



REPORT & ACCOUNTS

THERE TO SUPPORT OUR
MEMBERS, YEAR AFTER YEAR.

2022/2023

dudley
your Building Society



Contents

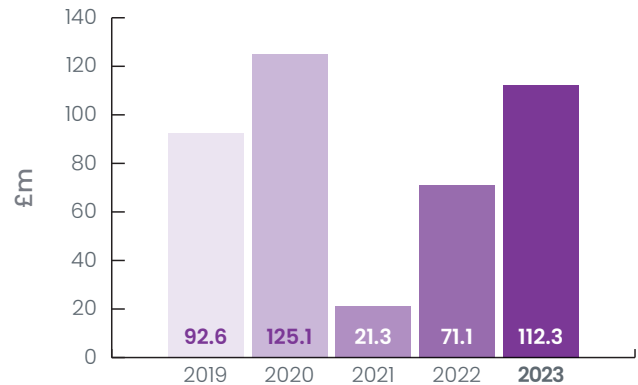
4	Performance Highlights
5	Directors, Management and Advisors
6	Chair's Statement
8	Chief Executive's Review
14	Strategic Report
30	Directors' Report
34	Corporate Governance Report
44	Audit and Compliance Committee Report
48	Directors' Remuneration Report
50	Directors' Responsibilities
51	Independent Auditor's Report
59	Income Statement
60	Statement of Comprehensive Income and Statement of Change in Members' Interests
61	Statement of Financial Position
62	Cash Flow Statement
63	Notes to the Accounts
108	Annual Business Statement
112	Appendix
114	Locations and Contact Details

Performance Highlights

Mortgages

- We followed last year's return to growth with a strong mortgage performance, lending £112.3 million to help new members and other customers to acquire or remortgage their home
- Mortgage assets grew from £410.5 million to £436.1 million as a consequence
- Total arrears reduced over the year and 3+ month arrears cases remained low, up to 7 from 6 cases.

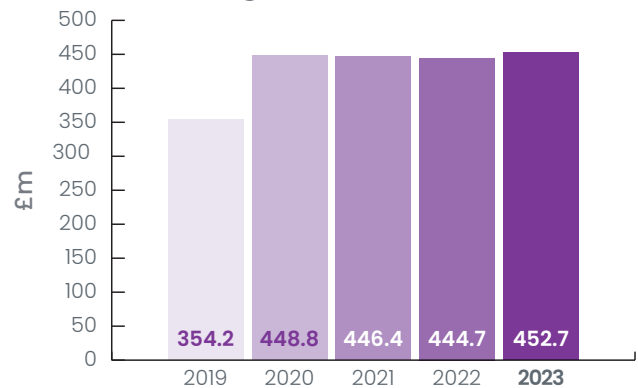
Gross Lending 2019 – 2023



Savings and Funding

- Share balances grew to £452.7 million, our highest recorded level at year-end
- The changing UK interest rate environment provided the opportunity to raise rates on existing products and offer attractive new products
- Our holdings of liquidity are significantly higher than both our internal and regulatory requirements.

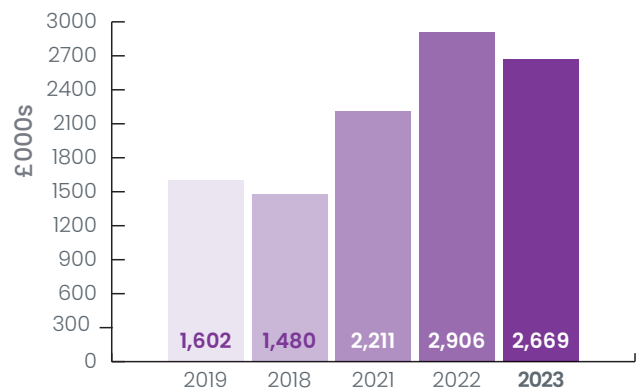
Savings Balances 2019 – 2023



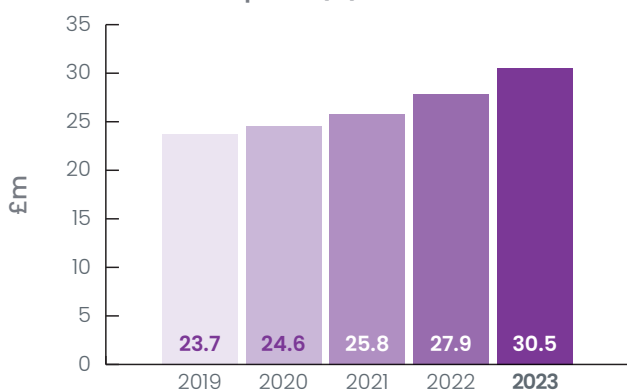
Financial Strength

- Our profit before tax was £2.7 million, slightly lower than last year's £2.9 million
- The main reason for the lower profit was an increase in impairment provisions, due to the impact of reducing house prices
- The profits will be used to grow the business, maintain fair and competitive pricing and invest in services and our community.

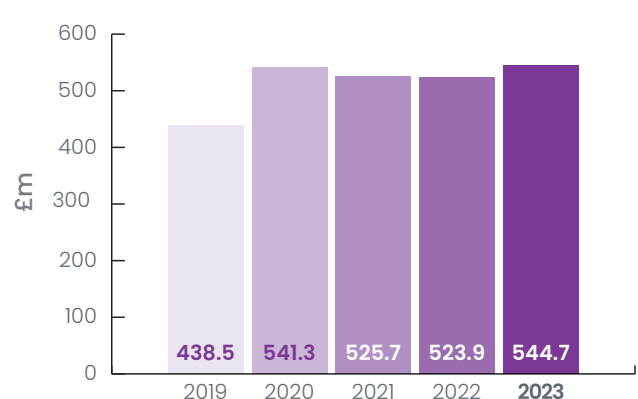
Profit Before Tax 2019 – 2023

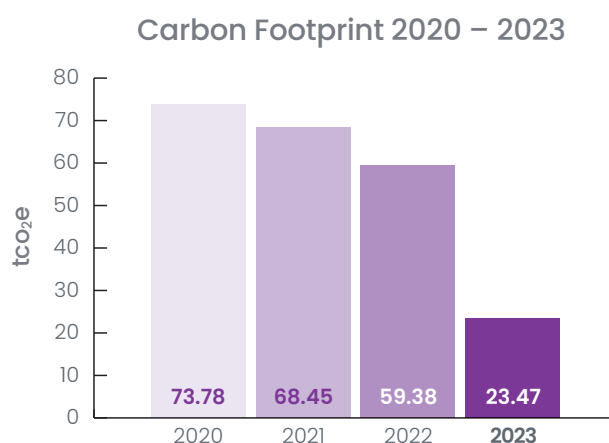
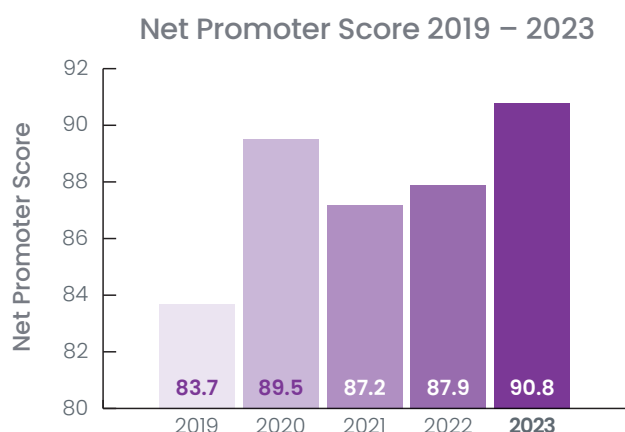


Capital (£) 2019 – 2023



Total Assets 2019 – 2023





Directors, Management and Advisors

Principal Office Address:

7 Harbour Buildings
The Waterfront
Brierley Hill
West Midlands
DY5 1LN

Independent External Auditor

PricewaterhouseCoopers LLP
One Chamberlain Square
Birmingham
B3 3AX

Management

Chief Executive
James Paterson

Chief Financial Officer
Stephen Heeley

Society Secretary
Claire Hyde

Directors

Chairman
Peter Hubbard

Deputy Chair
Nicole Coll

Joanna Baldwin
Zamir Chaudhry
Tariq Khatri
James Paterson
Stephen Heeley

Internal Auditor

RSM Risk Assurance Services LLP
St Philips Point
Temple Row
Birmingham
West Midlands
B2 5AF

Chair's Statement

I am delighted to report another year of excellent progress for your Society and some exciting developments for our future. I look forward to updating you further at our forthcoming Annual General Meeting, which this year will be held in July at the Black Country Living Museum.

SUPPORTING MEMBERS IN DIFFICULT TIMES

The backdrop to the last financial year has again been challenging. Although the impact of COVID-19 continues to be part of our lives, the increases to the cost-of-living that I referred to last year are now dominating the agenda and making life difficult for many in the UK.

There is hopefully better news to come, with inflation expected to fall this year, but this does not change the fact that the day-to-day costs of running a household are much higher than they were twelve months ago and this will be putting a strain on many families.

In difficult times, our job is to make sure we are giving our members all the support we are able to give. Our mortgage members, in particular, may be facing higher interest rates than they expected when fixed-rate deals come to an end, alongside other higher living costs. Thankfully, our mortgage arrears remain at very low levels, but there are early signs that some of our borrowers are starting to worry about their financial position. We have made sure that support is available through our telephone lines and website and are dealing sensitively and effectively whenever a member reaches out to us.


It is also clear that some savings members have had to draw out funds in order to meet day-to-day needs or to help their families. Our branches have been available throughout this period, making sure that members have access to cash, advice and support from our colleagues. We always encourage members to reach out to us when they have financial concerns.

This is a challenging time to run a financial services business. The global political situation remains problematic, with the war in Ukraine now running into its second year and causing misery in that part of the world. These issues impact the UK economy, with additional uncertainty arising from political decisions made in this country.

The Bank of England base rate, which once seemed anchored near to zero, has now risen to 4.50% and it is not yet clear whether this is the peak, or when rates will start to reduce.

At every rate change we have made decisions based on balancing the needs of our savings and mortgage members. The rate rises have provided the opportunity for us to increase savings rates across all of our products, which is good news for members who have been looking for better returns from their money.

These rises have to be paid for by our mortgage members, and mindful of the impact on our borrowers, we have been careful not to pass all of the Bank of England rate rises onto them. ■



**OUR JOB IS TO
MAKE SURE WE
ARE GIVING OUR
MEMBERS ALL THE
SUPPORT
WE ARE ABLE
TO GIVE...**

DEVELOPING OUR STRATEGY

Despite these challenges, the Society is moving forward at pace in developing our strategy for the years to come. James Paterson, our new CEO, is now firmly at the helm and leading a range of exciting initiatives.



THE BOARD IS EXCITED ABOUT THE FUTURE PROSPECTS OF THE SOCIETY AND WHAT WE CAN DO FOR YOU OUR MEMBERS.

There are three initiatives I would draw attention to specifically.

1. Our community

As a regional building society, we believe we have a key role to play in supporting our community and helping it to prosper. We are developing our plans for how we will provide this support and have recruited a new role to work on this strategy and its implementation. We also noted in last year's Annual Report that we would allocate 2% of each year's profits to community activities. Part

of that allocation from the 2021/22 profits has been put into a £30,000 Community Fund, further details of which can be found later in the Strategic Report. We were delighted to be able to support so many good causes across the region with this funding.

2. Member experience

The feedback that we receive regarding our customer service continues to be excellent, but we are not in any way complacent. We know that there is more we can do to improve many aspects of the day-to-day experience that you have when you deal with us and we continue to invest in improving this.

3. Intermediaries

Mortgage Advisors are integral to our ability to increase our mortgage membership. We have invested in developing how we deal with them day-to-day, and are introducing new technology to help us.

In addition to these three key areas we will also further develop our plans in respect of climate change and build these into a core part of our strategy.

OUR COLLEAGUES

I would like to thank our colleagues for all they have done this year, to support members, grow the business and develop strategy. There is an enormous amount of potential in this business and the enthusiasm, positivity and empathy of our people are at the heart of it.

James Paterson was formally appointed to the Board, as Chief Executive Officer, following the last AGM. Sam Ward left the Board and the Society in February, having worked at the Dudley for 21 years. We wish her well for the future.

The Board is excited about the future prospects of the Society and what we can do for you our members.



