collective decision making, cohesion and integration and lessons learnt from the pandemic. The reviews concluded that the Board has a constructive atmosphere with a good balance of collaboration and challenge in meetings, with a supportive and inclusive dynamic. The Chair is instrumental in encouraging the Board members to share their thoughts on promoting a culture of constructive challenge and support for the management. The Chair ensures sufficient time is spent on setting and reviewing the key strategic matters by guiding the management to provide accurate, timely and clear management information to allow constructive discussions and efficient decision making.

Code Principle G:

The board should include an appropriate combination of executive and non-executive (and, in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the board’s decision making. There should be a clear division of responsibilities between the leadership of the board and the executive leadership of the company’s business.

Board Comment:

The Chair sets the direction of the Board and promotes a culture of openness and debate by facilitating the contribution of Non-Executive Directors and maintaining constructive relations between Executive and Non-Executive Directors. The Chair leads the effectiveness reviews of the Board and Committees, considering the areas of improvement and identifying the actions for enhancement of the governance framework.

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management information to allow constructive discussions and efficient decision making.

Code Principle H:

Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.

Board Comment:

The Nomination Committee evaluates the ability of Directors to commit the time required for their role, prior to appointment. The Non-Executive Directors are informed of the time commitment in their letter of appointment, and this is reviewed on an annual basis as part of formal appraisal process carried out by the Chair each year. The Non-Executive Directors with their experience and knowledge of evolving environment and the industry have helped by offering advice and strategic guidance on a range of matters as well as offering constructive challenge and support to the management. The management benefits from depth of knowledge and experience among the Board members in member engagement, industry knowledge, operational changes, treasury management, regulatory changes, and cyber and information technology.

The Directors who held office during 2022 and their attendance record at Board and Board committee meetings is set out in a table at the end of this report. The Directors agree to additional external appointments only with prior approval of the Board. The Executive Directors do not hold any executive positions in other organisations. Where directors have other significant commitments, these are set out in the information relating to directors on pages 15 to 17.

Code Principle I:

The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.

Board Comment:

The Board is supported by a strong governance framework headed by the Society Secretary. The Secretary ensures that Non-Executive Directors have access to clear, concise and timely information. The Society Secretary provides support on corporate governance matters and the Board has access to independent advice, if required. The Board receives accurate and sufficient information in a timely manner in order for it to function effectively and contribute towards robust discussions and informed decision-making. The Board follows an annual agenda for policy and document reviews to ensure all policies and processes are kept up to date and reviewed at a regular interval within the governance framework of the Society. The Society continuously strives to improve management information and in 2023, will be looking at strengthening and aligning the management information to the strategic pillars, their outcomes and tracking the progress of the priorities.

Composition, Succession and Evaluation

Code Principle J:

Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective

succession plan should be maintained for board and senior management. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.

Board Comment:

The Board remains committed to progressive refreshing of its membership. The Society's Rules require that all Directors be submitted for election at the Annual General Meeting following their initial appointment to the Board. Directors are elected for an initial three-year term subject to satisfactory performance. At the end of the initial three-year term, and in accordance with the Society's Rules, all Directors are required to retire from office and, if supported by the Board, to stand for re-election. The Board does not believe it is appropriate for a building society of our size to subject all Directors to annual re-election (unless they are Non-Executive Directors that have served three terms), in the interest of stability and continuity of the Board. The Nomination Committee considers whether Non-Executive Directors should be submitted for re-election based on independence, capability, knowledge, judgement and their ability to commit sufficient time to the role.

The Nomination Committee leads the appointment process for the Board and senior management and recommends a candidate for consideration by the Board. All appointments are subject to a rigorous selection process, where outside recruitment partners are used when appropriate, to ensure that clear criteria are identified and assessed. The process also ensures that all Directors are aligned against the fitness and propriety standards of the Prudential Regulation Authority ("PRA") and Financial Conduct Authority ("FCA") and that they have the capabilities and experience to discharge their responsibilities under the Senior Managers & Certification Regime. Diversity and inclusion are core considerations in both the appointment and development of the Board. As part of our recruitment process, diverse shortlists are pursued to ensure we are able to bring as wide a range of diverse views as possible to our Board discussions. At the recommendation of the Nomination Committee, the Board decides whether to appoint the recommended candidate, subject to the approval by the PRA and FCA, where required.

The selection and shortlisting process followed for the appointment of our new CEO as well our new NEDs this year have followed a fair and transparent process based on merit and suitability and with due regard for diversity of gender, backgrounds and thoughts to build a strong, resilient and high performing culture within the organisation. A period of handover with the help of handover notes and carefully considered induction and onboarding plans were followed to ensure a smooth transition. The Nomination Committee at least on annual basis considers the alignment of the organisation structure with the strategic objectives and succession planning for the Board and senior management and across the teams.

Code Principle K:

The board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed.

Board Comment:

The Board is comprised of six Non-Executive Directors and two Executive Directors at present which provides a balance of skills and experience appropriate for the requirements of the business. Information relating to directors is set out on pages 15 to 17. The membership of the Board Committees is reviewed on an annual basis following a review of the terms of reference of individual committees as well as the Board skills matrix to ensure there is a right balance of skills and experience on each of the Committees to discharge their duties in accordance with their terms of reference.

The membership of the Board is refreshed on a regular basis and the Nomination Committee is actively engaged in the process of selection and recruitment of suitable candidate to fill in any casual vacancy that occurs from time to time. It regularly reviews the skills matrix of the Board as a group and assesses if there are any gaps which can be addressed through new appointments or trainings. Chris Potter was appointed in January 2022 to take on the role of the Chair of the Audit Committee from Christine Higgins when she stepped down in April 2022. The Nomination Committee also appointed Jo Carter as a Non-Executive Director to fill in a vacancy caused by the resignation of Nigel Montgomery during the year. For both the appointments the selection process was thorough and inclusive and started with a diverse shortlist from which the final candidates were selected based on the merit of their skills and experience, their suitability for the roles and Board cohesiveness. The Nomination Committee also adopted an extensive process with the help of an external search agency, for the search and appointment of our new CEO. Dan Wass, the successful candidate was appointed from a shortlist of capable, experienced and diverse pool of candidates. Considering the number of changes on the Board this year, the Board agreed that the tenure of Eric Leenders as Vice Chair be extended.

The Nomination Committee considers whether Non-Executive Directors should be submitted for re-election based on independence, capability, knowledge, judgement and their ability to commit sufficient time to the role. The Board sets out in the Annual Report and Business Review accompanying the resolutions to elect each director the specific reasons why their contribution is, and continues to be, important to the company's long-term sustainable success. Following the Rules of the Society and the recommendations of the Nomination Committee, Dan Wass and Jo Carter will be standing for election at the 2023 AGM. Eric Leenders and Dick Jenkins will be retiring at this year's AGM as well and offer themselves for re-election.

Code Principle L:

Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.

Board Comment:

The Nomination Committee of the Board continues to assess the composition, diversity and effectiveness of the Board and its Committees in delivering the overall strategy on an ongoing basis. The Board in 2022, decided to engage an external firm for undertaking an independent Board Effectiveness Review, covering a number of aspects, including but not limited to purpose, culture, governance, collective decision making, cohesion and integration and lessons learnt from the pandemic. The reviews concluded that the Board benefits from a strong mix of skills, experience and background and works effectively. It also reported that the Board has a constructive atmosphere with a good balance of collaboration and challenge in meetings, with a supportive and inclusive dynamic. The visibility of the Board helps it to play a role in setting the right tone from the top, but there is a strong sense that the culture at the Society should be, and is, driven from the bottom up.

At least annually, the Remuneration Committee appraises the performance of the Executive Directors. The performance of Non-Executive Directors is evaluated by the Chair after taking into account the views of all other Directors. The Chair's performance is evaluated by the Non-Executive Directors facilitated by a process undertaken by the Vice-Chair.

Audit, Risk and Internal Control**Code Principle M:**

The board should establish a formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.

Board Comment:

The Audit Committee is comprised of three Non-Executive Directors and has a balance of specialist expertise including current and relevant financial, regulatory, IT and change management experience. The Society's external and internal auditors and the Executive Directors attend the meetings by invitation. The Audit Committee meets at least four times a year. At least annually, the Audit Committee meets with the external and internal auditors without the Executive Directors being present. The Committee also undertakes a review of the effectiveness of the external and internal audit functions after the end of the annual audit cycle, feedback from which is shared with the auditors.

The Society does not obtain non-audit services from its External Auditors, unless expressly approved and required by the regulators in order to ensure their objectivity and independence. The Society's policy is to tender for audit services at least every 10 years in accordance with legislation. Having submitted a statement of independence, Mazars LLP is being proposed to be appointed as the Society's External Auditor at the 2023 AGM. RSM Risk Assurance Services LLP ("RSM") continues to be the Internal Auditor of the Society. Details of the proceedings at the Audit Committee meetings in 2022 are provided in the Audit Committee Report on pages 30 to 31.

Code Principle N:

The board should present a fair, balanced and understandable assessment of the company's position and prospects.

Board Comment:

The Board confirms that the Annual Report and Accounts, taken as a whole, is fair and balanced and provides the necessary information for members to understand the business model of the Society and its overall strategy as well as assess the Society's performance during the year. The Board reports on the Purpose, Vision and Strategy of the Society along with the performance of the Society during the year and future outlook in the Directors Report on pages 7 to 14. The responsibilities of the Directors in relation to the preparation of the Society's accounts and the statement that the Society's business is a going concern are contained in the Directors' Responsibilities Statement on page 29.

The Audit Committee has advised the Board that, in its opinion the Annual Report and Accounts for the year ended 31 December 2022, duly audited by Mazars, our external auditors are true and fair and presents a balanced and understandable opinion.

Code Principle O:

The board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.

Board Comment:

The principal risks, identified by the Board, are reported as part of the Directors Report on pages 7 to 14, together with

explanations describing how they are mitigated. The Board remains collectively responsible for determining the risk appetite and the approach to risk management, setting out the key risk indicators and metrics, aligned with the overall strategic objectives. Senior management design, operate and monitor the risk management framework and controls, which are reported to and overseen by the Risk Committee and Board. In 2022, the Board has reviewed the effectiveness of risk management systems and controls and concluded that the Society has a strong and transparent compliance culture and that systems are effective and appropriate to the scale and complexity of the Society's business. RSM, our internal auditors provide independent and objective assurance on the appropriateness of our systems and effectiveness of our controls. The assurance reviews when considered by the Audit Committee and the Risk Committee provided reasonable assurance that during 2022 that there were no material breaches and that over all the Society maintained adequate systems of internal control.

Remuneration

The Directors' Remuneration Report on pages 25 to 28 explains how the Society complies with the **Corporate Governance Code Principles P, Q and R**, relating to remuneration.

Dick Jenkins
Chair

1 March 2023

2022 Board and Committee Membership and Attendance

The figure in brackets is the number of meetings that the Director was eligible to attend as a Member or a Regular Attendee.

Total number of meetings held in year	Board (9)	ALCO (4)	Audit Committee (5)	Risk Committee (4)	Nomination Committee (5)	Remuneration Committee (3)
Non-Executive Directors						
Dick Jenkins Chair	9 (9) Chair	4 (4)	-	-	5 (5) Chair	3 (3)
Eric Leenders Vice-Chair	9 (9)	-	4 (5)	4 (4) Chair	5 (5)	-
Christine Higgins <i>Ceased to be a Director in April 2022</i>	3 (3)	-	2 (2) Chair	1 (1)	1 (1)	-
Andy Lucas	9 (9)	4 (4)	-	4 (4)	5 (5)	2 (2)
Rebecca McBride	9 (9)	4 (4)	1 (1)	4 (4)	5 (5)	3 (3) Chair
Nigel Montgomery <i>Ceased to be a Director in April 2022</i>	3 (3)	-	2 (2)	-	0 (1)	1 (1) Chair
Chris Potter <i>Appointed in January 2022</i>	9 (9)	-	5 (5) (Chair)	4 (4)	5 (5)	-
Jo Carter <i>Appointed in October 2022</i>	2 (2)	-	1 (1)	-	0 (0)	1 (1)
Executive Directors						
Dan Wass Chief Executive Officer	2 (3)	1 (1) Chair	2 (2)	2 (2)	0 (1)	1 (1)
Gerard O'Keeffe Chief Executive Officer <i>Ceased to be a Director in April 2022</i>	6 (7)	2 (3) Chair	2 (3)	3 (3)	3 (4)	2 (3)
Darrin Ramdeen Finance Director	9 (9)	4 (4)	5 (5)	4 (4)	4 (5)	3 (3)

Directors' Remuneration Report

This Directors' Remuneration Report sets out how the Society applies the principles of the UK Corporate Governance Code 2018 relating to remuneration. It also sets out how the Society's Remuneration Policy complies with relevant regulations of the Remuneration Part of the PRA Rulebook and the FCA's Remuneration Code (SYSC 19D), where applicable to the Society.

As at 31 December 2022, the CEO, the Finance Director, nine other members of senior management, as well as the six Non-Executive Directors, were classified as Material Risk Takers (MRTs) and subject to the FCA Remuneration Code.

The Level and Components of Remuneration

Code Principle P:

Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values and be clearly linked to the successful delivery of the company's long-term strategy.

Board Comment:

The Remuneration Policies of the Society are designed to support our strategic priorities, recognise the achievements of the Society and our colleagues and at the same time have cognisance to the macroeconomic environment. The core principle behind the Society's Remuneration Policy is to ensure that all Directors and colleagues are rewarded fairly, equitably, without any discrimination and with due regard to industry benchmarking and statutory considerations. The Society aims to provide individuals with a level of remuneration that:

- Supports the overall business strategy and motivates colleagues to provide good outcomes for our members;
- Recognises individual capabilities and experience and the local market-value of each position in a competitive market to ensure the Society can attract and retain employees at all levels within the organisation;
- Rewards the performance of individuals and their commitment to the Society's purpose and values.

Whilst not currently a legislative requirement for the Society, information on gender pay is reported to the Remuneration Committee on an annual basis.

Basic salaries

The Executive Directors' remuneration is aligned to the Society's purpose and values and linked to the successful delivery of the long term strategy. Base salaries for Executive Directors and all our colleagues are determined with reference to the individual's capabilities and experience in the context of their specific roles and responsibilities aligned to our overall strategic outcomes. Annual percentage salary increases for Executive Directors remain aligned with the average increases for all other colleagues unless it is considered necessary to address specific market conditions or changes in roles and responsibilities.

The challenges of a severely competitive employment market along with unprecedented high rates of inflation and the cost of living crisis in 2022 made it necessary for the Society to offer a level of remuneration to our Executive Directors and colleagues to attract and retain talent. The salaries of the Executive Directors increased in 2022 in line with pay increases across the rest of the organisation to address cost of living rises as well as benchmarking analysis of comparable organisations. The aim was to ensure that the salaries remain fair, competitive, and appropriate for roles and responsibilities. The remuneration of the individual Directors is detailed on page 28.

Bonus

Payment of Bonus by the Society is discretionary and non-contractual. The Discretionary Bonus Policy around the Executive Directors' discretionary bonus is the same as all colleagues and is aimed at recognising and rewarding positive behaviours and achievement in supporting the overall strategy. Three key business performance measures must be achieved by the Society before a bonus payment can be considered. The Remuneration Committee, comprised entirely of independent Non-Executive Directors then follows a rigorous process of assessing the Society's performance during the year in a further four performance areas: Business Performance, Customer Experience, People and Systems and Controls. The output from the Society's assessment is then applied to the individual achievements, based on their behaviours and performance to agree on the final bonus percentage, up to a maximum of 15% of their base pay. The Executive Directors' contracts and the Remuneration Policy allow the Society to apply any relevant and necessary regulation regarding deferral, malus adjustment and clawback.

The Society paid bonuses in 2022 to the Executive Directors and all eligible colleagues in recognition of the Society's performance in 2021. Information on the Bonuses paid to the Executive Directors in 2022 and 2021 are available on page 28.

Benefits

The Society offers a range of non-financial and financial benefits, which are subject to external benchmarking. The financial benefits include Life Assurance, Health Cash plan including health checks and for Executive Directors, Private Health Insurance. The Society also offers a pension scheme which allows for a maximum Society contribution of 10% of base salary annually. Executive Directors have access to the same pension scheme as colleagues. The Society's minimum pension contributions in line with auto-enrolment and the minimum overall contribution rate is 9%. All colleagues, including Executive Directors have the

option of participating in a Salary Sacrifice scheme which enables them and the Society to make savings on National Insurance Contributions. Currently 58% of employees participate in the scheme.

Executive Directors contractual terms

The Executive Directors have employment contracts with the Society which provide for termination by either party by giving six months' notice.

Non-Executive Directors

Non-Executive Directors have letters of appointment (rather than employment contracts) and fees are reviewed annually with reference to peer group data and relevant benchmarking data. Chairs of Committees receive a higher fee due to the increased time commitment required. Fees for Non-Executive Directors are not pensionable and Non-Executive Directors do not participate in any discretionary bonus scheme or receive any other benefits.

Other material risk takers

The Remuneration Committee considers the overall recommendations of the Executive Directors for the remuneration, discretionary payments and benefits for the senior management who are the MRTs as well as other staff. Their employment contracts provide for terms and conditions around termination and would require either party giving an appropriate length of notice, based on their seniority within the Society.

The Procedure for Determining Remuneration

Code Principle Q:

A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established. No director should be involved in deciding their own remuneration outcome.

Board Comment:

The Remuneration Committee consists of four independent Non-Executive Directors. The Chief Executive Officer and the Finance Director attend by invitation but are not present or involved in the discussion of their own remuneration. The Committee reviews the Society's Remuneration Policy, Discretionary Bonus Policy and the Balanced Scorecard framework annually to ensure they remain fit for purpose and aligned with our strategic objectives. The core principles of the Remuneration Policy remain the same for the Executive Directors and the rest of the colleagues. The Committee reviews the remuneration of the Executive Directors in context of the responsibilities for their specific roles and benchmarking data. The Committee also has oversight over the remuneration of the senior management and all other staff. The Committee ensures that variable remuneration for the Executive Directors is determined using the same framework as the rest of the colleagues and does not undermine the independence of the Risk and Compliance function. Minutes of the Remuneration Committee meetings are distributed to all Board members, and the Chair of the Remuneration Committee provides a verbal report at the Board meeting following a Committee meeting.

Non-Executive Directors

The fees payable to Non-Executive Directors are proposed by the Chief Executive Officer, taking into consideration the benchmarking data from comparable organisations. Consideration is also given to specific responsibilities and time commitment required to perform their roles on the Board and various Committees. The proposed fees are then approved or otherwise, by the Remuneration Committee with the Chair's fees being considered by the Committee in the absence of the Chair.

Executive Directors and Senior Management

The Remuneration Committee reviews the remuneration for Executive Directors and colleagues annually, using data from comparable organisations and relevant benchmarking analysis on a fair and equitable basis and without any discrimination.

Whilst a binding vote from the members on the Directors' Remuneration Report is not considered appropriate for a building society of our size, if 20% of the votes are cast against the report, the Remuneration Committee will take steps to address the concerns of the membership and an update published no later than six months after the members' meeting.

Exercising Independent Judgement and Discretion

Code Principle R:

Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.

Board Comment:

The Remuneration Committee, comprised entirely of Non-Executive Directors exercises their independent judgement and discretion while considering remuneration outcomes for the Society's employees. The Remuneration Committee reviews the Remuneration Policy, the Discretionary Bonus Policy and the associated Balanced Score Card at least annually to ensure that it is consistent with the Society's Strategy and Risk Appetite Statement and is in cognisance with the macroeconomic environment. In particular, the Committee ensures that the policy promotes effective risk management, prevents conflicts of interest and supports a culture aligned with the Society's purpose and values.

A Balanced Scorecard is designed with a broad range of financial and strategic measures every year to evaluate the Society's performance in determining the variable remuneration for all. Care is taken to ensure that there is no conflict of interest and excessive risk taking to meet the objectives set by the Scorecard. The decision to pay a bonus is discretionary and there is no obligation for the Society to pay any bonus, even if the measures are met. The Remuneration Policy does allow the Society to apply any relevant and necessary regulation regarding deferral, malus adjustment and clawback for its Executive Directors.

Non-Executive Directors

In a competitive market, the recruitment and retention of Non-Executive Directors who have the suitable skills and expertise and share the Society's ethos is key to the strategic success of the overall Society. The remuneration for the Non-Executive Directors is aimed at a level that is fair and not excessive and reflects the time commitment and responsibilities of their role as the Chair of the Board, Chairs of the different Committees or as Non-Executive Directors. Fees are reviewed annually with reference to relevant benchmarking data. Fees for Non-Executive Directors are not pensionable and Non-Executive Directors do not participate in any discretionary bonus or receive any other benefits.

Executive Directors and Senior Management

The Society's Remuneration Policy is consistent with market practice for Executive roles and plays a part in motivating, rewarding and retaining the leadership team to deliver value for our members.

Executive Directors' and Senior Management's base salaries are reviewed every year, at the same time as all other colleagues, by using data from comparable organisations. Annual percentage salary increases for Executive Directors generally remain aligned with the average increases for Society staff unless considered necessary to reflect the changing market conditions or change in roles and responsibilities. 2022 was a particularly challenging year for employers in terms of recruitment in context of a particularly low rate of unemployment across the country. Recognising the importance of recruiting and retaining talent the Remuneration Committee remains committed in ensuring that remuneration across the Society is fair and rewarding and at the same time benchmarks competitively across the peer group and local financial services firms.

Directors' Salary and Fees

	2022 £000	2021 £000
Non-Executive Directors		
R Jenkins	39	35
E J Leenders	28	25
S Nichols (Resigned on 21.04.2021)	-	7
C Higgins (Resigned on 20.04.2022)	8	25
N Montgomery (Resigned on 30.04.2022)	8	22
R McBride	24	21
A Lucas (Appointed on 01.05.2021)	23	14
C Potter (Appointed on 04.01.2022)	27	-
J Carter (Appointed on 03.10.2022)	6	-
Total	163	149

	2022					2021				
	Salary/ fees	Bonus	Benefits	Employer's Pension Contributions/ PILOP	Total	Salary/ fees	Bonus	Benefits	Employer's Pension Contributions/ PILOP	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Executive Directors										
D Wass (Joined on 19.09.2022)	53	-	1	1	55					
G O'Keeffe * (Retired on 21.09.2022)	125	24	7	13	169	166	-	4	17	187
D Ramdeen	140	12	3	14	169	130	11	-	13	154
Total Executive Directors' Remuneration	318	36	11	28	393	296	11	4	30	341
Total Directors' Remuneration	481	36	11	28	556	445	11	4	30	490

* Gerard O'Keeffe, although eligible, asked not to be considered for a bonus payable in March 2021, in recognition of the extraordinary circumstances faced by the Society and its members during the pandemic.

Dan Wass contributes to the Society's pension scheme applicable for all colleagues and which allows for a maximum Society contribution of 10% of base salary annually.

Gerard O'Keeffe opted, in lieu of his 10% of salary pension entitlement, to receive a cash equivalent sum (PILOP) until the end of his employment on 21.09.2022 at no additional gross cost to the Society (included in the table above).

Darrin Ramdeen opted, in lieu of his 10% of salary pension entitlement, to receive a cash equivalent sum (PILOP) for the year at no additional gross cost to the Society (included in the table above).