THERE IS AN ENORMOUS AMOUNT OF POTENTIAL IN THIS BUSINESS AND THE ENTHUSIASM, POSITIVITY AND EMPATHY OF OUR PEOPLE ARE AT THE HEART OF IT.

I would like to thank my fellow Board Members for their support and for the variety of skills and experience that they bring to the business. Finally, may I once again thank you for your ongoing engagement and commitment to Dudley Building Society. ■

WE RUN THIS BUSINESS FOR YOU.

Peter Hubbard

Chief Executive's Review

I am very proud to have joined Dudley Building Society, and excited to be able to help improve the lives of our members.

In this, my first Chief Executive's Statement for the Society, I will outline how the Society has performed over the last year, note the progress made to develop a clear purpose and vision for the Society, and give my thoughts on the outlook for the Society and our members.

I would first like to say thank you to my predecessor, Jeremy Wood, for all he did for the Society during his ten years as Chief Executive. The Society I joined is financially safe, with products and services our members value, led by skilled and engaged people. This gives us a great base to build upon as we move into the next ambitious chapter of the Society's history under my leadership. ■

THE SOCIETY IS FINANCIALLY SAFE, WITH PRODUCTS AND SERVICES OUR MEMBERS VALUE.

WE HAVE A GREAT BASE TO BUILD UPON AS WE MOVE INTO THE NEXT AMBITIOUS CHAPTER OF THE SOCIETY'S HISTORY.

Review of the year

MORTGAGES

Our ongoing ambition is to continue to grow our mortgage book, which supports the Society being able to offer competitive savings rates, invest in improvement of our customer experience and attract and retain the talented people who will support the Society in delivering for our members.

This year has seen a fundamental change in the UK economic situation, including sustained increases in the Bank of England Base Rate, cost-of-living challenges, and uncertainty in the path of house prices. Despite these challenges, your Society has continued to grow.

This year, our mortgage book grew 6.2% year-on-year, closing at £436.1 million. We have also been able to continue to grow the income the Society earns from the monies lent out on mortgages.

We achieved this in a challenging environment which included a short hiatus of accepting new applications when interest rates were particularly volatile, to make sure we rightly prioritised the needs of existing members and those who had already applied with us earlier in the year. We promptly returned to the mortgage market in December 2022.

As the Chair has noted, our helpful Customer Service Teams are ready to assist our mortgage members if and when they need us. We made sure that existing members had the option of a fixed rate mortgage when their existing deal ended, and put in place additional support for members facing difficulties paying their mortgage. We also prepared ourselves financially to be ready if our arrears figures and defaults rise due to the cost-of-living crisis, or if house price falls reduce the value of our security, leading to higher impairment provisions which resulted in the Society delivering a lower profit than last year.

It is testament to the quality of the Society's mortgage lending that the number of members in arrears at the end of the year was 34, which is better than the last financial year (47). Very few cases were in 3 or more months in arrears: 7 at the end of the year, compared with 6 at the end of the prior year.

Moving forwards, our aim is to continue to grow through a focus on our strong partnerships with mortgage intermediaries and our ability to offer mortgages to borrowers who find it difficult to access a mortgage with larger mortgage lenders. This is underpinned by our common-sense, human approach to the criteria we apply when assessing mortgages, enabling us to support more people in achieving their ambitions of home ownership. We will continue to build on our understanding of the needs of potential mortgage customers and develop our proposition based on member feedback and insight. ■

We are actively investing in our ability to grow our mortgage book. Our team has grown this year to bring in further skills and knowledge around the intermediary mortgage market, and we are investing in technology to further improve our services to intermediaries and members.

SAVINGS

Our savings members may know that, until recently, the UK has been in a very low interest rate environment.

This has meant that attractive savings products have been few and far between. The Society restricted its mortgage lending during the early years of the COVID-19 pandemic, and this resulted in us holding excess liquidity, over and above what was required to support our mortgages. This meant that we did not need to encourage savings deposits in to lend money on new mortgages.

Our ongoing focus on growing mortgages, as well as the changes in the Bank of England Base Rate, have allowed us to do three things. Firstly, we have raised interest rates multiple times on every one of our existing variable savings accounts. Secondly, we have been able to offer new attractive branch and online products to both our existing and new members. Thirdly, we have chosen to open our full range of fixed-rate maturity products to all our existing members.

We do not put onerous restrictions on existing members accessing our best products, and advertise all of our new products on the Society's website. We also distribute an email newsletter, which all members can opt-in to receive, providing an alert when a new product is launched.

Members will know we are committed to maintaining our branch network. To compliment this service, and recognising the feedback from members, we launched our online savings service in 2021, and many existing members have already registered. Whilst most of our savings come from our branches, we have also tested our ability to use the platform to acquire savings online this year. This is important to ensure the Society has proven capability to do so if such deposit raising is required.

As we go forward, we are thinking more about the services we offer both savers and the community in our branches. We know many of our members value a local institution which is safe and secure, with helpful and knowledgeable people empowered to help. We are open-minded to whether we extend the branch network and the services offered, and unlike many others, are committed to keeping services open and available in person locally. ■

Looking forward

OUR CUSTOMERS

As our Chair referenced in his report, we are making customer experience a key part of our strategy.

We will focus on every aspect of customer interaction, whether that be joining the Society for the first time by taking out a mortgage or savings product, or our members' ongoing experience with the Society.

We want to improve across all these areas, and are doing so from a strong base. Our customer service scores, measured independently by Smart Money People, continue to be excellent. It is clear from the feedback that we receive that our colleagues are devoted to providing great service to our members. Our customer feedback score at 31 March 2023 was 97% (2022: 97%) and our net promoter score (NPS) increased from 87.9 to 90.8 over the year. Further details of this measure are given later in this Strategic Report.



**OUR CUSTOMER
FEEDBACK SCORE
WAS 97% FOR THE
2ND YEAR IN A ROW.**

We have also been working with a third party to build and focus our customer experience strategy. The insights collected from members of the Black Country community using an online forum mean that we can develop our products and services in future years, to cater to the specific needs of the local community.

One of the most complex interactions we have is with customers looking for a new mortgage. We understand that to provide a great experience, we need our people, processes and systems to be working well. As I have mentioned already, we are investing in our technology in this area to hopefully significantly improve the customer experience at what, for many, will be their first interaction with the Society. I will update you further as progress is made. ■

OUR COMMUNITY

Dudley Building Society came into existence over 165 years ago, to improve the lives of those living in the Black Country.

I believe very strongly that our building society should continue to focus on its community, and to do what we can to support its regeneration and the people that live here.

This year we launched a Community Support Fund, which provided £30,000 to local charities and groups in real need. We recognise the role of a building society is to help people in its communities.

The online forum that I referred to earlier helped us here too, by giving us valuable insights about new areas where we could potentially help. We also met with several business and political leaders across the region, to find people we could work with to help meet regional needs.

From this insight, we are developing a community strategy that will help us continue our original purpose of improving lives in our region. We expect our initial focus to be on providing financial education and provision of support services, using our branches and online services. To help, we have hired a new role which will focus exclusively on community issues. ■

OUR CLIMATE

Building societies have a key role to play in running responsible and sustainable businesses, including in how they manage their businesses.

This year we have already taken steps to limit our own impact on the environment, reducing our carbon emissions year-on-year by a total of 68.2% since 2020. We will continue to review how we can take further action to sustainably reduce our emissions over the coming years and play a leading role in being a part of a better future.

We are considering how we improve our societal, environmental and governance approach. This coming year we are reviewing moving to an external standard which will support a greater focus on doing business for good. This may include considering certification from an industry standard.

Looking out further, housing represents one of the key sources of emissions in the UK that contribute to climate change. As we help people to own and maintain their homes, I believe we need to consider carefully how and where we can assist in minimising those emissions. This year, we added further information to our website on how people can make their homes more energy efficient and in turn reduce their own emissions. We will continue to reflect on how we can improve our support to members and the community who wish to make a positive difference. ■

OUR CAPABILITY

Since joining, I have been hugely impressed by the motivated and enthusiastic colleagues that work here and look forward to leading them in our future endeavours.

// WE ARE DELIGHTED THAT OUR ANNUAL STAFF SURVEY'S ENGAGEMENT SCORE WAS 77%.

I want to thank every member of the team for the role they play in helping improve the lives of our members. It has been a challenging time for employees as well as members. Although we are hopefully through the worst of COVID-19, it continues to impact on working life and it still causes absences from time-to-time. Thankfully, it has not significantly impacted our operations this year.

We have learnt some positive lessons from our experience of COVID-19. In the summer of 2022, we decided to change working arrangements to hybrid working. This allows us to balance the needs of customers, the productivity benefits of working more flexibly, and the clear advantages of our people spending face-to-face time with their colleagues. It is great to see that our branches and offices are full of people and there is a real buzz around the place.

The rising cost-of-living has significantly impacted our people too. Balancing our need to manage costs alongside our desire to support our people, we provided a higher annual pay rise than previously planned, and gave a one-off payment to all of our employees below director level. Alongside the launch of our Community Support Fund, we also established a support fund for our people when experiencing financial difficulty. It is important that both our people and our community are looked after while times are hard.

Given these difficult times, we are delighted that our annual staff survey's engagement score was 77%. This is an excellent score, broadly consistent with last year.

We are not stopping there and continue to develop our employee experience strategy alongside our customer experience work. In the 2022/23 financial year we introduced a new employee communication platform, implemented new development programmes for our managers and emerging talent and established our diversity and inclusion programme.

We will continue to work on these and other employee initiatives in the coming year. We will also continue to review the level of investment required in our people, skills, and knowledge, to ensure the Society continues to grow in an ambitious, safe, and sustainable manner. ■

THE OUTLOOK

Economic conditions remain difficult, but there are reasons for optimism.

The UK may avoid a recession, and if there is a recession it is hoped that this will be less severe and ease quicker than earlier thought. Inflation should start to fall this year and the consensus is a peak in interest rates in 2023, before potentially starting to reduce gradually. Forecasts of unemployment and the fall of house prices are also less severe than previously thought.

There remain difficult conditions to navigate, both for the Society as a financial services provider and for you as members. As noted earlier, and expanded upon later in the Financial Review, the Society is in very good financial shape and we stand ready to support our members as and when they need us.

Our ambition is to continue to grow the Society, and our purpose is to be there to help people live better lives. We will be there when you need us, to listen and act, for you and your family.

I am passionate about the role this building society can play, in delivering an excellent customer experience, actively supporting our community, and playing our part in helping the climate.

We will continue to demonstrate this in what we do and have great ambitions for the Society. This will mean continuing to invest in the future of the Society.

With our people and the support of our members, I am sure we will do great things and continue to stand on the shoulders of those who came before us, to ensure the Society continues to thrive and grow, and help more people live better lives, for another 165 years. ■

// I AM PASSIONATE ABOUT THE ROLE THIS BUILDING SOCIETY CAN PLAY, IN DELIVERING AN EXCELLENT CUSTOMER EXPERIENCE...

James Paterson





Strategic Report

This report describes the Society’s strategy, business objectives and principal activities. It includes the Financial Review, which gives details of the Society’s financial position and performance over the year, and the Social Responsibility section which highlights how we act as a responsible business and our focus on having a positive impact on society.

The Society was established in 1858 with the aim of helping local people to buy their own homes. As set out in the Chairman’s and Chief Executive Officer’s statements, our strategy has evolved to include more emphasis on customer experience and community. The revised Strategy was approved at the March 2023 Board and is summarised as follows:



The customer and community elements of the strategy are set out in more detail in the Social Responsibility section later in this Strategic Report. Over the coming year, the climate change element of the strategy will be added.

The foundation of the strategy is the continued growth of value through our business operations. Our customer value proposition describes how we will deliver that value back to members. Through our planning processes, we ensure that we will generate sufficient value to realise our ambitions and help people to live better lives. We believe strongly that this is our purpose as a building society.

The environment remains challenging, with difficult geopolitical conditions prevailing including the continuing situation in Ukraine, a UK economy that is not growing, continued high inflation, uncertain movements in house prices and an unclear future regulatory environment. This has not deterred us from moving forward with our strategy and we have the financial strength to do so.

Business Objectives and Principal Activities

The Society’s principal activity is the provision of long-term residential mortgages to borrowers, financed by personal savings from members.

We grow value for our members by:

- Developing mortgage propositions that can provide solutions to complex needs
- Offering those mortgages by building strong relationships with selected intermediaries
- Funding those mortgages primarily with branch-based savings accounts
- Maintaining a level of margin between mortgage and savings rates that allows the business to grow sustainably and deliver our strategy.

We deliver value to our members by:

- Maintaining our mortgage and savings pricing at rates which are competitive and fair
- Retaining sufficient profit as capital, protecting the Society against risk
- Growing the business so that new members can participate in the Society's success
- Improving customer experience and investing further in capability
- Making a meaningful difference to our community.

Results for the year and Key Performance Indicators

The Board sets the strategy for the Society and uses a set of performance and control reports to oversee delivery, including use of Key Performance Indicators (KPIs). The KPIs in use throughout 2022/23, with previous year comparatives, are presented in the table below with explanatory notes for each measure provided in the appendix.

		2023	2022	2021	2020
Trading performance	Mortgage advances	£112.3m	£71.1m	£21.3m	£125.1m
	Total mortgage assets	£436.1m	£410.5m	£406.2m	£436.6m
	Total shares balances	£452.7m	£444.7m	£446.4m	£448.8m
		2023	2022	2021	2020
Financial strength	Net interest margin	2.49%	2.08%	2.00%	2.03%
	Management expenses ratio	1.83%	1.65%	1.64%	1.65%
	Pre-tax profit	£2.70m	£2.92m	£2.21m	£1.48m
	Regulatory capital	£30.5m	£27.9m	£25.8m	£24.6m
	Liquid assets (% of SDL)	19.9%	22.1%	23.4%	19.7%
	Arrears 3 months or greater (no.)	7	6	11	15
		2023	2022	2021	2020
Non-financial measures	Customer feedback	90.8	87.9	87.2	89.5
	Environmental impact ¹	23.47	59.38	68.45	73.78
	Employee engagement	77%	79%	n/a ²	79%

¹The environmental impact measure is expressed as the number of tonnes of carbon dioxide equivalent (tCO₂e).

²The employee engagement survey was not run in 2021.

Financial Review

The Society prepares its financial results under Financial Reporting Standard (FRS) 102, "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and elects to apply the measurement and recognition provisions of IAS39, "Financial Instruments: Recognition and measurement (as adopted for use in the EU)".

Overview of income statement

£000s	2023	2022
Net interest receivable	13,332	11,287
Other income and charges	(582)	5
Administrative expenses	(9,203)	(8,163)
Depreciation and amortisation	(601)	(462)
Impairment (charge) / credit	(247)	239
Profit before tax	2,699	2,906
Taxation	(531)	(642)
Profit after tax	2,168	2,264

Profit before tax was lower than last year's record by 7.1% year-on-year. This was due to the increase in impairment provision this year, to take account of the rising costs-of-living and reduced house prices, in contrast to last year's provision release. Before the impact of impairment, profits were £279,000 higher than in the previous year. Income has grown year-on-year, and costs have risen due to both inflationary pressures and investments made in the year. Further analysis of these components is provided in the sections below.

Strategic Report (continued)

Net interest receivable

Net interest receivable increased by 18.1% year-on-year. The increase is due to both growth in balances, covered in more detail in the balance sheet section below, and a rising net interest margin.

At the end of the last financial year, our net interest margin stood at 2.15%. At this point, the Bank of England had started to raise interest rates in order to manage inflationary pressures. It raised rates three times in four months, and we passed only the third one of these on to both our savings and mortgage members.

With inflation rising to over 10%, a succession of further rate rises followed in 2022/23, with the Bank Rate closing at 4.25% at the end of this financial year. At each rate rise, we considered the impact on both savings and mortgage members before making the decision on our own rates. The rates on all of our savings products rose over the year with many products having multiple increases. Our mortgage standard variable rate (SVR) also went up a number of times. Given the financial impact of rate rises on borrowers and the need to maintain margin, over the year we have not passed on the full impact of the Bank Rate rises to either set of members.

The rising rates also increased the interest that the Society earns on its liquidity balances held at the Bank of England, and on the swaps that it holds in order to manage interest rate risk. When taken together, these factors widened the net interest margin which closed the year at 2.49%.

Other income and charges

Other income and charges comprise fees and charges not accounted for within the Effective Interest Rate (EIR) methodology and bank charges. Also shown within this summary heading are fair value losses on derivative financial instruments of £435,000 (2021/22: fair value gains of £137,000).

Derivatives are used solely for risk management purposes and are an important tool for managing exposure to changes in interest rates from the Society's portfolio of fixed rate mortgages and savings products. All the Society's derivatives are in economic hedges with the majority in qualifying hedge accounting relationships. The fair value losses are predominantly due to accounting ineffectiveness arising within these relationships and will trend to zero over time.

Management Expenses

Administrative expenses include staff costs together with all other costs and overheads necessary for the Society to function. Together with depreciation and amortisation charges they comprise the total operating costs for the Society.

When taken together, the level of these costs was £1.2 million higher than last year, which is a 13.7% increase.

Total operating costs as a percentage of mean total assets was 1.83%, compared with 1.64% in the prior year.

We noted in last year's report that the Board had approved a separate investment budget, to fund improvements to customer experience and community initiatives as well as further technology improvements. Use of this budget in 2022/23 contributed £0.3 million of the cost increase, the majority of which was used to develop our customer experience framework. We also used this to fund improvements in control systems and to meet our commitment, made last year, to assign 2% of the previous year's profits to community activities.

The capital element of the investment budget was primarily used to fund our Mortgage Origination project. The costs in respect of this project will start to arise as depreciation once the new system has gone live.

Business-as-usual costs have also contributed to the year-on-year rise. This included ensuring that our colleagues were adequately remunerated in the light of the steep rises in the cost-of-living. We increased our colleagues' pay by 6% during the year, with employees on the lowest levels of pay receiving a higher increase. We also provided a one-off payment of £500 to all employees below director level. Inflationary rises have also been passed onto us from many suppliers, resulting in higher IT costs and professional fees.

In summary, the main reasons for the increase costs are due to conscious decisions to support our colleagues and to invest in the business and its capability.

Impairment charges

The Society maintains an appropriate provisioning policy designed to make provisions for any estimated losses resulting from loans that are impaired on either a specific or collective basis. These provisions increased by £247,000 in the year, with the breakdown in this movement shown below:

£000s	2023	2022
Collective impairment charge/(credit)	259	(99)
Specific impairment credit	(12)	(140)
Total impairment charge/(credit)	247	(239)

At 31 March 2023 the Society held provisions totalling £1.2 million (31 March 2022: £0.9 million), analysed as follows:

£000s	2023	2022
Collective provision	795	536
Specific provision	364	376
Total	1,159	912

The Society uses statistical modelling techniques to derive the level of impairment provision required. Further details are set out in Note 1 to the financial statements. Management then applies judgement to decide whether overlays should be applied to the statistical models, to represent the risks inherent within the mortgage book more accurately. It is the reduction in the level of overlay applied to the models that has resulted in the increase of impairment provision noted above.

The main sources of overlay applied at 31 March 2023 were as follows:

- The government provided significant support to borrowers during the COVID-19 pandemic, and this is likely to have reduced the level of loan defaults experienced by the Society over the past two years. The provision model may therefore be understating the probability of default (PD) of mortgages held at 31 March 2023, and an overlay has been added to compensate for this. This overlay stood at £53,000 at 31 March 2023 and was £107,000 at 31 March 2022.
- The UK is continuing to experience very high levels of inflation, which has impacted the cost-of-living and will therefore restrict the money available to borrowers to meet their debt repayments. A further overlay has been added to increase the PD of borrowers, to take account of this impact. This overlay stood at £429,000 at 31 March 2023 and was £433,000 at 31 March 2022.
- House prices are currently falling, and this may reduce the value of security available to the Society should a repossession be required. The Society estimates that an average fall in the house price index of 3% could arise, impacting on the loss arising on loans estimated to have incurred a credit event. An overlay to take account of this fall in HPI has been put in place at 31 March 2023, totalling £217,000.

Arrears Management

The Society continues to actively manage its mortgage accounts in arrears, always considering individual customer circumstances. At 31 March 2023 the Society had no accounts on which payments were twelve months or more in arrears (2022: two, with a total arrears balance outstanding of £15,000 and capital balance of £197,000). For the second year running, the number of cases in arrears fell and as at 31 March 2023, 34 borrowers were experiencing arrears (2022: 47). Specific provisions have been made where necessary in respect of all arrears cases.

At the end of the year the Society had no properties in possession (2022: one property).

The after-tax profit of £2.2 million (2022: £2.3 million) represents 0.41% (2022: 0.43%) of mean total assets. At 31 March 2023 the Society's reserves amounted to £31.2 million (31 March 2022: £29.0 million) and are at a level considered by the Board to offer adequate support for the business.

Assets

Total assets increased during the year by £20.8 million (2022/23: decrease of £8.2 million) and at 31 March 2023 amounted to £544.7 million (31 March 2022: £523.9 million).

Overview of statement of financial position

£000s	2023	2022
Liquid assets	101,864	108,896
Loans and advances to customers	436,145	410,473
Fixed and other assets	6,740	4,574
Total assets	544,749	523,943
Shares	452,705	444,707
Amounts owed to other customers	58,489	48,365
Other liabilities	2,388	1,872
Total liabilities	513,582	494,944
Reserves	31,167	28,999
Total liabilities and reserves	544,749	523,943

Strategic Report (continued)

Liquid assets

The Society holds liquid assets to ensure it can always meet its obligations as they fall due and in accordance with the Board's risk appetite and regulatory requirements.

The majority of the Society's liquid assets are held in the form of deposits with the Bank of England, which qualify as High Quality Liquid Assets (HQLA) using the regulatory definition. Total liquidity at the end of the year comprised:

£m	2023	2022
Bank of England (HQLA)	92	101
Other Bank deposits	10	8
Total	102	109

Total liquidity represented 19.9% of shares and borrowings at the year-end (31 March 2022: 22.1%). The Society manages its liquidity to ensure there is sufficient to cover forecast outflows and inflows of cash. The level of liquidity held at year-end represents a higher level than internal requirements, because of forthcoming bond maturities.

The key regulatory measure of liquidity is the Liquidity Coverage Ratio (LCR), which measures HQLA as a percentage of net cash outflows over a 30-day stress period. The LCR at 31 March 2023 was 294% (31 March 2022: 278%). This was significantly in excess of minimum regulatory requirements.

Mortgages

The majority of the Society's mortgages are advanced to owner-occupiers. Expertise has been developed in the Society to underwrite and service specialist types of lending and therefore provide underserved market segments with much-needed mortgage solutions. Mortgage advice is provided by mortgage intermediaries who are well-placed to source the most appropriate product for a borrower.

The Society re-entered the mortgage market in the 2021/22 financial year and returned to modest growth. The mortgage pipeline continued to grow in the first half of 2022/23 and most of that pipeline has now completed. Mortgage balances closed at £436.1 million net of impairment provisions, up 6.2% from £410.5 million as at 31 March 2022. After a short pause from the market in the Autumn, in line with many other lenders to ease pressure on the pipeline, the Society is now growing the pipeline that will feed lending in the following financial year.

Shares and deposits

Member deposits are the most important source of funding for the Society, with most of these shares and deposits serviced via our branch network. During the year, new products were introduced to the branches in order to provide funding for mortgage growth. The Society also successfully used its online platform for the first time to attract material levels of funding.

Shares and deposits rose by 1.8% to £452.7 million (31 March 2022 £444.7 million).

Non-member Funding

To ensure it can always maintain necessary levels of liquidity, it is important that the Society has access to an appropriately diverse range of other funding sources. The main source of such funding continues to be the Bank of England. The Society remains an active participant in the Bank of England's Sterling Monetary Framework and currently holds £40 million under the Bank's Term Funding Scheme with additional incentives for SMEs (TFSME). This funding is repayable in March 2025 and is included within Amounts owed to other customers.

To support funding diversification and to provide contingency facilities the Society also has access to shorter (6-month term) funding through the Bank of England's Indexed Long-Term Repo (ILTR) scheme. It has not raised any such funding over the year, though did so after the year-end, raising £10 million. A further modest element of funding comes from commercially sourced wholesale balances. At 31 March 2023 such balances stood at £3.5 million (31 March 2022: £1.0 million).