In addition to the amounts paid in the table above, Dan Wass earned a bonus of £8.00k for the period September to December 2022 and Darrin Ramdeen earned a bonus of £9.77k for the year 2022, both are to be paid in March 2023.

Directors' Responsibilities Statement

The following Statement, which should be read in conjunction with the Independent Auditor's Report on pages 32 to 36, is made by the Directors to explain their responsibilities in relation to the preparation of the Annual Accounts, Annual Business Statement and Directors' Report.

The Directors are required by the Building Societies Act 1986 (the "Act") to prepare, for each financial year, Annual Accounts which give a true and fair view of the state of the affairs of the Society as at the end of the financial year 2022, and of the income and expenditure of the Society for the financial year 2022.

In preparing those Accounts, the Directors are required to:

- select appropriate accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable United Kingdom accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the Accounts on the going concern basis, unless it is inappropriate to presume that the Society will continue in business.

In addition to the 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 Society.

In Respect of Accounting Records and Internal Controls the Directors are responsible for ensuring that the Society:

- keeps accounting records in accordance with the Act; and
- takes reasonable care to establish, maintain, document and review systems of control as are appropriate to the business in accordance with the rules under the Financial Services and Markets Act 2000.

The Directors have general responsibility for safeguarding the assets of the Society and for taking reasonable steps for the prevention and detection of 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 United Kingdom governing the preparation and dissemination of annual accounts may differ from legislation in other jurisdictions.

Responsibility statement

The Directors are responsible for ensuring that the Society:

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

This responsibility statement was approved by the Board of Directors on 1 March 2023 and is signed on its behalf by:

Dan Wass
Chief Executive Officer

1 March 2023

Audit Committee Report 2022

Committee Members as at 31 December 2022

Chris Potter, Non-Executive Director (*from Jan 2022*)
Eric Leenders, Non-Executive Director
Jo Carter, Non-Executive Director

Other Committee Members serving during 2022

Christine Higgins, Non-Executive Director (*until April 2022*)
Nigel Montgomery, Non-Executive Director (*until April 2022*)
Rebecca McBride, Non-Executive Director (*from April 2022 until September 2022*)

Regular Attendees

The Chief Executive Officer, Finance Director, Chief Risk Officer, Financial Controller, Society Secretary and representatives from Mazars LLP (External Auditor) and RSM (Internal Auditor) are regular attendees at the meetings of the Committee.

Audit Committee Governance

The Committee held five meetings during the year. A verbal report was made to the Board following each meeting and the minutes of the meetings subsequently provided.

Dear Member,

I am pleased to present my first report to you as Chair of the Audit Committee (the 'Committee') and I have outlined below the key work of the Committee during the year. I would like to thank my predecessor, Christine Higgins who chaired the Audit Committee until 20 April 2022, for her guidance and leadership.

I confirm that the Board is satisfied that the Committee members have the skills and competence required to fulfil the Committee's duties and responsibilities as set out within the Terms of Reference.

I would also like to thank Mazars LLP ('Mazars') for their work as our external auditors and RSM, for their work as Internal Auditor over the last year.

Financial Reporting

The Committee reviewed the Annual Report and Accounts and Business Review, including statements in respect of internal controls and risk management. It also reviewed the key accounting policies and significant financial reporting issues and judgements having regard to the matters reported to it by the auditor. The one key audit matters this year was Credit Risk (impairment of loans and advances to customers). In terms of credit risk, the Society has limited actual loss experience and so this is an area of management judgement, both in terms of individual provisions and collective impairment. The Society has recognised a judgemental impairment provision overlay of £150k as an additional provision coverage over borrowers who may already be financially stressed but not yet identified by the Society. The Committee noted differences in judgement between management and the auditors and concluded these were not material.

In addition, other key areas of management judgement and enhanced risks included management override of controls, revenue recognition (effective interest rate), hedge accounting and property valuation. The Committee discussed and considered all of these areas. In other areas of judgement, there were matters resulting in some unadjusted audit differences which were not considered material. All of these differences are set out in the Audit opinion on page 32. The auditors also made internal control recommendations which in their view should be actioned in the near future. These matters were all accepted by the management. There were no high priority recommendations.

The UK Government has provided significant financial support to borrowers during the COVID-19 pandemic and accordingly the Audit Committee acknowledged that the level of loan defaults experienced by the Society may have reduced over the last two years as a result of this. Additionally, the UK is currently experiencing unusually high levels of inflation, led by energy prices, which will restrict the money available to borrowers to meet their debt repayments. This is also likely to have driven impairment that has not yet been reported. The provisioning model may therefore be understating the Probability of Default ("PD") of mortgages held at 31 December 2022. As this PD is used to estimate impairment that has been incurred but not yet identified, which impacts on the level of collective provision, a post model adjustment has been added to compensate for this. The value of the post model adjustment included in the provision at the balance sheet date is £150,000.

The Committee also reviewed the Going Concern Statement prepared by the Finance Director, and concluded that it is appropriate to adopt the going concern basis of accounting for the 2022 Annual Report and Accounts.

The Committee assessed that the 2022 Annual Report and Accounts, taken as a whole, were fair, balanced and understandable

and provided members with the information necessary to understand the Society's business, strategy and performance. They were recommended to the Board for approval.

External Audit

The Committee reviewed the Annual Report and Accounts and Business Review, including statements in respect of internal controls and risk management. It also reviewed the key accounting policies and significant financial reporting issues and judgements having regard to the matters reported to it by the auditor. The Committee approved the Going Concern Statement prepared by the Finance Director, and concluded that it is appropriate to adopt the going concern basis of accounting for the 2022 Annual Report and Accounts.

The Committee assessed that the 2022 Annual Report and Accounts, taken as a whole, were fair, balanced and understandable and provided members with the information necessary to understand the Society's business, strategy and performance. They were recommended to the Board for approval.

The Committee in 2022 had engaged in monitoring the completion of the management letter actions arising from last years' audit as well as ways of introducing audit efficiencies for next year. In addition to approving the audit strategy and plan for 2022 audit, the Committee had also discussed the FRC's audit quality review for Mazars as well as effectiveness of the External Audit function.

Internal Audit

RSM completed seven assurance reviews and two advisory reports during the year and we are pleased to report that their overall assessment was that based on the work carried out during the year, the organisation has an adequate and effective framework for risk management, governance and internal control. Further enhancements have been identified to ensure that the framework remains adequate and effective. Management actions were agreed during the year and have either been completed or are on track for completion. In terms of culture, RSM concluded that there has been a positive level of engagement by staff and members of the Executive. Management had been both responsive and proactive, prior to, and during the reviews.

The Internal Audit plan for 2023 was agreed in December 2022, overseen by the Committee. The areas for audit are linked to corporate objectives, key management priorities, risk profile and the core areas of regulatory oversight.

The Committee has satisfied itself as to the effectiveness of internal audit during the year through the review of the audit strategy and annual audit plan, discussion of internal audit reports, private meetings with RSM without management present and the results of an annual effectiveness survey which includes feedback from the members of the Committee as well as management attendees.

Compliance Oversight

The Compliance team in the Society provides a comprehensive report to each Committee meeting on the robustness of the internal control framework. This includes the outcome of their assurance work, policy reviews, financial crime and other statistics, the implementation status of audit and other recommendations and upcoming regulatory change.

The Compliance team also prepares the Combined Assurance Plan which provides an overview of internal compliance and risk assurance, as well as the RSM Internal Audit Programme, over the next 3 years and is designed to ensure that resources are utilised effectively. The Combined Assurance Plan for 2023 to 2025 was approved by the Committee in December 2022.

The Committee reviewed and approved various policies during the year, having regard to the risks and controls in the relevant area of business.

Whistleblowing

The Committee reviewed and approved the Whistleblowing policy. The Committee oversees the Society's arrangements for its employees to raise concerns in confidence about possible wrongdoing in financial reporting and other matters. Eric Leenders, Vice Chair and member of this Committee as the Whistleblowing Champion of the Society conducted a workshop with the staff on the principles of whistleblowing and the options available to them should they want to discuss or report any incidents. No incidents of Whistleblowing were reported this year.

Committee Effectiveness Review

An external review of Board effectiveness was conducted during the year, covering the Board and the overall governance framework of the Society. It was concluded that the Board and the Audit Committee had performed effectively.

Chris Potter
Chair of the Audit Committee

Independent auditor's report

to the members of Buckinghamshire Building Society

Opinion

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

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

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

Basis for opinion

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

Conclusions relating to going concern

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

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

- Undertaking an initial assessment at the planning stage of the audit to identify events or conditions that may cast significant doubt on the Society's ability to continue as a going concern;
- Making enquiries of the directors to understand the period of assessment considered by them, the assumptions they considered and the implication of those when assessing the Society's future financial performance;
- Challenging the appropriateness of the directors' key assumptions in their cash flow forecasts by reviewing supporting and contradictory evidence in relation to these key assumptions and assessing the directors' consideration of severe but plausible scenarios. This included reviewing the Society's 5-year corporate plan, latest ICAAP and ILAAP, and its reverse stress testing;
- Testing the accuracy and functionality of the model used to prepare the directors' forecasts;
- Assessing the historical accuracy of forecasts prepared by the directors;
- Assessing and challenging key assumptions and mitigating actions put in place in response to the current economic situation, including but not limited to, the 'cost of living crisis', inflation, levels and interest rates;
- Considering the consistency of the directors' forecasts with other areas of the annual accounts and our audit; and
- Evaluating the appropriateness of the directors' disclosures in the annual accounts on going concern.

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

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

Key audit matters

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

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

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

Key Audit Matter	How our scope addressed this matter
<p>Credit Risk – Impairment of loans and advances to customers £195,000 (2021: £268,000)</p> <p><i>Refer to note 1 Accounting policies and note 13 Impairment provisions</i></p> <p>Credit risk is an inherently judgemental area due to the use of subjective assumptions and a high degree of estimation in arriving at the year-end provisions. The total impairment provision of the Society consists of an individual provision on loans with default indicators and a collective provision on the performing portfolio.</p> <p>The Society has limited actual loss experience on which to base its impairment assessment on the loan portfolio, resulting in management judgement being required in deriving assumptions to be applied in the assessment.</p> <p>In calculating the individual provision, management applies judgement in identifying loans that require individual impairment assessments and in estimating the recoverable amount from the underlying collateral.</p> <p>The collective impairment provision is derived from a model that uses a combination of the Society's historical experience and, due to the Society's limited loss experience, external data, adjusted for current conditions. In particular, the impairment assessment is most sensitive to the following assumptions: probability of default (PD) of loans and forced sale discounts (FSD) applied to underlying collateral values.</p> <p>The Society has recognised a judgemental impairment provision overlay of £150k in addition to the £27k modelled provision. The judgemental overlay has been recognised to provide additional provision coverage over borrowers who may already be financially stressed but not yet identified by the Society.</p>	<p>Our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> Assessing the design and implementation, and testing the operating effectiveness, of the key controls in relation to credit processes (loan origination and approval, loan redemptions, and arrears monitoring); Assessing the appropriateness of the accounting estimate determined by management, including the reasonableness and relevance of external data used and considering whether this is consistent with our understanding of the Society's portfolio; Comparing the Society's key assumptions with similar lenders and consider whether they are consistent with industry practice; Performing a sensitivity analysis over the key assumptions on PDs and FSD; Performing loan book stratification based on risk characteristics such as arrears status, forbearance flagging and Loan to Values (LTV) ratios to identify individual loans which may have unidentified impairments; Assessing the reasonableness of the individual provision by testing a selection of loans; Assessing and challenging the reasonableness of the management overlay added to the collective provision; and Assessing the adequacy of the Society's disclosures in relation to the degree of estimation uncertainty involved in arriving at the provision for impairment losses on loans and advances to customers. <p>Our observations</p> <p>Based on the procedures performed, we found the resulting estimate of the loan impairment provision to be acceptable and in compliance with IAS 39.</p>

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

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

Overall materiality	£285,000 (2021: £268,000)
How we determined it	1% of net assets (2021: 1% of net assets)
Rationale for benchmark applied	<p>We consider that net assets figure is the most appropriate benchmark to use for the Society, whose strategy is to provide mortgages, savings products and other financial services for the mutual benefit of members and customers and not one of profit maximisation.</p> <p>Further, net assets as a benchmark is supported by the fact that regulatory capital is a key benchmark for management and regulators, where net assets is an approximation of regulatory capital resources.</p>
Performance materiality	<p>Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the annual accounts exceeds materiality for the annual accounts as a whole.</p> <p>Performance materiality of £200,000 (2021: £161,000) was applied in the audit based on 70% (2021: 60%) of overall materiality.</p> <p>In determining the performance materiality, we considered a number of factors, including the effectiveness of internal controls and the history of misstatements, and concluded that an amount towards the upper end of our normal range was appropriate.</p>
Reporting threshold	<p>We agreed with the directors that we would report to them misstatements identified during our audit above £8,500 (2021: £8,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.</p>

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

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

Other information

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

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

We have nothing to report in this regard.