Capital

Capital consists of the Society's reserves plus collective provision balances, less intangible asset balances which are required by capital regulations to be deducted from capital. The minimum level of capital required to be held is set by the Prudential Regulation Authority (PRA) however, the Board has a risk appetite to hold capital in excess of this requirement to protect the Society and its members from the effect of shocks or stresses. After regulatory deductions, and including the 2023 audited profit, the Society's regulatory capital stood at £30.5 million at 31 March 2023 (31 March 2022: £27.9 million), £9.1 million above the minimum regulatory capital requirement (31 March 2022: £9.3 million).

At 31 March 2023 the Society's gross capital ratio was 6.10% of shares and borrowings (31 March 2022: 5.88%). The free capital ratio was 5.97% of shares and borrowings (31 March 2022: 5.66%).

Further details on the Society's management of capital are set out in Note 30 to the accounts and include a reconciliation of capital per the statement of financial position to regulatory capital.

Risk Management Objectives and Policies

The day-to-day operations of the Society expose it to a range of financial and non-financial risks, each of which is owned by a member of the Executive. The management of those risks aims to ensure that the outcome of any risk-taking activity is consistent with the Society's strategy, the Board risk appetite, is appropriate to the Society's business, is compliant with current regulation and gives due regard to regulatory guidance. In this way, risk management also seeks to achieve an appropriate balance between risk and reward in order to optimise member returns and, where issues arise, to manage for the best outcome for the Society and its members.

The Society adopts a "Three Lines of Defence" model to separate risk management activities between those responsible for risks and controls, independent oversight support and challenge, and internal audit assurance. The Society also has an Enterprise Risk Management Framework (ERMF) that formally documents the Society's structure for managing risks and the Board Risk Appetite. This is the key tool used by the Society's Governance, Risk & Compliance (GRC) team in providing oversight to risk management as part of their role as the second line of defence.

The Board delegates its risk oversight to a Risk Committee, which reviews risk limits, reporting lines, mandates and other control procedures. Specifically, the Society's Assets and Liabilities Committee (ALCO) is charged with the responsibility for managing and controlling the balance sheet exposures and the use of financial instruments for risk management purposes. Full details regarding the risks and the financial instruments used by the Society are given in Note 26 to the Accounts.

Risk culture

The Society considers its mutual status as being paramount to its identity. The culture embedded within the Society includes the implicit rules, ideas and norms that sustain our values and enables our Employee Expectations Framework, which defines required behaviours, decision making principles and wider practices, to operate successfully. Risk culture is a subset that governs how the Society's employees manage the risks associated in delivering the Corporate Plan, the agreed strategy and day-to-day operations. Risk culture also incorporates risk awareness, understanding, appetite and mitigation.

The Society is governed by and is proud of its strong risk culture and aims to maintain a low exposure to risk, in order to best protect members' interests. The Board places significant emphasis on every line of defence having the correct ownership of risk through training, management and reporting. Exemplary conduct is expected from everyone in the organisation as defined by our Society values. The importance of this culture has

been emphasised through the roll-out of the Society's revised Strategy and its performance management approach.

Stress testing

Stress testing is a risk management tool used by the Society to understand the impact of severe but plausible scenarios on its business performance. The Society uses a prescribed Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) to identify capital and liquidity risks with stress testing forming an intrinsic part of these processes. These tests are agreed by the Board ahead of the assessments being carried out. Other stress tests, including operational- and IT-based risk events, are also undertaken with the output from all processes used to inform Board risk appetite, policies, management actions and contingency plans.

Capital stress tests are conducted in the ICAAP. These include stresses of risks existing in the business and potential future risk scenarios. During the year, as part of regular reforecasting, the Board receives outputs from stress tests on the mortgage assets, including on the impact of changes to the base rate of interest.

Liquidity stress tests are performed on a regular basis with results reported to the ALCO. These stress tests help identify any shortfalls in the Society's levels of liquidity in a range of scenarios. The Society has a Board-agreed risk appetite for interest rate risk whereby hedging measures are required to be put in place so that the impact on earnings of a 2% shift in interest rates cannot exceed £600,000 and the outcome of stress tests is measured against this risk appetite.

The PRA carries out an assessment of the Society and may issue specific minimum capital and liquidity levels based on its assessment of the risks faced by the Society, including under stressed conditions. During the year, the PRA notified the Society that as a result of the ongoing improvements made within the risk environment and the further embedding of the risk culture, the Society will be required to hold a lower level of regulatory capital.

The Society has a strong level of open and transparent communication with its regulatory supervisory team enabling advance notification of plans to be managed more effectively.

Strategic Report (continued)

Recovery Plan and Resolution Pack

It is a regulatory requirement for all banks and building societies to construct plans that detect possible failure and minimise the consequences of failure should it occur. The Society maintains a Board-approved Recovery Plan and a separate Resolution Pack that outlines a series of options the Society could credibly take to recover from a Society-specific or market-wide stress.

The Resolution Pack contains prescribed information necessary for the Bank of England to establish an orderly resolution of the Society in the event that recovery is not possible. Both documents are updated at least annually.

Principal Risks and Uncertainties

The principal business risks to which the Society is exposed, how the Society approaches and mitigates those risks and an assessment by the Directors of how each risk presents itself to the Society compared to the prior year are as follows:

Principal Risk	Risk to the Society	Mitigation	Potential Impact of risk to the Society
Credit risk	<p>Credit risk refers to the potential risk that arises from customers (or counterparties) failing to meet their obligations as they fall due, resulting in an actual or potential loss exposure for the Society.</p> <p>Credit risk arises primarily from two categories: Retail lending, comprising loans to our retail mortgage customers and historic loans to our commercial mortgage customers; and Treasury activities, arising from our liquid asset investments.</p> <p>As a primary lender, the Society faces credit risk as an inherent component of its lending activities. Adverse changes in the credit quality of the Society's borrowers, deterioration in UK economic conditions or adverse changes in UK or even global systemic risks could reduce the recoverability of the Society's assets.</p>	<p>Credit risk is mitigated through the Society's Lending Policy and separate Treasury and Prudential Risk Management Policy which reflect the Board's approved risk tolerance and which include clear guidelines in respect of processes and exposure management.</p> <p>All lending decisions are fully underwritten on an individual basis. The Society maintains and monitors lending activity against a range of internal exposure limits. Modest increases were made to a small number of these limits in the year. The majority of the internal limits are tighter than the respective regulatory limits set out in the building society sourcebook (Supervisory Statement SS20/15) and no internal limits exceed the regulatory equivalent.</p> <p>To manage credit risk, the Society utilises a statistical expected credit loss (ECL) to assist in the measurement and management of credit risk. It monitors ECL, and also unexpected credit loss (UCL) which is based on stressed conditions, to ensure that lending remains within risk appetite.</p> <p>The Assets and Liabilities Committee (ALCO) is responsible for managing Treasury activity and recommends limits on Treasury counterparties, country exposures and types of financial instruments for approval by the Society Board within regulatory guidelines.</p> <p>An analysis of the Society's mortgage portfolio by geographic region, LTV and of the Society's arrears is provided in Note 26 to the accounts.</p>	<p>The Society's arrears position has remained relatively benign over the year and credit losses have been minimal.</p> <p>However, cost-of-living pressures have continued to build over the year, with inflation exceeding 10% and not being matched by wages rises. As noted in the following section on interest rate risk, Bank rates have also risen substantially over the year. While there is evidence of borrowers cutting back on other costs and using savings in order to manage their finances, the difficult economic environment increases the risk that borrowers may default. As noted earlier in the Strategic Review, the overlay applied to our impairment provision has increased to reflect this risk.</p> <p>Accordingly, the Directors consider that the level of risk has increased.</p>

Principal Risk	Risk to the Society	Mitigation	Potential impact of risk to the Society
Interest Rate Risk	<p>Interest rate risk is the risk that the value of, or income arising from, the Society's assets and liabilities varying because of changes in interest rates. Interest rate risk arises from imperfect matching of different interest rate features, repricing dates and maturities of mortgages, savings and wholesale products.</p> <p>Market risk is the risk of changes to the Society's financial condition caused by movements in market interest rates or the early redemption of assets. The Society is exposed to market risk in the form of changes (or potential changes) in the general level of interest rates, changes in the relationship between short and long-term interest rates and divergence of interest rates for different balance sheet elements (basis risk).</p> <p>The sensitivity to changes in interest rates impacts the following activities:</p> <ol style="list-style-type: none"> 1. Management of the investment of reserves and other net non-interest-bearing liabilities; 2. Fixed rate funding; 3. Fixed rate mortgage and treasury lending. 	<p>The Society has adopted the "Matched" approach to interest rate risk, as defined by the PRA, which aims to undertake the hedging of individual transactions within an overall strategy for structural hedging, based on a detailed analysis of the statement of financial position.</p> <p>Interest rate swaps are used, where appropriate, to manage the risks outlined above. In addition, swaps are used to manage risks arising from a net exposure to an interest rate basis type e.g. SONIA. The Society also monitors prepayment levels on fixed rate mortgages and aims to set an Early Repayment Charge consistent with the interest rate risk exposure.</p> <p>All assets, liabilities or derivatives that previously referenced LIBOR were novated to new SONIA benchmarked instruments prior to the 31 December 2021 deadline.</p> <p>The management of interest rate risk is based on a full statement of financial position gap analysis. The statement of financial position is subjected to a stress test of a 2% rise in interest rates on a monthly basis and the results reported to ALCO.</p> <p>Management also reviews interest rate and basis risk under stressed scenarios. Results are measured against the risk appetite for market risk which is set at a maximum of £600k and are reported to the Board Risk Committee and Board.</p> <p>Other interest rate exposures, for example, basis risk (the risk of loss arising from changes in the relationship between interest rates which have similar but not identical characteristics – Bank of England Bank rate and Libor,) and prepayment risk (the risk of loss arising from early redemption of fixed rate mortgages and loans) are also monitored closely and regularly reported to ALCO.</p>	<p>The UK interest rates environment was particularly volatile in the 2022/23 financial year. Bank rates rose eight times, from a start point of 0.75% to 4.25%.</p> <p>This increased the risk of margin compression. The Society built up increasing levels of mortgages within its pipeline at fixed rates which were not representative of the prevailing funding and swap rates at the time the mortgages were eventually advanced. The Society has not previously hedged its pipeline, but as rates continued to rise it took the decision to apply interest rate swaps to part of the pipeline in order to mitigate the interest rate risk. These were economic hedges with no hedge accounting applied.</p> <p>Despite the impact of this rate environment, the Society closed the year with its interest rate margin up to 2.49%, compared to 2.08% at 31 March 2022. It is not yet clear whether Bank rates have peaked, but it is expected that rates will start to fall at some point over the coming financial year.</p> <p>Due to the increased volatility, the Directors consider that the level of risk has increased.</p>

Strategic Report (continued)

Principal Risk	Risk to the Society	Mitigation	Potential Impact of Risk to the Society
Liquidity risk	<p>Liquidity risk is the risk that the Society is unable to make available sufficient resources to meet its current or future financial obligations as they fall due or is only able to at a premium cost. This risk also includes the risk the Society attracts excessive liquidity through poor product management, acting as a drag on financial performance.</p> <p>The Society's liquidity policy is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations in funding in order to retain full public confidence in the solvency of the Society and to enable the Society to meet its financial obligations. This is achieved through maintaining an adequate level and quality of liquid assets, through wholesale funding and through management control of the growth of the business.</p> <p>The Society relies on its access to sources of funding to finance the origination of new business and working capital. If access to funding became restricted, either through market movements or regulatory or government action, this might result in the scaling back or cessation of new lending.</p>	<p>The Society, through its Finance and Treasury team (overseen by ALCO), seeks to mitigate this risk by managing the Society's portfolio of liquid assets to maintain assets in liquid form in such proportion and composition (as determined by ALCO) as required at all times to enable it to meet its liabilities as they arise (including any unexpected adverse cash flow).</p> <p>The Society monitors its overall liquidity with reference to limits set by regulation and also internal limits set by the Board through the Treasury and Prudential Risk Management Policy.</p> <p>To further assess the Society's exposure to liquidity risk, a series of liquidity stress tests have been designed with the results reported to ALCO. The stress test scenarios developed evaluate the impact of idiosyncratic, market wide and combination stresses on the Society's liquid assets.</p> <p>If, as part of the ongoing monitoring of the liquidity position, the Society identifies additional liquidity is required, further contingency funding is available from the Bank of England.</p>	<p>The Society has continued to enhance its capability within this area and has further developed its forecasting models. It now monitors a forward-looking view of key liquidity metrics, allowing levels of liquidity to be better managed in relation to expected future inflows and outflows.</p> <p>The movement away from Bank rates that had been close to zero allowed the Society to make more attractive savings products available to its members. These have been successful, both in branches and online, in raising the funding needed to maintain required liquidity levels. In particular, the Society used its online banking platform during the year to raise a tranche of attractively-priced funding in a short timeframe. This has demonstrated the ability to raise funds quickly if needed as contingency. In addition, the Society has topped-up the collateral pool that can be used to raise funding using Bank of England schemes such as ILTR.</p> <p>The Society did not experience any liquidity issues as a result of the factors that caused problems for certain global banks in March 2023.</p> <p>Accordingly, the Directors consider that the level of risk has reduced.</p>

Principal Risk	Risk to the Society	Mitigation	Potential Impact of Risk to the Society
Operational risk	<p>Operational risk is the risk of loss arising from failed or inadequate internal processes or systems, human error or other external factors.</p> <p>The risk is managed by the departmental managers of the Society – the ‘Risk Owners’ – who have responsibility for putting in place appropriate controls for their business area.</p> <p>A monthly report to the Board sets out key risk metrics. In order to ensure sufficient capital to cover these operational risks, the Society also maintains a range of insurance policies to cover eventualities such as business interruption.</p>	<p>The Society operates an Enterprise Risk Management Framework (ERMF). This framework is used to monitor operational risks; it records all risks considered relevant to the Society and quantifies these using an assessment of risk likelihood and impact, together with a reduction in impact from application of the controls assigned to each risk to establish residual risk. The key inputs to the Framework are provided by employees and management – the first line of defence – and the second line oversees the Framework and its outputs.</p> <p>The ERMF includes an Operational Resilience Framework and this has been further reviewed and refreshed during the year. This framework identifies the Society’s most important business processes and considers the controls in place, including those operated by third parties, to minimise the risk of those processes being disrupted.</p> <p>The Society has a Business Continuity Plan which is kept under regular review and is designed to ensure that any breakdown in systems would not cause significant business disruption.</p> <p>There was one event that the Society deemed to be a material risk event during 2022/23 (2021/22: none) which resulted in a total loss of £60,000.</p>	<p>The Society has continued its development and embedding of its Enterprise Risk Management and Operational Resilience frameworks. The latter framework has resulted in the Society undertaking further analysis of its key business processes and reviewing its key contracts with material suppliers, including outsourcers.</p> <p>No material operational risk events occurred during the year.</p> <p>Accordingly, the Directors consider that the level of risk remains stable.</p>

Strategic Report (continued)

Principal Risk	Risk to the Society	Mitigation	Potential impact of risk to the Society
Regulatory risk	This is the risk to the business, through financial loss or reputational damage that arises from a lack of compliance with relevant laws and regulations.	The Society monitors such risks via its second line Compliance team and through both its Board Risk Committee and Audit and Compliance Committee. Beneath these Board-level committees, the Society operates a Regulatory Review Committee, to ensure that management stays abreast of regulatory developments, and a Regulatory Reporting Committee which monitors the status of regulatory reporting, including changes and developments in this area.	<p>The main changes that have arisen over the year are in respect of the Basel 3.1 capital framework and its planned implementation in the UK. It remains uncertain exactly how the new capital regulations will be rolled-out in the UK, and the Building Societies Association has flagged a number of potential concerns in its response to PRA consultation on this issue. There is potential for the implementation of Basel 3.1 to increase the level of capital requirement for firms such as the Society.</p> <p>The PRA is also developing its “Strong and Simple” framework alongside its work on Basel 3.1. Firms who are eligible for and choose to move onto this framework may be subject to a different, transitional capital regime, rather than that set out in Basel 3.1 when the latter is implemented. Details of the transitional capital regime are not yet clear. The Society expects to be eligible for Strong and Simple but has not yet concluded whether or not it wishes to move to this regime.</p> <p>Accordingly, the Directors consider that the level of risk has increased.</p>
Conduct risk	<p>This risk can arise when a firm’s actions or behaviours result in inappropriate or poor outcomes for customers.</p> <p>The Society has a customer-focused culture that is in line with the principle of an organisation which is owned by its members.</p>	<p>Conduct Risk is assessed and monitored through the Society’s Risk Committee structure, including via its Operational & Conduct Risk Committee which considers the Society’s key customer interactions and metrics.</p> <p>The Society has a simple product range that aims to reduce potential exposure to conduct risk. All products are subject to regular review under Consumer Duty rules.</p> <p>All staff who engage with customers receive appropriate training in accordance with the relevant Training and Competency Scheme to ensure customers are treated fairly.</p>	<p>The Society welcomes the implementation of Consumer Duty Regulations, set by the FCA and launched this year, to raise standards across the industry. As noted earlier in this Strategic Review, the Society has updated its customer value proposition and has made customer experience a core part of its strategy. The work that the Society is doing to establish its customer experience framework is completely in line with the aims of Consumer Duty. The Society is currently working through a suite of product reviews, in line with Consumer Duty timescales.</p> <p>The Society received a low number of complaints received during the year, and none that indicated any material conduct risk.</p> <p>Accordingly, the Directors consider that the level of risk remains stable.</p>

Principal Risk	Risk to the Society	Mitigation	Potential impact of risk to the Society
IT Security risk	<p>Cyber-crime and the security of information held by the Society are a constant risk. The Society acknowledges the risk of a disruption caused by a successful cyber-attack on core IT systems, which may result in the loss or inappropriate use of data or sensitive information.</p> <p>The Society's core systems are dependent upon the continuing availability and resilience of the managed service that is provided by Unisys Ltd.</p>	<p>The Society works closely with Unisys Ltd and regular assurance activities are undertaken on third-party IT Governance and Controls to ensure compliance.</p> <p>The Society continues to invest in technologies to ensure the confidentiality, availability and integrity of Society data.</p>	<p>Threat levels continue to be high due to the conflict in Ukraine and organised crime. Although the Society has not been targeted by any significant attack, lower-level "phishing" attempts to access data are common across the industry and the Society experiences these on a regular basis.</p> <p>Employees are regularly reminded of the need to be vigilant and tests are carried out on a regular basis, simulating phishing attacks to ensure that employees respond accordingly.</p> <p>Accordingly, the Directors consider that the level of risk remains stable.</p>
Climate	<p>Climate change presents a risk to the Society and its members both in the immediate present and in the future. The Society strongly believes in making a significant positive contribution towards reducing the impact of climate change where possible through its mortgage and savings products and its corporate and social responsibility initiatives.</p> <p>Climate related risks are classified as either physical (physical manifestations of climate change such as increased flooding, extreme weather and rising sea levels) or transitional (risks that arise directly as a result of moving to a low-carbon economy).</p> <p>The regulatory expectations in relation to climate change continue to be developed by both the Bank of England and the regulators.</p>	<p>The Society tracks a number of metrics in respect of climate risk with the main focus being at its Credit Risk Committee. The Society has commenced annual assessments of climate related risks, using external consultants to model the long-range impact to the Society of physical and transitional risks.</p> <p>A fuller report on Climate Risk is presented in the following pages.</p>	<p>During the year the Society received and reviewed its second annual assessment of physical and transitional risks, covering a range of scenarios which looked forward over an 80-year period. This assessment did not demonstrate any material risk to the Society and the outputs were broadly similar to those reported in the previous year.</p> <p>Accordingly, the Directors consider that the level of risk remains stable.</p>

Strategic Report (continued)

Financial risks from climate change

Climate change presents a risk to the Society and its members both in the immediate present and in the future. The Society strongly believes in making a significant positive contribution towards reducing the impact of climate change where possible through its mortgage and savings products and its corporate and social responsibility initiatives.

In the setting out its disclosures for climate change related risks, the Society has incorporated the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD).

Established by the global Financial Stability Board (FSB) in 2015, the primary goal of the TCFD was to develop voluntary, consistent climate-related financial disclosures that would be useful to investors, lenders, and insurance underwriters in helping to understand the risks that climate change would present and how best to report them.

The Final Report of Recommendations was published by the TCFD in June 2017 and set out a framework of four core elements supported by eleven recommended disclosures. Subsequent to the publication of this report, the PRA issued Supervisory Statement 3/19 (SS3/19) – Enhancing banks' and insurers' approaches to managing the financial risks from climate change which sets out the regulator's expectations for firms in relation to managing the financial risks from climate change.

In SS3/19, climate related risks are classified as either physical (physical manifestations of climate change such as increased flooding, extreme weather and rising sea levels) or transitional (risks that arise directly as a result of moving to a low-carbon economy) and regulated firms are expected to develop a strategic approach to each of those risks that is aligned to the four core elements as recommended by the TCFD report, namely:

- Governance;
- Strategy;
- Risk Management; and
- Disclosure.

The PRA issued a Dear CEO letter in July 2020, following thematic work undertaken by the regulator that confirmed that firms should fully embed their approaches to managing climate related risks by 31 December 2021.

Each of the four core elements and the Society's approach to those elements are addressed as follows:

Governance

In his role as being accountable for the Senior Management Function, the CEO is ultimately responsible for the management of the Society's approach to climate change risk, including ensuring the embedment and consideration of the financial risks from climate change. The CEO is supported in this task by the Board and Board Risk Committee. During the prior year, the Society delivered on its requirements under SS3/19, with individual members of senior management given responsibility for each key area.

Given the emphasis the Society is placing on climate change and associated risk, the Board agreed that Climate be incorporated as a strategic pillar within the Strategy that it approved in March 2023. The strategic pillars identify how the strategy will be delivered, linking the ambition statements that form part of the Strategy to key measurable initiatives.

Throughout the year, the Society has continued to monitor and report against the Climate Change Risk Appetite Statements as part of Credit Risk Committee and Executive Committee. Where appropriate, items of note are escalated to the Board Risk Committee or Board.

Strategy

The Society's climate pillar incorporates three key initiatives where a significant positive contribution can be made. These key initiatives have been identified as Society, Customer and Community.

In the first instance, the Strategy will focus on reducing the direct impact that the Society has on climate change. The Society will seek to attain an independent quality mark that confirms our intention to achieve net zero emissions alongside the implementation and embedment of a leading ESG framework to measure, track and drive our ESG strategy.

Subsequent to this, the Society will then seek to engage with our other stakeholder groups through the Customer and Community initiatives. As part of these initiatives, the Society will seek to develop a range of products that will support our customers in delivering positive climate change outcomes as well as helping those in the local community on their journey to achieve net zero.

Risk Management

The Society maintains a specific climate change risk register that currently identifies a number of risks for both physical and transition climate change related risks. The register is maintained and monitored by the Credit Risk Committee against the Board approved climate change risk appetite statement. The risk appetite statement has been separated into a risk appetite in relation to both corporate and social responsibility and lending.

Within the climate change risk appetite, the Society identified a number of risk indicators aligned to each risk appetite statement. The monitoring and reporting of the risk indicators is embedded within the Society's management information reporting regime. The risk indicators will develop further over the coming year to ensure they are aligned to the Green Strategy. Climate change risk has been identified as a specific risk universe within the Society's enterprise risk framework and as such is monitored and reported against within the Board Risk Committee reporting cycle.

As part of the ongoing requirement for scenario analysis, the Society has engaged within an external firm, Landmark, to assess the level of risk that climate change currently presents to the Society whilst ensuring that the requirements specified by the PRA within SS3/19 are met. Landmark considered a wide range of both physical and transition risks over a long-range timeframe, and as part of their output from the review they were able to identify a value for the potential realised loss under each of the scenarios. The scenario analysis is planned to be undertaken on an annual basis with the outcomes of the report being reported within the current governance framework.

Additionally, climate change risk is also considered at length within the ICAAP review process to ensure that the Society continues to hold adequate levels of capital within the pillar 2 regime.

Disclosure

One of the key corporate and social responsibility objectives within the climate change risk appetite statement is the ongoing reduction of the carbon footprint required to maintain and operate the Society for and on behalf of its members. The Society monitors and reports its gas emissions by means of the tonnes of carbon dioxide equivalent (tCO₂e) metric for scope 1, scope 2 and scope 3 emissions.

Scope 1 and scope 2 emissions incorporate those items that are directly attributable to operating the Society in the form of gas and electricity usage across the portfolio of properties operated by the Society. Scope 3 emissions relate to the indirect emissions for the Society, namely employee homeworking and commuting.

The reduction in Scope 2 emissions year-on-year reflect the Society's move to a new energy supplier and consequent confirmation that the direct energy supplies to the Society come from renewable sources.