Opinions on the Annual Business Statement and the Directors' Report

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

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

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

Matters on which we are required to report by exception

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

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

Responsibilities of Directors

As explained more fully in the statement of directors' responsibilities set out on page 29, the directors are responsible for the preparation of the annual accounts and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the directors are responsible for assessing the 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 Society or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the annual accounts

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

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

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

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

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

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

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

In addition, we evaluated the directors' and management's incentives and opportunities for fraudulent manipulation of the annual accounts, including the risk of management override of controls, and determined that the principal risks related to posting manual journal entries to manipulate financial performance management bias through judgements and assumptions in significant accounting estimates, and significant one-off or unusual transactions.

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

- Making enquiries of the directors and management on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud;
- Addressing the risks of fraud through management override of controls by performing journal entry testing; and
- Being skeptical to the potential of management bias through judgements and assumptions in significant accounting estimates.

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

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

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

Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed by the directors on 21 April 2021 to audit the annual accounts for the year ended 31 December 2021 and subsequent financial periods. The period of total uninterrupted engagement is two years, covering the years ended 31 December 2021 to 31 December 2022.

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

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

Use of the audit report

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

David Allen (Senior Statutory Auditor) for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
Mazars LLP
30 Old Bailey
London
EC4M 7AU
1 March 2023

Income and Expenditure Account

	Notes	2022 £000	2021 £000
Interest receivable and similar income	2	10,855	7,667
Interest payable and similar charges	3	(4,010)	(1,804)
Net interest receivable		6,845	5,863
Fees and commissions receivable		19	34
Fees and commissions payable		(79)	(86)
Other operating income		53	45
Net losses from derivative financial instruments	4	(22)	(22)
Change in valuation of investment property	17	-	-
Total income		6,816	5,834
Administrative expenses	5	(5,262)	(4,217)
Depreciation and amortisation	15, 16	(110)	(92)
Operating profit before provisions		1,444	1,525
Impairment provisions	13	74	244
Operating profit		1,518	1,769
Profit on ordinary activities before tax		1,518	1,769
Tax on profit on ordinary activities	10	(288)	(382)
Profit for the financial year		1,230	1,387

Statement of Other Comprehensive Income

	Notes	2022 £000	2021 £000
Profit for the financial year		1,230	1,387
Gain arising on revaluation of land and buildings	16	19	19
Tax on gain arising on revaluation of land and buildings		(5)	(18)
Other comprehensive income		14	1
Total comprehensive income		1,244	1,388

The notes on pages 41 to 63 are an integral part of these accounts.

Statement of Financial Position

	Notes	2022 £000	2021 £000
Assets			
Liquid assets			
Cash in hand and balances with Bank of England		55,255	53,929
Loans and advances to credit institutions	11	17,660	13,038
Derivative financial instruments	21	2,066	303
Loans and advances to customers	12	276,284	244,774
Intangible fixed assets	15	155	109
Tangible fixed assets	16	1,640	1,596
Investment properties	17	870	870
Prepayments and accrued income	9	732	170
Total assets		354,662	314,789
Liabilities			
Shares	18	261,970	220,916
Amounts owed to credit institutions	19	31,221	31,010
Amounts owed to other customers	20	31,571	34,350
Derivative financial instruments	21	188	1
Other liabilities	22	861	951
Deferred tax liability	14	304	258
Total liabilities		326,115	287,486
Reserves			
General reserve		28,146	26,916
Revaluation reserve		401	387
Total reserves attributable to members of the Society		28,547	27,303
Total reserves and liabilities		354,662	314,789

The notes on pages 41 to 63 are an integral part of these accounts.

The financial statements were approved by the Board of Directors on 1 March 2023 and were signed on its behalf by:

Dick Jenkins
Chair

Chris Potter
Chair of the Audit Committee

Dan Wass
Chief Executive Officer

Statement of Changes in Members' Interests

	Revaluation reserve £000	General reserve £000	Total £000
At 1 January 2021	386	25,529	27,303
Profit for the financial year	-	1,387	1,387
Gains arising on revaluation of land and buildings	19	-	19
Tax on gains arising on revaluation of land and buildings	(18)	-	(18)
Total comprehensive income	1	1,387	1,388
At 31 December 2021	387	26,916	27,303
Profit for the financial year	-	1,230	1,230
Gains arising on revaluation of land and buildings	19	-	19
Tax on gains arising on revaluation of land and buildings	(5)	-	(5)
Total comprehensive income	14	1,230	1,244
At 31 December 2022	401	28,146	28,547

Movements in the revaluation reserve relate to changes in the valuation of the freehold land and buildings occupied by the Society.

The notes on pages 41 to 63 are an integral part of these accounts.

Cash Flow Statement

	Notes	2022 £000	2021 £000
Cash flows from operating activities			
Operating profit for the financial year		1,518	1,769
Depreciation and amortisation of fixed assets	15,16	110	92
(Gains)/Losses on disposal of tangible fixed assets		1	-
Net fair value losses of derivative financial instruments recognised in profit or loss	4	22	22
Impairment losses on loans and advances to customers	13	(74)	(244)
		1,577	1,639
Changes in operating assets and liabilities			
(Increase)/decrease in prepayments and accrued income		(642)	300
Increase/(decrease) in accruals and deferred income		294	(61)
Increase in other liabilities		106	28
Increase in loans and advances to customers		(33,034)	(26,702)
Increase in shares		40,972	10,670
Increase/increase in amounts owed to credit institutions		-	13,000
(Decrease)/increase in amounts owed to other customers		(2,780)	673
(Increase)/decrease in loans and advances to credit institutions		(1,500)	7,000
Tax paid		(443)	(46)
Net cash flows from operating activities		4,550	6,501
Cash flows from investing activities			
Purchase of tangible fixed assets		(74)	(26)
Purchase of intangible fixed assets		(108)	(33)
Net cash flows from investing activities		(182)	(59)
Net increase in cash and cash equivalents		4,368	6,442
Cash and cash equivalents at the beginning of the year		61,962	55,520
Cash and cash equivalents at the end of the year		66,330	61,962
Reconciliation to cash at bank and in hand:			
Cash in hand and balances with Bank of England		55,255	53,929
Loans and advances to credit institutions repayable on demand	11	11,075	8,033
Cash and cash equivalents		66,330	61,962

The notes on pages 41 to 63 are an integral part of these accounts.

Notes to the Annual Report and Accounts

1. Accounting policies

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

Basis of preparation

The financial statements have been prepared under the historical cost basis modified to include certain items at fair value, and in accordance with the Building Societies Act 1986, the Building Societies (Accounts and Related Provisions) Regulations 1998 and FRS102, the Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland. The Society has also chosen to apply the recognition and measurement provisions of IAS39 Financial Instruments: Recognition and Measurement.

The preparation of financial statements in compliance with FRS102 requires the use of certain critical accounting estimates. It also requires the Society's management to exercise judgement in applying the Society's accounting policies. The accounting policies have, unless otherwise stated, been applied consistently to all periods presented in these annual accounts.

Going concern

The Society prepares detailed forecasts ("Corporate Plan") for a period of at least 12 months from the date of approval of these financial statements. The forecasts reflect the uncertain economic environment, in particular with regards to current inflationary pressures and the series of recent increases in the Bank of England base rate. The Society also models the impact of severe but plausible scenarios on capital and liquidity through stress testing and analysis of changes on key sensitivities. The Board is satisfied that based on empirical evidence, and current market data, the severe but plausible stress scenarios are in fact more severe than that previously or currently experienced by the Society.

These severe but plausible stresses are established and defined in detail during the annual Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP), in line with PRA requirements. Considerations are given to a range of factors, including but not limited to House Price Index (HPI) fluctuations, changes in customer propensity of default, unemployment, interest rate changes and circumstances that may give rise to funding outflows either on an idiosyncratic level or sector wide. The Board considers that these stress tests also included a scenario that was at least as severe as the Bank of England stress scenario published in January 2021.

The Society maintains a surplus over regulatory limits for both capital and liquidity throughout the stresses. The Board, therefore, is satisfied that the Society has adequate resources to continue in operational existence for a period of at least 12 months from the date of approval of these financial statements. Accordingly they continue to adopt the going concern basis in preparing the financial statements.

Interest receivable

Interest income for loans and advances to customers is recognised in "Interest receivable and similar income" using the effective interest rate of the financial asset to which they relate. 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.

Interest on impaired financial assets is recognised as the original effective interest rate of the financial asset applied to the carrying amount as reduced by an allowance for impairment.

Fees and commissions

Fees receivable are generally recognised on an accruals basis when all contractual obligations have been fulfilled.

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 and similar income".

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.

Derivative financial instruments

In accordance with Section 9a of the Building Societies Act 1986, the Society only uses derivatives to reduce the risk of loss arising from changes in interest rates. Such instruments are not therefore used in trading activity or for speculative purposes. The Society uses standardised International Swaps and Derivatives Association ("ISDA") agreements with other financial institutions in order to hedge interest rate risk. The ISDA contracts grant legal rights of set off for derivative transactions with the same counterparty. This can reduce potential credit risk where the derivative contracts may be for offsetting values.

Notes to the Annual Report and Accounts (continued)

1. Accounting policies (continued)

Currently, the Society only uses derivatives to hedge interest rate risk through interest rate swap agreements. These are commitments to exchange one set of cash flows for another. No exchange of principal takes place. Interest rate swaps 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. Changes in the fair value of derivatives are recognised immediately in the income and expenditure account within "Net gains/(losses) from derivative financial instruments". However, by applying the hedge accounting rules set out in IAS39, the changes in fair value of derivatives used to hedge particular risks can be offset in the income and expenditure account, within "Net gains/(losses) from derivative financial instruments", against fair value adjustments made to the hedged item in respect of the hedged risk, providing that the derivatives used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items (fixed rate mortgages).

If the hedge no longer meets the hedging criteria the adjustment to the carrying amount of a hedged item is amortised to the income and expenditure account over the remaining life of the previously hedged item.

Changes in fair value of any derivative financial instrument that does not qualify for hedge accounting are recognised immediately in the income and expenditure account within "Net gains/(losses) from derivative financial instruments".

Volatility in the income and expenditure account may still arise to the extent that the hedge relationships are ineffective or because hedge accounting is not achievable. Such volatility is therefore primarily attributable to accounting rules which may not fully reflect the economic reality of the Society's hedging strategy.