The Scope 3 emissions reported in the table below exclude a number of emission source categories to ensure consistency of reporting with prior year disclosures. For the year ended 31 March 2023, the total emissions of the Society are 172.91 tCO₂e. There is no data available for the prior year on a comparable basis. The additional items included in this view of emissions are principally commuting, use of computers while working from home and waste collection.

Scope	2023	2022	2021	2020
Scope 1	3.33	5.22	4.84	10.47
Scope 2	-	32.35	31.63	48.35
Scope 3	20.14	21.82	31.98	14.16
Total tonnes of CO₂e	23.47	59.39	68.45	73.78
Decrease on previous period – tCO ₂ e	(35.92)	(9.06)	(5.53)	-
Decrease on previous period – %	(60.47)	(13.25)	(7.47)	-

Strategic Report (continued)

Social Responsibility

Our revised Strategy, and particularly our Customer Value Proposition, brings social responsibility right into the heart of what we do. Our aim is to help people aspiring to a better life, for them, their family and their community. We want to support aspiration through education, savings, home ownership and job creation. We can use our specialist skills, financial knowledge and Black Country roots to help people achieve their ambitions.

We expect the Strategy to impact materially on our customers, our environment and our community. We will also be investing further in our people, who will be delivering the Strategy. It is our firm belief that an excellent customer experience can only follow on from an excellent employee experience.

Reflecting the revised Strategy and increased focus on social responsibility, the Society is proposing changes to its Memorandum and Rules via Special Resolutions at the forthcoming AGM. These changes reinforce the Society's commitment to environmental and social matters, by adding the requirement for the Directors to consider the impact of their decisions on wider stakeholders. If Members vote to pass the Special Resolutions, changes will be effective (subject to registration by the Financial Conduct Authority) from 1 September 2023.

The sections below set out the key activities in respect of customer, the environment, our community and colleagues over the year to 31 March 2023.

Our Customers

As noted above, we used a significant part of our Investment Budget for 2022/23 to develop our customer experience framework. Our aim is to increase the level of insight we have into the needs of our members, and potential future members, so that we can deliver the products, services and overall experience that members deserve. Our definition of "customer" here is wider than the member base, including non-members who hold our product and key partners such as intermediaries. All of our customer deserve an excellent experience and we aim to deliver it to them.

We start from a strong base. As well as communicating directly with members at our Member Forums, we use independent provider Smart Money People to provide insight into our customer service. This provides us with key metrics including Net Promoter Score (NPS), which is an industry recognised measure of customer loyalty, Customer Service and Value for Money.

Our customer feedback scores for the last year saw improvements across the board, with our overall rating at 97%. Our NPS score in particular increased from 87.9 to 90.8, which showcases an improvement in customer loyalty. These overall feedback scores are

also consistently measuring above the overall building society averages, demonstrating our performance against our peers.

During the year, working with an external consultancy, we ran an online forum for a number of months. This involved interacting with over 100 people from across the Black Country, across a range of issues. Our aim was to increase our understanding of the ambitions, views and needs of different groups across our region. This was a highly useful exercise which is now feeding into the development of our customer experience framework and our community work.

A key element of our customer experience that we want to retain and build on is our branch network. We view our branches as spaces where customers interact with us for a range of reasons, rather than them being just vehicles for us to sell and service our products. We value this interaction, and will be bearing in mind this varied use as we plan for future changes to our network.

We view improvements that we can make in respect of Climate Change as one way in which we can improve lives, both now and in the future. To this end, Climate Change is to become a key element of our strategy alongside Customer and Community. This strategic element will be further developed in the coming year.



Our Community

In 2021/22, the Board approved the setting-aside of 2% of each year's profit after tax, for use in community initiatives under the new strategy. This resulted in £45,000 being allocated to the Community Strategy for 2022/23, and we have in fact exceeded this by committing just under £50,000 of community-based expenditure in the year.

Of this, £30,000 was placed into a Community Fund that we set up and administered in the second half of the year. This fund aimed to support community heroes within the Black Country and surrounding areas, as they work hard to support those affected by the cost-of-living crisis with necessary services. We saw over 300 nominations from members of the local community, and distributing funding to 25 worthy charities and organisations.

The online forum referred to above, plus a number of meetings with local politicians, support services and business leaders across the region, is helping to shape our Community Strategy. Our aim is to play our part in the wider regeneration of the Black Country and to directly assist those in the community who may need us most. Our colleagues, particularly those in branches, regularly assist members with matters unrelated to our savings and mortgage products. We frequently help people with, for example, including benefits, paying their bills and accessing wider support services. We are delighted to assist in these ways and receive great feedback for doing so. It therefore makes sense for our Community Strategy to include the development of such services, and the provision of wide-ranging financial education that will help our region.

Alongside this, we are investigating the ways in which we can best assist in Black Country regeneration. One such aspect is supporting small business. Although we are not a business lender, we recognise the positive impact that small and medium sized enterprises (SMEs) have on a community. We wish to help Black Country SMEs to thrive and are looking at ways in which to do so.

We expect the first developments in these areas to be launched in the coming financial year. To help our existing colleagues in these endeavours, we have brought dedicated resource into the Society to work on the implementation of the Community Strategy.

All our employees are encouraged to volunteer in the community with paid leave. Over the course of last year, we arranged volunteering opportunities for employees across a range of local charities and organisations. In total, our employees volunteered 215 hours, with activities ranging from supporting the local Black Country Food Bank to sort and process items, volunteering on the A&E department at Russells Hall Hospital, and painting rooms at the Haven Refuge in Wolverhampton.

We have also been maintaining our support for the local community through a range of other additional activities. This includes our sponsorship for the Express & Star's Cash for Schools initiative and the Dudley NHS Group's Glitter ball, in addition donating essential items to a range of local causes, such as the Brierley Hill Baby Bank and Black Country Food Bank. Supporting causes in the local area is important to us, so we have been dedicated to giving back wherever we can.

Our People

Our people have risen to a number of challenges this year. Problems associated with COVID-19 have not completely gone away, and although thankfully this has not led to any of our colleagues experiencing serious health issues, the virus still caused several absences. This was very frustrating for the colleagues concerned, who wanted to keep on working but were unable to, but with teams rallying round we managed to avoid any material disruptions.

We established a permanent hybrid working pattern in the year. This has gone down well with our colleagues and it is working well for the business. We are making further investments in technology that will improve the interfaces between home, our principal office and other locations.

Our employees are also sadly not immune from the cost-of-living crisis. To help while inflation continued to rise, during the year we increased employee pay twice and made a one-off payment to all colleagues below director level. We put a support fund in place to help any colleagues who faced particular financial difficulty, and a small number of payments have been made from it.

In these circumstances, we were delighted that the results of our latest employee engagement survey were very positive. The survey showed an overall engagement score of 77% (2022: 79%) from a 71% response rate.

We now want to push forward with an Employee Experience agenda, designed to improve the working conditions, motivation and productivity of our colleagues even further and enable a feeling of belonging for all.



Directors' Report for the year ended 31 March 2023

The Directors have pleasure in presenting their 164th Annual Report, prepared in the context of the UK Corporate Governance Code and in accordance with the requirements of the Building Societies Act. The Directors' Report should be read in conjunction with the Chair's Statement, Chief Executive Officer's Review and Strategic Report.

Information presented in other sections

Business objectives and activities	Strategic report (page 14)
Business review and future developments	Strategic report (page 14)
Disclosure requirements under CRD IV Country by Country reporting	Note 30 to the Accounts

Directors

The following persons were Directors of the Society during the year:-

Peter Hubbard	(Chairman)
Nicole Coll	(Deputy Chair & Senior Independent Director)
Joanna Baldwin	(Non- Executive Director)
Zamir Chaudhry	(Non- Executive Director)
Tariq Khatri	(Non- Executive Director)
James Paterson	(Chief Executive Officer, joined the Society 1 May 2022, Appointed as CEO 15 July 2022)
Stephen Heeley	(Chief Financial Officer)
Jeremy Wood	(Chief Executive Officer; Retired 14 July 2022)
Kieron Blackburn	(Interim Commercial Director; Resigned 18 September 2022)
Samantha Ward	(Products and Marketing Director; Resigned 17 February 2023)

Nicole Coll was appointed Senior Independent Director on 16 July 2021 and was subsequently re-elected to the role on 15 July 2022.

Zamir Chaudhry served notice of resignation following the conclusion of the financial year end and accordingly is not standing for re-election.

All other Directors are subject to annual re-election. Therefore, Peter Hubbard, Nicole Coll, Joanna Baldwin, Tariq Khatri, James Paterson and Stephen Heeley all retire and offer themselves for re-election at the Annual General Meeting (AGM).

Engaging with our Stakeholders

The Society's Board is committed to operating in line with best practice standards of corporate governance as set out in the UK Corporate Governance Code ("the Code"). In order to comply with the Code, a firm is required to explain how the directors have considered the views of stakeholders as part of the long-term decision making process in the form of a Section 172 Statement.

Whilst the Society is not required to comply with the Code, to ensure that the Society remains committed to best practice under the guiding principles that the Society operates, the Board believes that the views of stakeholders should be considered when making long-term decisions.

The obligations set out in the statement require the directors to act in the way they consider, in good faith, would be most likely to promote the success of the Society for the benefit of its members as a whole, and in doing so have regard across a number of key areas:

- The likely consequences of decisions in the long term;
- How we engage with and take account of employees' interests;
- How we foster effective working relationships with wider stakeholders such as suppliers;
- How any community and environmental impacts of our operations are considered;
- How a reputation for high standards of business conduct is maintained; and
- The need to act fairly and balance the interests of members.

A summary of the Society's engagement with its key stakeholders is presented opposite.

Stakeholder Group	Why are they important?	How the Society engages with them
Savings and Borrowing Members	As a mutual organisation, our members are the owners of the Society. The Board recognises that in order to achieve long-term success, it is critical to understand and address the needs of our members, whilst ensuring delivery of the Strategy.	<p>The Society is committed to communicating with Members through quarterly newsletters, social media, and ad hoc email communications. In addition to this, we are committed to providing additional help and support wherever we can, in areas such as fraud awareness and energy efficiency.</p> <p>The Society also engages with its members by collecting feedback via an independent review platform, Smart Money People, who undertake consumer reviews on behalf of the Society. The Member Focus Forum regularly meets to discuss any solicited and unsolicited feedback received. All feedback is considered to further improve our member experience and customer service.</p> <p>Each year the Society sends details of the AGM to members who are eligible to vote. Members are encouraged to exercise their right to vote. Members are provided with forms which enable them to vote utilising a proxy if they are unable to attend the AGM. Members can also vote online.</p>
Employees	Our people are critical in the successful delivery of the Strategy to our members. By listening to and acting upon the views of our people, we will create a culture where the needs of our members are addressed through outstanding customer service, driven by our employees' experiences.	<p>The Society engages with employees in several ways, including regular meetings, employee surveys, newsletters, video calls and video updates.</p> <p>The Society also holds a monthly employee forum, where employees can share their views and ideas to enhance employee engagement and initiatives.</p> <p>Employee surveys are conducted, and the results are reviewed by Executive and Management teams to ensure actions are taken to address any issues raised.</p> <p>With employees continuing to work from home under hybrid working arrangements, the Society has taken additional steps to support employee wellbeing, which included campaigns, wellbeing calls and flexible working arrangements.</p> <p>The Society has 10 trained Mental Health First Aiders, who develop a variety of initiatives to support well-being.</p> <p>The Society has a group focussed on diversity and inclusion who are committed to bring meaningful initiatives which will drive forward a culture of belonging for our employees and members.</p>

Directors' Report (continued)

Stakeholder Group	Why are they important?	How the Society engages with them
Third Parties	Our third parties that we work with are critical in helping us to operate the Society and deliver quality service to our members.	<p>Regular review meetings are held with the Society's third parties by key contacts in the Society, as well as routine updates by email, phone call or face to face meetings.</p> <p>For our lending partners, the key contacts are the Business Development team, who are responsible for ensuring that the sourcing systems are kept up to date with relevant underwriting criteria and product changes.</p> <p>Contact with third parties has increased over the year, as a result of the focus on operational resilience and the implementation of revised procurement and outsourcing policies.</p>
Community	As a Society with a mutual ethos at its core, we believe in supporting our local communities as a fundamental part of what we do.	<p>The Society has continued to support our Charity of the Year, Black Country Mental Health, for the third year running. We have also extended our support for the local community by sponsoring the Dudley Group NHS Charity, Express & Star's Cash for Schools initiative, volunteering our time to support local causes, and much more. More recently, we supported Ukrainian refugees by donating needed items to a local collection and donating funds to Unicef.</p> <p>The Society has also continued the development of financial education materials for young people, as we are passionate about ensuring they have the tools to manage their finances in later life.</p>
Environment	It is our duty to fully understand and reduce the impact that the Society's operations may have on the environment thus ensuring our members can be served now and in the future.	<p>The Society has maintained its carbon-neutral status, through a donation to a global portfolio project that supports global decarbonisation. The project supports countries around the world to introduce renewable energy sources such as wind turbines, hydro-electric power plants and grouped solar panels.</p> <p>Additionally, despite the brief exit from the lending market, the Society has been able to maintain a range of green mortgage products.</p> <p>The Society has continued to drive the climate change agenda most notably with the ways in which the Society can continue to improve its energy efficiency and reduce its carbon footprint in the short term with the longer term target being the goal of achieving net zero. Further details of the Society's approach to climate change can be found in the earlier section of the Strategic Report covering Climate Risk.</p>

Stakeholder Group	Why are they important?	How the Society engages with them
Regulators	As a regulated Financial Services firm, the Society recognises the need to maintain an open and transparent relationship with the regulatory authorities, namely the FCA and PRA.	<p>Key regulatory matters are covered within the material provided to the Board on a monthly basis.</p> <p>The Society undertakes regular dialogue with the regulators ensuring that all principal risks and other matters are covered as part of these ongoing conversations.</p> <p>Regulatory "horizon scanning" is undertaken, whereby upcoming regulatory reporting changes are identified, assessed and addressed as part of the Society's monthly regulatory reporting framework.</p>

Other matters

Creditor Payment Policy

The Society's continuing policy concerning the payment of its trade creditors is to pay within the agreed terms of credit, once the supplier has discharged its contractual obligations. Trade creditor days at 31 March 2023 amounted to 21 days (2022: 8 days).

Donations

During the year, charitable donations totalling £22,146 (2022: £5,241) were made. There were no donations for political purposes.

Employees

The Society aims to attract and retain appropriately qualified and experienced employees to ensure its Corporate Plan can be delivered in addition to excellent customer service.

The Society actively supports employees engaged in professional qualifications, offering assistance with course and examination fees and providing paid periods for study and exam leave. The Society takes seriously the need for all of our employees to be aware of regulations to which we are subject, and all are required to attest to a number of the Society's policies on an annual basis.

Auditor

During 2019 the Society tendered for external audit services resulting in the appointment of PwC LLP. The process was led by the Audit & Compliance Committee who recommended the appointment to the Board. The Board is recommending that PwC LLP are re-appointed as external auditors of the Society for the 2023/24 year-end. A resolution for their appointment will be proposed to the forthcoming AGM of the Society.

Going Concern

The Directors are required to consider whether the Society will continue as a going concern for a period of not less than twelve months from the date of signing the

accounts. In making the assessment, the Directors have reviewed the Society's corporate plan and considered risks that could impact on the Society's capital position, financial position and liquidity over that period. The Directors have also prepared forecasts to consider the effect on the Society's business, financial position, capital and liquidity of operating under stressed, but plausible, operating conditions. A range of sensitivities have also been applied to these forecasts, including stress scenarios relating to macro-economic indicators. Having reviewed these forecasts alongside the Society's ICAAP and ILAAP documents the Directors are satisfied that the Society has adequate resources to continue in business for the foreseeable future. Accordingly, the accounts continue to be prepared on a going concern basis.

This statement does not represent a guarantee as to the Society's ability to continue as a going concern indefinitely, because it is not possible to predict all future events or conditions. Based upon the assessments undertaken for the purpose of the going concern review, the Directors are confident that the Society will continue to be able to operate as a going concern for at least the next three years.

Events since the year end

The Directors consider there has been no other event since the end of the financial year which would have a material effect on the financial position of the Society as disclosed in the Annual Accounts.

Pillar 3 disclosures

Under Basel II Pillar 3 the Society is required to publish additional disclosures regarding its capital position and exposures. The Society's Pillar 3 Disclosures are published on the Society's website: dudleybuildingsociety.co.uk

On behalf of the Board of Directors

Claire Hyde

Society Secretary
14 June 2023

Corporate Governance Report

for the year ended 31 March 2023

Chairman's Statement

The UK Corporate Governance Code ("the Code") details the standards to which a board of directors should adhere to promote the purpose, vision, values and future success of a business. It places significant emphasis on the relationship between the business and its shareholders and stakeholders and promotes the establishment and continued embeddedness of a culture that is aligned with strategy, champions integrity, and values diversity.

Whilst the Code is primarily aimed at listed companies, your Board remains committed to adopting and demonstrating best practice standards of corporate governance. For this reason, your Board continues to have regard for the Code in so far as relevant and possible to building societies, and to the extent deemed reasonable and appropriate when establishing and assessing corporate governance arrangements.

This report lists each Principle of the Code and details how your Board has applied them. As your Chair, I am incredibly proud to lead a Board that is committed to adopting the highest standards of corporate governance, and I hope this report provides insight and assurance as to how your Board ensures the future success of your Society.

Section 1: Board Leadership and Company Purpose

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.

The Board promotes the success and long-term sustainability of the Society for the benefit of current and future generations of members, with a strong focus on community and social issues such as climate change, diversity, inclusion and equality, and the impact of a changing economic environment. This is achieved by determining a long-term strategy which is supported by a corporate plan and a series of frameworks and policies; this ensures the strategy is delivered with adherence to internal risk appetite, and regulatory and legislative rules and guidance. The Board has five key responsibilities: Culture, Strategy, Performance, Risk and Governance.

The effectiveness of the Board is assessed internally on an annual basis and externally by an experienced third-party at least every three years. In 2022/23, an internal Board Effectiveness Workshop was facilitated by Hanover Search Group Limited in which recommendations were considered and a number of actions agreed and implemented to enhance effectiveness. The last external review was conducted by Clare Chalmers Limited in January 2021 – the next external review will take place during 2023/24.

As a mutual, the Board understands that generating value and contributing to wider society goes far beyond financial statements. "Community" and "Climate" are now reflected as two of the Society's Strategic Pillars, and the Board is dedicated to demonstrating social responsibility via initiatives relating to financial education, better housing and propositions to support new small businesses within the region. "Community" will be a key focus area for the Society during 2023/24, and we look forward to sharing our progress with you at our Annual General Meeting.

The Board is committed to ensuring the long-term success of the Society and regularly considers short- and long-term challenges in respect of its business model. During 2022/23, the continued uncertainty regarding the effects of the pandemic and Brexit have been compounded by the increasing rate of inflation – with the Bank of England increasing Base Rate by 3.50% during the course of our financial year. Technological advancements continue at pace with virtual correspondence and communication and "hybrid-working" becoming the norm for many, and global issues such as climate change and political landscapes remain extremely prominent.

As part of the Strategy and Corporate Planning Process, the Board has ensured that these risks will be mitigated by optimising capital positions, enhancing prudential risk management approaches, focusing on system modernisation and efficiency, and promoting customer experience, community, and environmental and social considerations as a core part of its strategic initiatives. To fund this activity, the Society will continue to obtain retail funding as its predominant source of funds via its branch network and online service.

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.

The Board has considered the purpose of the Society outside of its statutory definition and has determined that its purpose is “to help people live better lives”, with a vision and promise of being there for – and acting and listening to – its members and the community when needed. The Society’s Strategy comprises four strategic pillars – Customer, Community, Climate and Capability – which form the basis of initiatives and objectives focused on delivering a positive customer and employee experience, supporting communities, demonstrating social responsibility, and ensuring the Society has the resources to remain successful and sustainable.

“Culture” is one of the Board’s key responsibilities and is represented by a separate agenda item at each Board Meeting. The Board has recently approved the establishment of a new Sub-Committee – the Customer and Employee Experience Committee – further demonstrating its commitment to ensuring the desired culture is promoted, and ensuring that the voice of the customer and employee is heard and understood. The first meeting will take place in mid-2023, and we look forward to reporting developments in our next iteration of the Annual Report and Accounts.

The Chair is ultimately responsible for leading the development of the Society’s culture, encouraging and facilitating effective contribution and constructive challenge from directors, and maintaining relations between the Non-Executive and Executive Directors. The Society’s values – Member Focused, Future Facing, Passionate and Specialist – are also reflective of its culture.

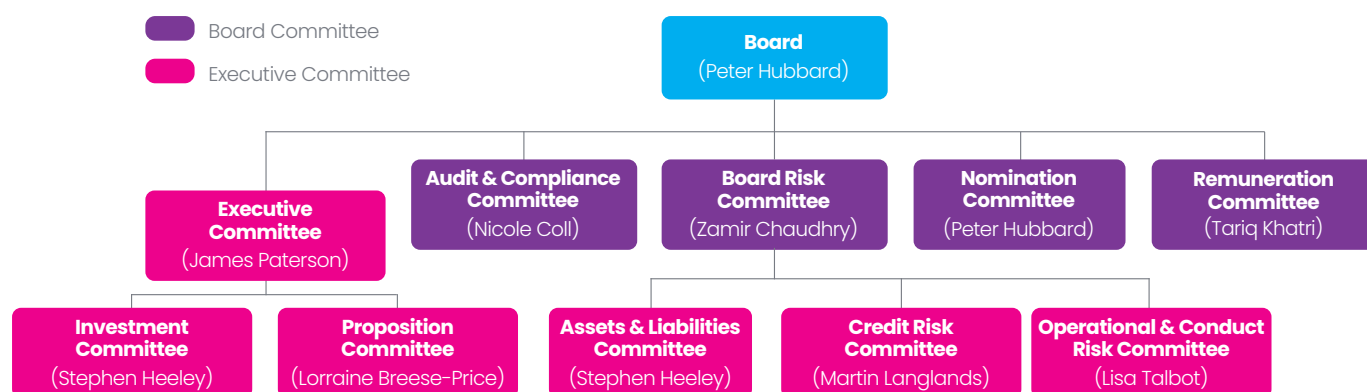
Principle C –

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.

Delivery of the Society’s Strategy and Corporate Plan is measured and monitored via a series of Key Strategic Initiatives. The initiatives are executed and delivered by members of the Executive Team, and progress is routinely escalated to the Board for oversight and challenge. The Strategy and Corporate Plan is underpinned by a continual capability assessment to ensure that adequate resources, capacity and systems are in place to successfully deliver each desired outcome.

Resources such as management information, dashboards, reports, policies and processes enable the Board to execute their responsibilities in respect of performance, governance and risk management oversight. This is achieved via an established framework in which the Board delegates certain matters to its Sub-Committees and Executive Committees, and information is escalated and / or cascaded to the appropriate forums.

The Society’s Committee Structure



The name in brackets is the Chair of each Committee as at 31 March 2023
Each Committee has a dotted line report into the Board Risk Committee

Corporate Governance Report (continued)

Board Committees

Audit and Compliance Committee

The Committee's principal function is to ensure that the interests of members are protected in relation to financial reporting and internal controls. The Committee considers financial controls and reporting, internal and external audit arrangements, and maintains oversight of the Society's second line of defence activity relating to compliance, assurance and financial crime. The Committee meets at least four times each year. Internal and external audit provision is reviewed every three years, and each year the Non-Executive Directors meet with internal and external audit representatives to evaluate performance and support from the Executive Team.

Membership comprises three Non-Executive Directors: Nicole Coll (Committee Chair), Zamir Chaudhry and Tariq Khatri. The Executive Directors, representatives from Internal and External Audit, the Chief Risk Officer and the Head of Risk and Governance attend by invitation. It is a requirement for at least one member of the Committee to have recent and relevant financial experience; this requirement is fulfilled by the Committee Chair.

Full details of responsibilities and activity during the financial year can be found in the Audit and Compliance Committee Report on page 44.

Board Risk Committee

The Board Risk Committee assists the Board in discharging its responsibilities for the oversight of risk management. This is achieved by overseeing and challenging the implementation, embedment and continual improvement of the Society's Enterprise Risk Management Framework.

The Committee receives a report from the Chief Risk Officer which details current and potential risk exposures, the effectiveness of the control environment, and identifies emerging risks through horizon scanning.

The report is supported by management information detailing risk appetite positions against internal and external limits. The Committee is also responsible for recommending key regulatory documents to the Board for approval.