Where cash collateral is received to mitigate the risk inherent in amounts due to the Society, it is included as a liability within "Amounts owed to credit institutions". Where cash collateral is given to mitigate the risk inherent in amounts due from the Society, it is included as an asset in "Loans and advances to credit institutions".

Corporation tax

Corporation tax is charged at the current rate calculated on the basis of the profit on ordinary activities as adjusted in line with HMRC requirements for taxation purposes.

Deferred tax

Deferred tax is provided in full on timing differences which result in an obligation at the statement of financial position date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on tax rates enacted or substantively enacted at the statement of financial position date.

Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Retirement benefits

The Society operates a money purchase pension scheme which is open to all permanent employees.

The Society's contributions are charged to the income and expenditure account in the periods which benefit from the employees' services. Accrued contributions are included within "other liabilities" on the statement of financial position.

Financial assets

The Society classifies its financial assets at inception into the following categories:

Loans and receivables

The Society's loans and advances to customers and liquidity are classified as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market.

Loans and advances to customers are sums advanced to the Society's borrowers, secured on property or land.

Liquidity includes cash in hand and balances with Bank of England and loans and advances to credit institutions (sums deposited in instant access accounts or short term fixed period accounts with high street banks or building societies).

Loans and receivables are initially measured at fair value then are subsequently carried at amortised cost using the effective interest method, less any impairment losses other than where adjustments are made as part of a fair value hedging arrangement.

Fair value through the income and expenditure account

All derivatives are carried at fair value and are initially recognised at the trade date. Gains and losses from changes in fair value are recognised in the income and expenditure account.

Notes to the Annual Report and Accounts (continued)

1. Accounting policies (continued)

Derecognition

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

On derecognition, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (a) the consideration received (including any new asset obtained less any new liability assumed and (b) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in the income and expenditure account.

Impairment

Throughout the year and at the year end, the Society assesses loans and advances to customers to see if there is objective evidence of any impairment. Individual impairment provisions are made against those loans and advances where there is objective evidence of impairment.

Objective evidence of impairment includes accounts going into arrears, renegotiation of the terms of the loan including granting forbearance and any other information discovered during regular review suggesting significant financial difficulties of the borrower.

If there is objective evidence of impairment an individual impairment provision is made against those mortgage assets. The amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Within the calculation of future cash flows, account is taken of any discount against the value of the property which may be needed to achieve sale; amounts recoverable under mortgage indemnity policies; and anticipated realisation costs.

Where no objective evidence of impairment exists, the Society groups together financial assets with similar credit risk characteristics and assesses them for impairment. The Society calculates a collective provision on these financial assets, excluding any that have an individual impairment provision against them. The amount of impairment loss is measured by applying expected loss factors based on the Society's experience of default, the effect of movement in house prices and any adjustment for forced sale.

The amount of impairment loss is recognised immediately through the income and expenditure account and a corresponding reduction in the financial asset is recognised through the use of provisions.

The Society's policy in relation to any properties that it has taken into possession is that it will seek their disposal with a view to minimising the losses that it may incur.

Any actual losses incurred are recognised immediately in the income and expenditure account with a corresponding reduction in the value of the financial assets shown in the statement of financial position. Any impairment provision already provided is reversed through the income and expenditure account.

Intangible fixed assets

Purchased software that is not an integral part of a related hardware purchase is stated at cost as an intangible asset. Amortisation of such assets is charged to the income and expenditure account on a straight line basis over their estimated useful lives. The useful life of computer software is between two and four years.

The Society assesses at each reporting date whether any intangible fixed assets are impaired.

Tangible fixed assets

Equipment and fixtures and fittings are shown in the statement of financial position at cost less accumulated depreciation.

Land and buildings are revalued annually to fair value less any subsequent accumulated depreciation and impairment losses.

Gains or losses arising on the revaluation of the land and buildings are recognised in other comprehensive income and accumulated in the revaluation reserve.

Land is not depreciated. Depreciation on property is calculated on a reducing balance method at a rate of 2% per annum.

Depreciation is calculated on the following assets under equipment and fixtures and fittings so as to write off the cost over their estimated useful lives on a straight line basis as follows:

Computer hardware	2 to 5 years
Office equipment and fixtures	2 to 7 years

Notes to the Annual Report and Accounts (continued)

1. Accounting policies (continued)

Gains or losses on disposal are calculated by deducting the asset's carrying value from the proceeds. These are included in the Income and Expenditure Account.

The Society assesses at each reporting date whether any tangible fixed assets are impaired.

Investment properties

Investment properties are measured initially at cost. After initial recognition, investment properties are carried in the Statement of Financial Position at fair value with the revaluation movement and the related deferred tax recorded in the Income and Expenditure Account. A revaluation is carried out each year.

Financial liabilities

All non-derivative financial liabilities, including shares, amounts owed to credit institutions and amounts owed to other customers, are measured at amortised cost with interest recognised using the effective interest rate method.

Financial liabilities are derecognised when the obligation is discharged, cancelled or has expired.

Critical accounting estimates and judgements

The Society makes estimates and assumptions that affect the reported amounts of assets and liabilities within the financial year. The most significant areas where estimates and assumptions are made are as follows:

Impairment losses on loans and advances to customers

In determining whether an impairment loss should be recorded, the Society is required to exercise a degree of judgement. Impairment provisions are calculated as the difference between the assets' carrying value and the present value of management's estimate of future discounted cash flows. Estimates and assumptions are around the probability of any account going into default (PD), the probability of defaulting accounts progressing to possession, the time taken to complete the sale of properties in possession and the eventual loss incurred in the event of forced sale or write-off. These assumptions are based on observable historical data and updated as management considers appropriate to reflect current circumstances.

In determining the level of impairment charge estimates are applied to determine prevailing market conditions, customer behaviour and the length of time to complete the sale of any property in possession and the expected sales proceeds. The accuracy of the impairment provision would therefore be affected by unexpected changes to these assumptions, as follows;

If the sales discount applied in our provisioning model increased by 5% the overall provision would increase by £15,761.

The PD used in the assessment for impairment is dependent on the nature of the loan and the credit score or the arrears severity, if in arrears. If the PD increases by 25%, the collective provision would increase by £6,705.

The UK Government has provided significant financial support to borrowers during the COVID-19 pandemic and accordingly the Board acknowledges that the level of loan defaults experienced by the Society may have reduced over the last two years as a result of this. Additionally, the UK is currently experiencing unusually high levels of inflation, led by energy prices, which will restrict the money available to borrowers to meet their debt repayments. This is also likely to have driven impairment that has not yet been reported. The provisioning model may therefore be understating the PD of mortgages held at 31 December 2022. As this PD is used to estimate impairment that has been incurred but not yet identified, which impacts on the level of collective provision, a post model adjustment has been added to compensate for this. The value of the post model adjustment included in the provision at the balance sheet date is £150,000.

Effective interest rate (EIR)

The Society recognises interest on loans and advances to customers on the basis of their EIR. This is a constant rate that averages out the effect of incentives and fees across the expected life of the loan account. A critical assumption in the calculation is the expected life, as this determines the assumed period over which customers may be paying various differentiated interest rates. The determination of the average life is based on historical and forecast redemption data as well as management judgement.

The average life is reassessed at regular intervals to ensure it is still appropriate. Any changes to the average life will create an adjustment to the loan balance in the statement of financial position with a corresponding adjustment to interest receivable in the income and expenditure account.

A 2 month increase in the average life profile would result in an increase in the value of loans and advances to customers on the statement of financial position by approximately £357k.

Notes to the Annual Report and Accounts (continued)

1. Accounting policies (continued)

Property valuation

Land and buildings and investment property are measured at fair value with a valuation exercise carried out annually by an independent external valuer in accordance with the RICS Global Standards 2017 Edition (the "Red Book"). The Society considers the methodology and assumptions used by the independent external valuer to be supportable, reasonable and robust, the final valuation may be different to one that would have been used had there been a ready market for an identical property.

2. Interest receivable and similar income

	2022 £000	2021 £000
On loans fully secured on residential property	9,598	7,633
On other loans	70	61
On other liquid assets	1,030	81
On derivative financial instruments	157	(108)
	10,855	7,667

3. Interest payable and similar charges

	2022 £000	2021 £000
On shares held by individuals	3,289	1,644
On deposits and other borrowings	721	160
	4,010	1,804

4. Net losses from derivative financial instruments

	2022 £000	2021 £000
Derivatives in designated fair value hedge relationships	1,622	413
Adjustments to hedged items in fair value hedge relationships	(1,597)	(440)
Derivatives not in fair value hedge relationships	(47)	5
	(22)	(22)

The net loss from derivative financial instruments of £22k (2021: net loss £22k) represents the net fair value movement on derivative financial instruments that are matching risk exposure on an economic basis.

Some accounting volatility arises on these items due to accounting ineffectiveness on designated hedges, or because hedge accounting is not achievable on certain items. The movement is primarily due to timing differences in income recognition between derivative financial instruments and the hedged assets. This gain or loss will trend to zero over time and this is taken into account by the Board when considering the Society's underlying performance.

Notes to the Annual Report and Accounts (continued)

5. Administrative expenses

	2022	2021
	£000	£000
Employee costs		
Wages and salaries	2,769	2,282
Social security costs	343	217
Other pension costs	155	141
	<u>3,267</u>	<u>2,640</u>
Other administrative expenses	1,995	1,577
	<u>5,262</u>	<u>4,217</u>

Administrative expenses above include the following auditor's remuneration (exclusive of VAT):

	2022	2021
	£000	£000
Audit of financial statements	124	108
Audit related assurance services	26	12
	<u>150</u>	<u>120</u>

There were no operating lease charges in 2022 (2021: £Nil).

6. Staff numbers

The average number of persons employed in Head Office during the year (including executive directors) was:

	2022	2021
Full time	42	38
Part time	8	10
	<u>50</u>	<u>48</u>

7. Remuneration of Directors

Directors' remuneration totalled £556k (2021: £490k). Full details are given in the Directors' Remuneration Report on page 28.

The Society's Directors are considered to be its key management personnel.

Notes to the Annual Report and Accounts (continued)

8. Transactions with directors, connected persons and related businesses

At 31 December 2022 there were no (2021: £Nil) outstanding mortgage loans granted in the ordinary course of business to any Director or their connected persons.

	2022			2021		
	Number of Directors and their close family members	Balance outstanding in respect of Directors and their close family members £000	Interest received by Directors and their close family members £000	Number of Directors and their close family members	Balance outstanding in respect of Directors and their close family members £000	Interest received by Directors and their close family members £000
Shares	8	52	1	9	391	1

A register is maintained at the Head Office of the Society, in accordance with section 68 of the Building Societies Act 1986, which shows details of all loans, transactions and arrangements with the Directors and their connected persons. A statement of the appropriate details contained in the Register, for the financial year ended 31 December 2022, will be available for inspection at the AGM and at the Society's Head Office for a period of 15 days up to and including the AGM.

In accordance with section 69 of the Building Societies Act 1986 the Society maintains a Register of Relevant Services of a Related Business. No fees were paid in 2022 (2021: £Nil).

9. Prepayments and accrued income

	2022 £000	2021 £000
Prepayments for IT services	485	-
Other prepayments & accrued income	247	170
	732	170

10. Tax on profit on ordinary activities

	2022 £000	2021 £000
Current tax		
Tax charge for the year comprises:		
Corporation tax at 19.00% (2021: 19.00%)	247	320
Over provision from previous year	-	(37)
Total current tax charge for year	247	283
Deferred tax		
Origination and reversal of timing differences	30	18
Under provision from previous year	-	47
Effect of change in tax rate	11	34
Total tax	288	382

Notes to the Annual Report and Accounts (continued)

10. Tax on profit on ordinary activities (continued)

Factors affecting the tax charge for the year:

	2022 £000	2021 £000
Profit on ordinary activities before tax	1,518	1,769
Tax on profit on ordinary activities at UK standard rate of 19.00% (2021: 19.00%)	288	336
Effect of change in tax rate	7	34
Capital allowances in excess of depreciation	(7)	1
Over provision from previous year	-	11
Current tax charge for the year	288	382

The standard rate of Corporation Tax in the UK was 19% and accordingly the Society's profits have been taxed at this effective rate (2021: 19%). Deferred tax has been measured based on the substantively enacted rate of 25%. Further details on deferred tax are included in Note 14.

The tax on items reported through the statement of other comprehensive income is as follows:

	2022 £000	2021 £000
Revaluation of property	5	18

11. Loans and advances to credit institutions

	2022 £000	2021 £000
Accrued interest	85	5
Repayable on demand	11,075	8,033
Not more than three months	2,500	-
Three months to one year	4,000	5,000
	17,660	13,038

12. Loans and advances to customers

	2022 £000	2021 £000
Loans fully secured on residential property	274,067	242,550
Loans fully secured on land	2,217	2,224
	276,284	244,774

Fair value hedging adjustments of £1,928k (2021: £330k) have been made to certain fixed rate mortgages that are in a fair value hedging relationship.

Notes to the Annual Report and Accounts (continued)

12. Loans and advances to customers (continued)

The maturity of loans and advances to customers from the date of the statement of financial positions is as follows:

	2022 £000	2021 £000
Repayable on demand	1,535	1,154
In not more than three months:	1,103	1,103
In more than three months but not more than one year:	4,790	6,500
In more than one year but not more than five years:	38,098	37,241
More than five years:	232,688	199,276
	278,214	245,274
Effective interest rate adjustment	192	98
Fair value adjustment for hedged risk	(1,928)	(330)
Less individual impairment provision	(18)	(252)
Less collective impairment provision	(176)	(16)
	276,284	244,774

13. Impairment provisions

	2022			2021		
	Loans fully secured on residential property	Loans fully secured on land	Total	Loans fully secured on residential property	Loans fully secured on land	Total
	£000	£000	£000	£000	£000	£000
As at 1 January						
Individual impairment	97	155	252	131	154	285
Collective impairment	16	-	16	227	-	227
Charge/(release) for the year						
Individual impairment	(79)	(155)	(234)	(34)	1	(33)
Collective impairment	159	1	160	(211)	-	(211)
At 31 December						
Individual impairment	18	-	18	97	155	252
Collective impairment	175	1	176	16	-	16
As at 31 December	193	1	194	113	155	268

Notes to the Annual Report and Accounts (continued)

14. Deferred taxation

	2022 £000	2021 £000
Deferred taxation comprises:		
Depreciation in excess of capital allowances	84	60
Other timing differences	(44)	(66)
Property revaluation	264	264
Deferred tax liability	304	258
Movement in deferred taxation		
At 1 January	258	142
Income and expenditure account	41	51
Statement of other comprehensive income	5	18
Over provision from previous year	-	47
At 31 December	304	258

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled, or the asset realised. The March 2021 Budget announced an increase to the main rate of corporation tax to 25% from 1 April 2023. This rate was substantively enacted on 24 May 2021 and, as a result, deferred tax balances as at 31 December 2022 take account of this rate where appropriate.

Deferred taxation is recognised at the substantively enacted tax rate of 25% (2021: 25%).

15. Intangible fixed assets

	2022 £000	2021 £000
Cost		
At 1 January	444	469
Additions	108	33
Disposals at cost	-	(58)
At 31 December	552	444
Amortisation		
At 1 January	335	338
Charged in year	62	55
On disposals	-	(58)
At 31 December	397	335
Net book value	155	109

Intangible fixed assets consist entirely of purchased software that is not an integral part of a related hardware purchase.

Notes to the Annual Report and Accounts (continued)

16. Tangible fixed assets

	Land and buildings £000	Equipment, fixtures and fittings £000	Total £000
Cost or valuation			
At 1 January 2022	1,530	411	1,941
Additions	-	74	74
Disposals at cost	-	(26)	(26)
At 31 December 2022	1,530	459	1,989
Depreciation			
At 1 January 2022	-	345	345
Charged in year	19	29	48
Revaluation	(19)	-	(19)
Disposals	-	(25)	(25)
At 31 December 2022	-	349	349
Net book value			
At 31 December 2022	1,530	110	1,640
At 31 December 2021	1,530	66	1,596

Freehold land and buildings were valued at £1,530,000 as per the valuation report dated 31 December 2022 by Mr R Currie BSc, FRICS, RICS Registered Valuer, on behalf of the Frost Partnership, Property Consultants. The valuation is based on market value in accordance with the RICS Global Standards January 2022 Edition (the "Red Book") published by the Royal Institute of Chartered Surveyors.

17. Investment properties

	2022 £000	2021 £000
At 1 January 2022	870	870
At 31 December 2022	870	870
Net book value	870	870

Investment properties, which are all freehold, were revalued at £870,000 (2021: £870,000) as per the valuation report dated 31 December 2022 by Mr R Currie BSc, FRICS, RICS Registered Valuer, on behalf of the Frost Partnership, Property Consultants. The valuation is based on market value in accordance with the RICS Global Standards January 2022 Edition (the "Red Book") published by the Royal Institute of Chartered Surveyors. In determining the market value of the investment properties, fair value is estimated using the market valuation approach which uses prices and other relevant information generated by market transactions involving comparable properties. Where comparable transactions may not be available, a discounted cash flow technique may be used which considers the present value of the net cash flows to be generated from the property.

Investment properties are let under operating leases.

Notes to the Annual Report and Accounts (continued)

17. Investment properties (continued)

The rental income earned during the year was £53k (2021: £45k). No contingent rents have been recognised as income in the current or prior year. This is accounted for on an accruals basis within "Other operating income" in the Income and Expenditure Account.

At the statement of financial position date the Society had contracted with tenants for the following future minimum lease payments:

	2022 £000	2021 £000
Within one year	29	32
In the second to fifth years inclusive	46	46
After five years	47	58

18. Shares held by individuals

Shares are repayable from the statement of financial position date in the ordinary course of business as follows:

	2022 £000	2021 £000
Accrued interest	107	25
Repayable on demand	116,790	111,738
In not more than three months	16,441	17,166
In more than three months but not more than one year	62,192	60,292
In more than one year but not more than five years	66,440	31,695
	261,970	220,916

19. Amounts owed to credit institutions

Amounts owed to credit institutions are repayable from the statement of financial position date in the ordinary course of business as follows:

	2022 £000	2021 £000
Accrued interest	221	10
In not more than three months	-	-
In more than three months but not more than one year	-	-
In more than one year but not more than five years	31,000	31,000
	31,221	31,010

Included in the amounts above is £31m (2021: £31m) borrowed from the Bank of England under the Term Funding Scheme with additional incentives for SMEs (TFSME). Security, in the form of collateralised mortgages, has been given for this.

Notes to the Annual Report and Accounts (continued)

20. Amounts owed to other customers

Amounts owed to other customers are repayable from the statement of financial position date in the ordinary course of business as follows:

	2022 £000	2021 £000
Accrued interest	4	3
Repayable on demand	12,410	12,302
In not more than three months	6,514	8,993
In more than three months but not more than one year	12,495	10,652
In more than one year but not more than five years	148	2,400
	31,571	34,350

21. Derivative financial instruments

	Notional amount £000	Fair value - assets £000	Fair value - liabilities £000
Derivatives			
At 31 December 2022			
Unmatched derivatives - interest rate swaps	1,000	-	(48)
Derivatives designated as fair value hedges - interest rate swaps	52,000	2,066	(140)
	53,000	2,066	(188)
At 31 December 2021			
Unmatched derivatives - interest rate swaps	1,000	-	(1)
Derivatives designated as fair value hedges - interest rate swaps	26,500	303	-
	27,500	303	(1)

22. Other liabilities

	2022 £000	2021 £000
Corporation tax	84	280
Creditors	193	117
Accruals	584	554
	861	951

23. Financial instruments

A financial instrument is a contract that gives rise to a financial asset or financial liability. Buckinghamshire Building Society is a retailer of financial instruments in the form of mortgage and savings products. The Society uses wholesale financial instruments to invest in liquid assets, raise wholesale funding and to manage the risks arising from its operations.

The Society 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 managing the Society's overall exposure to risk. The Executive Committee (ExCo) is a management committee that meets on a monthly basis. ExCo provides detailed examination of individual areas of risk and reports back to the Board Risk Committee at least quarterly.

The Board Assets & Liabilities Committee (ALCO) reviews treasury and statement of financial position risk related activities. ExCo examines market movements to discern changes required to the Society's product range.

Notes to the Annual Report and Accounts (continued)

23. Financial instruments (continued)

Key performance indicators are provided to the Board on a monthly basis and summary information on a weekly basis.

Instruments used for risk management purposes include derivative financial instruments (derivatives), which are contracts whose 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 Society in using derivatives is in accordance with the Building Societies Act 1986 and is to limit the extent to which the Society will be affected by changes in interest rates. Derivatives are not used in trading activity or for speculative purposes.

The derivatives used by the Society in managing its statement of financial position risk exposures are interest rate swaps. These are used to protect the Society from exposures arising principally from fixed rate mortgage lending. 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 its maturity profile reflects the exposures arising from the underlying business activities.

The Society applies fair value hedging techniques to reduce its exposure to interest rates as follows:-

Activity	Risk	Fair value interest rate hedge
Fixed rate mortgage	Increase in interest rates	Society pays fixed, receives variable

The fair value of these hedges at 31 December is shown in note 21.

Summary terms and conditions and accounting policies of financial instruments:

Financial instrument	Terms and conditions	Accounting policy
Cash in hand, balances with Bank of England and loans and advances to credit institutions	Fixed or SONIA/Bank of England base rate linked interest rate Fixed term Short to medium term maturity	Loans and receivables at amortised cost, accounted for at settlement date
Loans and advances to customers	Secured on residential property or land Standard contractual term of up to 40 years Fixed or variable rate of interest	Loans and receivables at 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 SONIA/Bank of England base rate linked interest rate Fixed term Short to medium term maturity	Amortised cost, accounted for at settlement date
Amounts owed to other customers	Variable term Fixed or variable interest rates	Amortised cost, accounted for at settlement date
Derivative financial instruments	Fixed interest paid converted to variable interest received Based on the notional value of the derivative	Fair value through profit and loss, accounted for at trade date

Financial assets and liabilities are measured on an on-going 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.

Notes to the Annual Report and Accounts (continued)

23. Financial instruments (continued)

Financial assets and liabilities carried at fair value

Fair value is the value for which an asset or liability could be exchanged or settled between knowledgeable willing parties in an arm's length transaction.

The Society measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted prices (unadjusted) in active markets for identical instruments.
- Level 2: valuation techniques for which all significant inputs are based on observable market data.
- Level 3: valuation techniques for which significant inputs are not based on observable market data.

Where applicable, the Society measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions take place with sufficient frequency and volume to provide pricing information on an ongoing basis. For all other financial instruments the Society determines fair values using other valuation techniques.

The table summarises the fair values of the Society's financial assets and liabilities that are accounted for at fair value:

	Notes	2022 £000	2021 £000
Financial assets			
Derivative financial instruments			
Interest rate swaps	21	2,066	303
		2,066	303
Financial liabilities			
Derivative financial instruments			
Interest rate swaps	21	188	1
		188	1

The main valuation techniques employed by the Society to establish fair value of the financial instruments disclosed above are set out below:-

Interest rate swaps – Level 2

The valuation techniques applied are swap models using present value calculations. The models incorporate various assumptions including interest rate curves for SONIA which match the timing of the cash flow and maturity of the swaps. The interest rate curves have been derived from quoted interest rates.

Credit risk

Credit risk is the risk that the Society incurs a financial loss arising from the failure of a customer or counterparty to meet their contractual obligations. The Society 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 Society's maximum credit exposure is detailed in the table below:

	2022 £000	2021 £000
Credit risk exposure		
Cash in hand and balances with Bank of England	55,255	53,929
Loans and advances to credit institutions	17,660	13,038
Derivative financial instruments	2,066	303
Loans and advances to customers	276,284	244,774
Total balance sheet exposure	351,265	312,044
Off balance sheet exposure - mortgage commitments	22,594	16,430
	373,859	328,474

Notes to the Annual Report and Accounts (continued)

23. Financial instruments (continued)

a) Loans and advances to credit institutions, debt securities and derivative financial instruments

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

The Society's policy only permits lending to central government (which includes the Bank of England), UK local authorities, banks and building societies.

An analysis of the Society's treasury asset concentration is shown in the tables below:

	2022 £000	2022 %	2021 £000	2021 %
Industry sector				
Banks	11,087	15.2%	8,033	12.0%
Building Societies	6,573	9.0%	5,005	7.5%
Central Government	55,255	75.8%	53,929	80.5%
	72,915	100.0%	66,967	100.0%

	2022 %	2021 %
Rating		
AA	-	-
AA-	77.0%	81.8%
A+	14.0%	10.7%
A	-	-
Other	9.0%	7.5%
	100.0%	100.0%

	2022 £000	2021 £000
Geographic region		
United Kingdom	72,915	66,967
	72,915	66,967

'Other' relates to investments in unrated building societies and unrated banks.

The Society has no exposure to foreign exchange risk. All instruments are denominated in Sterling.

Notes to the Annual Report and Accounts (continued)

23. Financial instruments (continued)

The Society's derivative financial assets are analysed in the table below:

	2022 %	2021 %
Rating		
AA	-	-
AA-	100.0%	100.0%
	100.0%	100.0%
	2022 £000	2021 £000
Geographic region		
United Kingdom	2,066	303
	2,066	303
Notional value of derivative financial instruments	53,000	27,500

There are no impairment charges against any of the Society's treasury assets at 31 December.

b) Loans and advances to customers

All mortgage loan applications are assessed with reference to the Society's retail credit risk appetite statement and Board approved lending policy, which includes assessing applicants for potential fraud risk. When deciding on the overall risk appetite that the Society wishes to adopt, both numerical and non-numerical considerations are taken into account, along with data on the current UK economic climate, portfolio information and competitor activity. The statement must comply with all the prevailing regulatory policy and framework.

The lending portfolio is monitored by the ExCo to ensure that it remains in line with the stated risk appetite of the Society.

All mortgage applications are underwritten individually on a case-by-case basis ensuring that they meet the lending policy rules which support the risk appetite of the Society. All mortgage applications will be overseen by the Head of Underwriting who ensures that all lending criteria have been applied and that all information submitted within the application is validated.

Credit risk management information is circulated to the ExCo on a monthly basis to ensure the portfolio remains within the Society's risk appetite.

It is the Society's policy to ensure good customer outcomes and lend responsibly by ensuring that the customer can meet the mortgage repayments. This is achieved by obtaining specific information from the customer concerning income and expenditure and also credit reference agency data.

The maximum credit exposure is disclosed in the table on page 55.

Loans and advances to customers, net of impairment provisions, are shown in the tables below:

	2022 £000	2022 %	2021 £000	2021 %
Residential mortgages - owner occupied	232,356	84.1%	206,782	84.5%
Residential mortgages - buy-to-let	41,710	15.1%	35,923	14.7%
Commercial mortgages	2,218	0.8%	2,069	0.9%
	276,284	100.0%	244,774	100.0%

The Society operates throughout England and Wales.

Notes to the Annual Report and Accounts (continued)

23. Financial instruments (continued)

An analysis of the Society's geographical concentration is shown in the table below:

	2022	2021
	%	%
Outer Metropolitan Area	19.4%	19.9%
Greater London	20.7%	21.1%
Outer South East	16.8%	16.8%
South West	11.7%	11.0%
North West	6.4%	6.6%
West Midlands	6.7%	6.3%
East Anglia	4.0%	4.0%
East Midlands	5.3%	5.7%
Yorkshire and Humberside	4.4%	4.0%
Wales	2.8%	2.7%
North	1.8%	1.9%
	100.0%	100.0%

The Society's low risk approach to lending is reflected in the loan to value (LTV) profile of the mortgage book. The estimated value of the mortgage portfolio is updated on a quarterly basis using the Nationwide Building Society regional House Price Index.

An analysis of the Society's indexed LTV profile is shown in the table below:

	2022	2021
	£000	£000
< 50%	50.6%	53.9%
50% - 60%	13.5%	13.3%
60% - 70%	15.5%	10.9%
70% - 80%	11.6%	12.7%
80% - 90%	5.4%	4.6%
90% - 100%	2.5%	2.0%
> 100%	0.9%	2.6%
Average LTV mortgage loans	50.2%	50.2%
Average LTV new business	61.3%	63.7%

Notes to the Annual Report and Accounts (continued)

23. Financial instruments (continued)

The quality of the Society's mortgage book is reflected in the number and value of accounts in arrears. By volume 0.5% (2021: 0.4%) of loans are three months or more in arrears and by value it is 0.5% (2021: 0.4%).

The table below provides information on mortgage loans by payment due status:

	2022 £000	2022 %	2021 £000	2021 %
Not impaired				
Neither past due nor impaired	268,939	97.3%	240,276	98.3%
Past due up to three months but not impaired	1,170	0.4%	1,812	0.7%
Past due over three months but not impaired	-	-	1,089	0.4%
Possessions	-	-	-	-
	270,109	97.7%	243,177	99.4%
Impaired				
Current	1,025	0.4%	1,476	0.6%
Past due up to three months	3,800	1.4%	30	-
Past due three to six months	252	0.1%	91	-
Past due six to twelve months	200	0.1%	-	-
Past due over twelve months	816	0.3%	-	-
Possessions	82	-	-	-
	6,175	2.3%	1,597	0.6%
	276,284	100.0%	244,774	100.0%

The table below shows the collateral held against the residential loan portfolio:

	Indexed £000	Unindexed £000	Indexed £000	Unindexed £000
Current	783,238	637,176	718,401	575,285
Past due	24,825	16,283	9,976	6,961
	808,063	653,459	728,377	582,246

The collateral consists of property. The collateral values of the mortgage portfolio are updated on a quarterly basis using the Nationwide Building Society regional House Price Index.

With collateral capped to the amount of outstanding debt, the value of collateral held against loans "Past due but not impaired" at 31 December 2022 is £1,170k (2021: £2,901k) against outstanding debt £1,170k (2021: £2,901k). In addition, the value of collateral held against "Impaired" assets at 31 December 2022 is £6,175k (2021: £1,146k) against outstanding debt of £6,175k (2021: £1,597k).

Mortgage indemnity insurance acts as additional security. It is taken out for residential loans where the borrowing exceeds 80% of the value of the property at the point of application.

The status "Past due up to three months but not impaired" and "past due over three months but not impaired" includes any asset where a payment due is received late or missed but no individual provision has been allocated. The amount included is the entire loan amount rather than just the overdue amount.

Possession balances represent those loans where the Society has taken ownership of the underlying security pending its sale. Repossessed properties are made available for sale in accordance with statutory guidelines with proceeds used to reduce or repay the outstanding loan. Any collateral surplus on the sale of repossessed properties, after a deduction for costs incurred in relation to the sale, would be returned to the borrower.

Notes to the Annual Report and Accounts (continued)

23. Financial instruments (continued)

Forbearance

The Society has various forbearance options to support customers who may find themselves in financial difficulty. These include payment plans, capitalisations, term extensions, temporary transfer to interest only and reduced payment concessions.

All forbearance arrangements are formally discussed with the customer and reviewed 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 on a monthly basis. 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.

At the end of December 2022, the Society had forbearance measures in place with 13 customers (2021: 13).

An individual impairment provision of £Nil (2021: £Nil) has been provided for cases in forbearance.

In total £13k (2021: £146k) of forbearance cases are past due by three or more months against outstanding balances of £1,762k (2021: £1,366k).

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 an appropriate amount of its total assets are carried in the form of cash and other readily realisable assets in order to:

- Meet day-to-day business needs;
- Meet any unexpected cash needs;
- Maintain public confidence; and
- 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 weekly.

The Society's liquidity policy is designed to ensure that 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 Society's Internal Liquidity Adequacy Assessment Process (ILAAP). They include scenarios that fulfil the specific requirements of the PRA (the granular, benchmark and enhanced stress tests) and scenarios identified by the Society which are specific to its business model. The stress tests are performed at least quarterly and reported to ALCO to confirm that liquidity policy remains appropriate.

The Society's liquid resources comprise high quality liquid assets, including a Bank of England reserve account, Gilts and time deposits. At the end of the year the ratio of liquid assets to shares and deposits was 22.5% compared to 23.4% at the end of 2021.

The Society maintains a contingency funding plan 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.

Society assets can be used to support collateral requirements for secured funding or central bank operations. Encumbrance benefits the Society as it provides cheaper and more stable funding. However, depositor members and other senior unsecured creditors are unable to benefit from the liquidation of encumbered assets in the event of insolvency, and risk bearing losses from a forced sale. Encumbrance is therefore reported and the associated risks are managed. An analysis of how the Society has used its statement of financial position in this regard at 31 December 2022 and 2021 is set out in the table below:

	2022 £000	2021 £000
Loans and advances to customers	66,148	52,501
	66,148	52,501

Notes to the Annual Report and Accounts (continued)

23. Financial instruments (continued)

Financial assets are pledged as collateral to the Bank of England to support the borrowings from the Term Funding Scheme with additional incentives for SMEs (TFSME) and also to support contingent liquidity drawings if required.

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

	On demand £000	Not more than 3 months £000	More than 3 months but not more than 1 year £000	More than 1 year but not more than 5 years £000	More than 5 years £000	Total £000
At 31 December 2022						
Shares	110,461	30,547	82,624	42,738	3	266,373
Amounts owed to credit institutions	-	221	812	32,839	-	33,872
Amounts owed to other customers	12,410	6,438	12,693	155	-	31,696
Derivative financial instruments	(14)	(29)	(130)	(63)	-	(236)
Total financial liabilities	122,857	37,177	95,999	75,669	3	331,705
Off balance sheet exposure - mortgage commitments	22,594	-	-	-	-	22,594
	145,451	37,177	95,999	75,669	3	354,299
At 31 December 2021						
Shares	105,512	31,363	76,696	8,116	3	221,690
Amounts owed to credit institutions	-	10	58	31,215	-	31,283
Amounts owed to other customers	12,303	8,907	13,177	-	-	34,387
Derivative financial instruments	-	18	(32)	(222)	-	(236)
Total financial liabilities	117,815	40,298	89,899	39,109	3	287,124
Off balance sheet exposure - mortgage commitments	16,430	-	-	-	-	16,430
	134,245	40,298	89,899	39,109	3	303,554

The analysis of gross contractual cash flow 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.

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

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices consists of three types of risk: currency risk, interest rate risk and other price risk. Of these, only interest rate risk is significant for the Society. The Society only deals with products denominated in sterling so is not directly exposed to currency risk. Its products are only interest rate orientated so are not exposed to other pricing risks.

The Society is exposed to interest rate risk in the form of changes (or potential changes) in the general level of interest rates, changes in the relationship between short and long-term interest rates and divergence of interest rates for different statement of financial position elements (basis risk).

The Society has adopted the “Matched” approach to interest rate risk, as defined by the PRA, which aims to match the interest rate profile of both its assets and liabilities within tight limits set by the Board, and only to the extent that the PRA is satisfied that the Society has the requisite risk management capability. Regular monitoring of both the interest rate gap and the basis risk are reported to ALCO on a quarterly basis.

The Society also monitors the sensitivity of its interest rate risk based on a full statement of financial position gap analysis. The statement of financial position is subjected to a stress test of a 200 basis point (bp) parallel rise in the SONIA yield curve which is performed monthly and reported to ALCO on a quarterly basis.

Notes to the Annual Report and Accounts (continued)

23. Financial instruments (continued)

The following table shows a summary of the Society's interest rate risk exposure. The table include all assets and liabilities, including derivative financial instruments which are used solely to reduce exposure to interest rate risk, categorised by repricing date.

	2022 £000	2021 £000
Sensitivity of reported reserves to interest rate movement (economic value)		
As at 31 December	-379	-305
Average for period	-674	-152
Maximum for period	-379	182
Minimum for period	-1,123	-362

Capital

The Society has a policy to maintain a strong capital base to ensure Member, creditor and market confidence are maintained and to support long term sustainable growth.

The Society prepares an Internal Capital Adequacy Assessment Process (ICAAP), which focuses on ensuring the capital resources of the Society are sufficient to support its plan both in normal and stressed conditions. The ICAAP is aligned to the strategic plan and the combination of both ICAAP and strategic plan ensure that the Society maintains sufficient capital to support its planned business objectives. The Board monitors the Society's capital position on a regular basis 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 a Board agreed risk appetite measure which aims to maintain capital at a level that exceeds, but is no lower than, its Total Capital Requirement.

The Society manages its capital and risk exposures to maintain the capital in line with regulatory requirements which includes monitoring of:-

- Lending decisions
In order to manage credit risk a comprehensive set of sectoral limits are maintained in the Society's lending policy. Individual property valuations are monitored against the Nationwide house price index (HPI);
- Concentration risk
The overall mix of the loan portfolio is taken into account when designing lending products. This is to manage the Society's exposure to risks arising from the markets the Society actively operates in;
- Counterparty risk
Wholesale lending is only carried out with approved counterparties within Board agreed limits that reflect the Society's risk appetite.

Stress tests are also used as part of the process of managing capital requirements.

The Society's capital requirements are set and monitored by the PRA. During 2022 the Society has continued to comply with the European Union Capital Requirements Regulation and Directive (Basel III) as amended by the PRA.

Regulatory capital is split into two tiers:-

- Tier 1 capital made up of retained earnings, revaluation reserve less intangible assets and other regulatory adjustments; and
- Tier 2 capital which is the collective impairment provision.

The level of capital is matched against risk-weighted assets which are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets.

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.

Notes to the Annual Report and Accounts (continued)

23. Financial instruments (continued)

The Society's regulatory positions as at 31 December 2022 under the Standardised Approach (unaudited) was as follows:

	2022 £000	2021 £000
Tier 1 capital		
Reserves	28,547	27,303
Less Intangible fixed assets	(155)	(109)
Other regulatory adjustments	(1,167)	-
	<u>27,225</u>	<u>27,194</u>
Tier 2 capital		
Collective impairment provision	176	16
	<u>176</u>	<u>16</u>
Regulatory capital	<u><u>27,401</u></u>	<u><u>27,210</u></u>

24. Guarantees and other financial commitments

Capital commitments

As at 31 December 2022 the Society had capital commitments or contracted capital expenditure of £Nil (2021: £Nil).

Lease commitments

The total of future minimum lease payments under non-cancellable operating leases were as set out below:

	2022 £000	2021 £000
Within one year	-	3
In the second to fifth years inclusive	<u>-</u>	<u>-</u>

25. Country-by-Country reporting

The Capital Requirements (Country-by-Country reporting) Regulations 2013 introduced reporting obligations for institutions within the scope of the European Union's Capital Requirements Directive (CRD IV).

Article 89 of the CRD IV requires credit institutions and investment firms in the EU to disclose annually, specifying by Member State and by third country in which it has an establishment, the following information for the year ended 31 December 2022:

No detailed country by country reporting is being provided due to the information given in point a) below.

- The Buckinghamshire Building Society, which is a deposit taking and secured home finance lending entity, has all of its operation based in England and its statement of financial position entirely denominated in Sterling.
- The number of employees is disclosed in note 6 of the accounts.
- Turnover and pre-tax profit are disclosed in the Income and Expenditure Account on page 37.
- Corporation tax paid is disclosed in the Cash Flow Statement on page 40.

The Society has not received any public subsidies.

Glossary of Terms

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:

Basis point

One hundredth of a percent (0.01%), so 100 basis points is 1%. Used in quoting movements in interest rates or yields on securities.

Contractual maturity

The final payment date of a loan or other financial instrument.

Cost/income ratio

The cost-to-income ratio (also called the cost/income ratio or C/I ratio) is the measure of the costs of running the Society in relation to its operating income.

Effective interest rate method (EIR)

The method used to measure the carrying value of a financial asset or a liability and to allocate associated interest income or expense to produce a level yield over the relevant period.

Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between willing parties in an arm's length transaction.

Forbearance strategies

Strategies to assist borrowers in financial difficulty, such as interest only concessions, payment plans and reduced payment concessions.

Free capital

Represents the aggregate of gross capital and collective impairment provision less intangible and tangible fixed assets.

General reserves

The accumulation of the Society's post-tax profit since inception. It is the Society's main component of Tier 1 which is a measure of strength and stability.

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 when they are contractually due.

Individually/collectively assessed

Individual assessments are made of all mortgage loans where objective evidence indicates losses are likely or the property is in possession. A collective impairment provision is made against the remaining group of loans and advances where objective evidence indicates that it is likely that losses may be realised.

Interest Margin

Represents net interest income divided by mean total assets.

Internal capital adequacy assessment process (ICAAP)

The Society's own assessment of the level of capital that it needs to hold for risks it faces under a business-as-usual scenario and a variety of stress scenarios.

Liquid assets

Total of cash in hand and balances with the Bank of England, loans and advances to credit institutions, and investment securities.

Liquidity ratio

Liquid assets as a percentage of shares and borrowings.

Liquidity risk

The risk that the Society is not able to meet its financial obligations as they fall due, or will have to do so at an excessive cost. This risk arises from timing mismatches of cash inflows and outflows.

Loan to value ratio (LTV)

A ratio which expresses the amount of a mortgage as a percentage of the value of the property. The Society calculates residential mortgage LTV on an indexed basis (the value of the property is updated on a quarterly basis to reflect changes in the house price index).

Loans past due/past due loans

Loans are past due when a counterparty has failed to make a payment when contractually due.

Management expenses

Management expenses represent the aggregate of administrative expenses, depreciation and amortisation. The management expense ratio is management expenses expressed as a percentage of mean total assets.

Market risk

The risk that movements in market risk factors, including interest rates, credit spreads and customer-driven factors will create losses or decrease portfolio values.

Mean total assets

Represents the average of the 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.

Mortgage arrears

A customer is in arrears when they are behind in fulfilling their obligations with the result that an outstanding loan commitment is overdue. Such a customer can also be said to be in a state of delinquency.

Net interest income

The difference between interest receivable on assets and similar income and interest payable on liabilities and similar charges.

Risk appetite

The articulation of the level of risk that the Society is willing to take (or not take) in order to safeguard the interests of the Society's members whilst achieving business objectives.

Risk weighted assets

Risk weighted assets are used to determine a financial institution's minimum capital requirements. Risk weighted assets are computed by adjusting each asset class for risk in order to determine a financial institution's potential exposure to losses. For example, an unsecured loan is considered to carry more risk than a loan secured by a residential property (mortgage).

Residential loans

Residential mortgage loans secured against residential property.

Retail deposits

Money deposited by small and medium sized entities in a savings account with the Society. Such funds are recorded as liabilities for the Society.

Retail shares

Money deposited by a person in a savings account with the Society. Such funds are recorded as liabilities for the Society.

Shares and borrowings

Represents the total of shares, amounts owed to credit institutions and amounts owed to other customers.

Total capital ratio

Measures the Society's reserves (after required adjustments) as a proportion of its risk weighted assets.

Tier 1 capital

A measure of financial strength as defined by the PRA. Tier 1 capital is divided into Common Equity Tier 1 and other Tier 1 capital. Common Equity Tier 1 capital comprises general reserves from retained profits. The book value of intangible assets is deducted from Common Equity Tier 1 capital and other regulatory adjustments may be made for the purposes of capital adequacy.

Annual Business Statement

Statutory percentages

	2022 %	Statutory limit
The lending limit Proportion of business assets not in the form of loans fully secured on residential property	2.10%	25.00%
The funding limit Proportion of shares and borrowings not in the form of shares held by individuals	19.33%	50.00%

- Business assets are the total assets of the Society as shown in the statement of financial position plus impairment provisions, less intangible fixed assets, tangible fixed assets and liquid assets. Loans fully secured on residential property are the amount of principal owing by borrowers, interest accrued not yet payable and effective interest rate adjustment. This is the amount shown in the statement of financial position plus impairment provisions.
- The above percentages have been calculated in accordance with, and the statutory limits are those prescribed by, sections 6 and 7 of the Building Societies Act 1986 as substituted by the Building Societies Act 1997.
- The statutory limits ensure that the principal purpose of a building society is that of making loans which are secured on residential property and are funded substantially by its members.

Other percentages

	2022 %	2021 %
As a percentage of shares and borrowings:-		
Gross capital	8.79%	9.54%
Free capital	8.30%	9.04%
Liquid assets	22.45%	23.39%
As a percentage of mean total assets:-		
Profit after taxation	0.37%	0.46%
Management expenses	1.60%	1.43%

The above percentages have been prepared from the Society's accounts and:

"Shares and borrowings" represents the aggregate of shares, amounts owed to credit institutions and amounts owed to other customers.

"Gross capital" is the general reserve and the revaluation reserve

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

"Mean total assets" represent the average of the total assets at the beginning and end of the financial year.

"Liquid assets" has the same meaning ascribed in the statement of financial position.

"Management expenses" represents the aggregate of administrative expenses and depreciation and amortisation.

Other Directorships of Board members as at 31 December 2022

Name	Month and Year of Birth	Date of appointment	Position	Other directorships
Dick Jenkins	September 1957	01.05.2018	Chair	-
Eric Leenders	March 1967	23.04.2014	Vice Chair	Registry Trust Ltd
Rebecca McBride	November 1972	01.05.2021	Non-Executive Director	-
Andy Lucas	May 1967	01.05.2021	Non-Executive Director	Cirencester Friendly Society YMCA Trinity Group The Christian Conference Trust
Chris Potter	September 1965	04.01.2022	Non-Executive Director	Royal Institution of Great Britain
Jo Carter	June 1963	03.10.2022	Non-Executive Director	Arborate Limited
Dan Wass	February 1974	19.09.2022, received regulatory approval on 07.12.2022	Chief Executive Officer	-
Darrin Ramdeen	February 1977	08.07.2019, received regulatory approval on 23.09.2019	Finance Director	Building Societies Trust Ltd

The Executive Directors each have a Service Agreement with the Society terminable by either party giving six months' notice. Dan Wass' Service Agreement was signed on 14 July 2022; Darrin Ramdeen's Service Agreement was signed on 3 May 2019.



BUCKINGHAMSHIRE 
— BUILDING SOCIETY —

High Street
Chalfont St Giles
Bucks HP8 4QB

Telephone : 01494 879500
Website : www.bucksbs.co.uk
Email : info@bucksbs.co.uk

The Society is a member of the Building Societies Association and the Financial Services Compensation Scheme.

Buckinghamshire Building Society is authorised by the Prudential Regulatory Authority and regulated by the Financial Conduct Authority and the Prudential Regulatory Authority. Registration number 206022.

We have commissioned a local illustrator, Phil Langley, to create this representation of the wonderful county of Buckinghamshire that we are proud to call our home. We hope you like it.