Membership comprises four Non-Executive Directors: Zamir Chaudhry (Chair), Nicole Coll, Joanna Baldwin and Tariq Khatri. The Executive Directors, the Chief Risk Officer and the Head of Risk and Governance attend by invitation. The Committee meets at least four times each year.

The Committee's main responsibilities are:

- to provide oversight of the Society's risk profile and its operation within Board-approved risk appetite, considering risk matters and emerging risks identified

and escalated from both Executive and Board Committees, and escalating, where necessary, to the Board;

- to provide oversight of, and challenge to, the risk management and oversight arrangements of the Executive Directors and Senior Management Team to promote and maintain a supportive risk culture; and
- to ensure capital and liquidity resources are maintained to ensure regulatory compliance and achievement of the Corporate Plan.

An assessment of the principal business risks to which the Society is exposed, and details of mitigating action taken, can be found in the Strategic Report on page 14.

Nomination Committee

The Committee is responsible for ensuring that the composition, skillset and effectiveness of the Board and its Sub-Committees is suitable to promote the long-term success and sustainability of the Society. On an annual basis, the Committee will contribute to and evaluate the results of the Board Skills Matrix to inform succession planning and training and development needs.

The Committee reviews the structure, size and composition of the Board, evaluating skills, knowledge and experience and, when required, nominates candidates for election and re-election to fill Board vacancies. The Committee has due regard for the benefits of diversity, inclusion and equality, and its responsibility to ensure continued fitness and propriety of individuals that hold a Senior Management Function.

The Committee meets at least once each year, and membership comprises all Non-Executive Directors and the Chief Executive Officer. Peter Hubbard – as Society Chair – is also Chair of the Nomination Committee. The Chair does not participate in matters regarding their re-appointment, or the appointment of their successor.

Remuneration Committee

The Committee meets at least twice each year and is responsible for setting the over-arching principles of the remuneration policy such that they support long-term success and attract, retain and motivate individuals of the quality required to deliver the Society's Strategy and Corporate Plan. Membership comprises all Non-Executive Directors and the Committee is chaired by Tariq Khatri. The Executive Directors attend by invitation. No director is involved in decisions regarding their own remuneration.

Full details of responsibilities and activity during the financial year can be found in the Directors' Remuneration Report on page 48.

Executive Committees

Assets and Liabilities Committee

The principal function of the Committee is to manage the structure of the Society's assets and liabilities. It has specific responsibilities for liquidity, funding, counterparty credit, interest rate and capital risk management. Matters raised are escalated to the Board Risk Committee.

The Committee meets at least ten times each year. Membership comprises the Executive Directors, Head of Planning, Information and Prudential, Financial Controller and Products Manager, with the Chief Risk Officer and Head of Risk and Governance attending by invitation. The Chief Financial Officer (Stephen Heeley) is Chair.

Credit Risk Committee

The Committee is responsible for managing the Society's lending strategy and policy in accordance with risk appetite set by the Board. The Committee monitors the quality and profile of its mortgage portfolio in accordance with regulatory and internal lending limits and conducts regular stress tests to identify and manage potential credit risk exposures. Matters raised are escalated to the Board Risk Committee.

The Committee meets at least ten times each year. Membership comprises the Executive Directors, Chief Risk Officer and Chief Customer Officer with the Head of Risk and Governance attending by invitation. The Chief Risk Officer (Martin Langlands) is Chair.

Executive Committee

The Committee has delegated authority from the Board to implement and deliver the Society's Strategy and Corporate Plan in accordance with its purpose, vision and values. The Committee oversees day to day operations with focus on performance, cost management and people and culture, as well as reviewing matters which are to be presented to the Board and / or its Sub-Committees.

The Committee meets at least once each month. Membership comprises the Executive Directors, Chief Risk Officer, Chief Customer Officer, Distribution Director, Head of Employee Experience and Head of Risk and Governance. The Chief Executive Officer (James Paterson) is Chair.

Investment Committee

The Committee has delegated authority from the Executive Committee to distribute the Board-approved investment budget. The Committee reviews investment requests, and where it is considered that an appropriate and satisfactory business case has been presented, approves utilisation of the budget.

The Committee meets at least six times each year. Membership comprises the Chief Financial Officer, Chief Customer Officer and Head of Change. The Chief Financial Officer (Stephen Heeley) is Chair.

Operational and Conduct Risk Committee

The principal function of the Committee is to manage and oversee the identification, impact and mitigation of operational and conduct risks to ensure the Society continues to operate a framework that is focused on the delivery of fair customer outcomes. Matters raised are escalated to the Board Risk Committee.

The Committee meets at least ten times each year. Membership comprises the Chief Executive Officer, Chief Customer Officer, Head of Employee Experience, Head of Compliance and Financial Crime and the Product Manager, with the Chief Risk Officer and Head of Risk and Governance attending by invitation. The Head of Employee Experience (Lisa Talbot) is Chair.

Proposition Committee

The Committee oversees product-related performance – with particular focus on margin management and pricing – against the Society's funding and lending plan, and considers key drivers such as customer need, competitor analysis and market data. Matters raised are escalated to the Board and Board Risk Committee.

The Committee meets at least ten times each year. Membership comprises the Executive Directors, Chief Customer Officer, Head of Planning, Information and Prudential, Head of Compliance and Financial Crime and Products Manager, with the Chief Risk Officer and Head of Risk and Governance attending by invitation. The Chief Customer Officer (Lorraine Breese-Price) is Chair.

General Board and Committee Matters

Minutes for Board, Board Sub-Committees and Executive Committees are the responsibility of the Society Secretary. All minutes are reviewed by the relevant Committee/Board and are approved on the basis of accuracy.

Board and Committee Terms of Reference are available on the Society's website and can be obtained from the Society Secretary upon request. Terms of Reference are subject to annual review and approval to ensure responsibilities remained aligned to strategy and regulatory and legislative requirements.

Corporate Governance Report (continued)

Principle D –

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

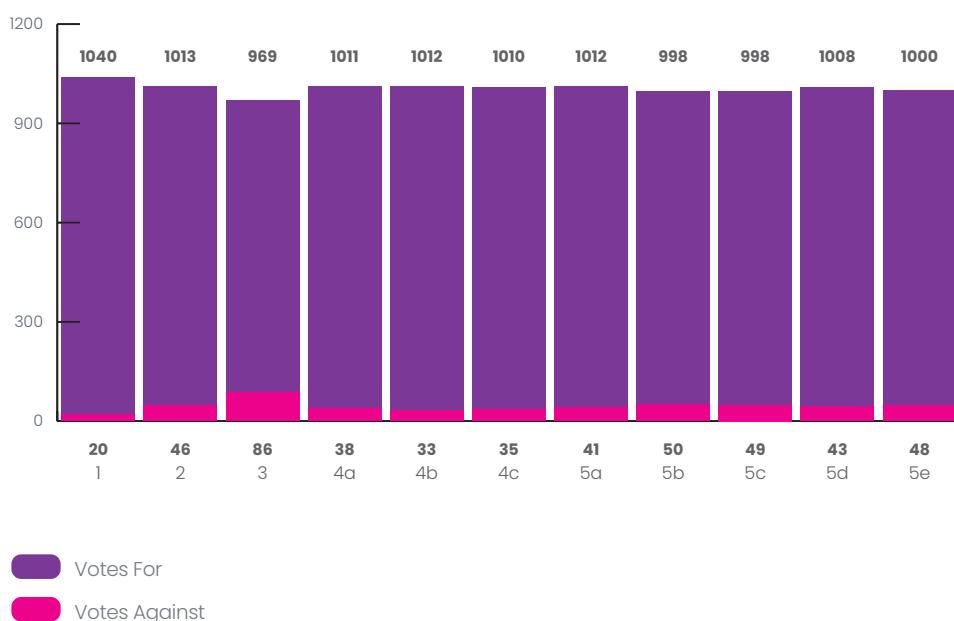
The Board recognises and has a strong appreciation for its role within the community and as a mutual organisation. Engagement and communication is achieved via regular newsletters, social media activity and surveys in which members are encouraged to leave feedback. During 2022/23, the Society trialled the use of a temporary online forum – “Community Lens” – which encouraged individuals within the Black Country region to interact and provide feedback on a series of propositions which would inform the Society’s Key Strategic Initiatives.

Following two years of virtual meetings, the Society invited members to attend its Annual General Meeting in July 2022.

The event provided an opportunity for members to meet and converse with the Board and Executive Team. Members were also encouraged to participate in a formal “Question and Answer” Session, and guest speakers were invited to discuss regional and community initiatives.

When details of the Annual General Meeting are communicated, members are provided with information regarding the performance of the Society. This information includes statements from the Chair and Chief Executive Officer, details community and charity initiatives undertaken during the year, and addresses topical issues such as scam and fraud awareness. Members are encouraged to use their vote – each of which results in a charitable donation from the Society – and to submit questions to the Board.

AGM Results – July 2022



Ordinary Resolutions

1. To receive the Directors’ Report, Annual Accounts and Annual Business Statement for the year ended 31 March 2022
2. To re-appoint PricewaterhouseCoopers LLP (PwC) as Auditors
3. To approve the Directors’ Remuneration Report for the year ended 31 March 2022
- 4a. To elect Kieron Francis Blackburn
- 4b. To elect Stephen John Heeley
- 4c. To elect James Ian Alexander Paterson
- 5a. To re-elect Joanna Rosamund Ann Baldwin
- 5b. To re-elect Zamir Ahmad Chaudhry
- 5c. To re-elect Nicole Coll
- 5d. To re-elect Peter John Hubbard
- 5e. To re-elect Tariq Khatri

The Board is committed to maintaining and promoting an honest, open and transparent relationship with its internal and external auditors and the regulator. This is achieved by disclosing and submitting required information and documentation within the timeframes allocated, as well as ensuring all parties are informed of developments regarding succession planning, compliance with regulatory and legislative matters, and any recommendations made as part of routine audits.

The Board recognises that employee engagement is of the utmost importance, especially against a backdrop of economic and political uncertainty, and the long-

term impact of the pandemic in respect of working arrangements. During 2022/23 the Board established an “Employee Support Fund” which could be utilised in a confidential and sensitive manner by employees experiencing difficulties relating to cost-of-living increases.

As previously referenced, the Board also approved the establishment of a Customer and Employee Experience Committee – which will hold its inaugural meeting in mid-2023 – to ensure the “voice of the employee” is heard throughout the organisation.

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.

The Board approves employee-related policy documents relating to performance management, remuneration and whistleblowing to ensure the desired culture, values and behaviours are demonstrated throughout the organisation. In addition to policies and practices, there are a number of employee forums – some of which have been attended by members of the Board – which enable and promote the escalation of any concerns.

The Society conducts regular employee engagement surveys which focuses on and considers wider topics such as health and wellbeing, opportunities and career progression, and social issues and responsibility. All employees are encouraged to participate anonymously, and results are escalated to the Board for discussion.

The Society's Whistleblowing and Anti-Bribery and Corruption Policy promotes a "speak up" culture and ensures employees can raise concerns without fear of victimisation to the Whistleblowers' Champion. In addition, employees can report to alternate individuals to avoid any conflicts of interest.

Section 2: Division of Responsibilities

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.

The Chair sets the direction of the Board and promotes a culture of debate and transparency by facilitating and encouraging effective contribution and constructive challenge. The Chair is responsible for maintaining productive relations between the Non-Executive and Executive Directors, and – with the support of the Society Secretary – ensures accurate, timely and clear information is received in order for the Board and Board-Sub Committees to discharge their responsibilities effectively.

The Board has satisfied itself that the Chair meets the criteria set out in the 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.

The offices of the Chair and the Chief Executive Officer are entirely separate. The Chair is responsible for leading the Board, and the Chief Executive Officer leads the Executive Team in an efficient and effective manner to deliver the Society's Strategy and Corporate Plan.

The Board comprises five Non-Executive Directors – all of whom are considered independent in character and judgement – and two Executive Directors. The Chair promotes a culture of effective and constructive collaboration and challenge, ensuring all directors contribute to discussions and decisions.

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.

As part of the Non-Executive Director recruitment process, the potential candidate's background, skills and expertise is considered to ensure the individual can provide constructive challenge and an appropriate level of support to the Board, Executive Directors and Executive Team.

A full account of existing commitments must be disclosed, and the Nomination Committee has a delegated responsibility from the Board to determine whether a potential candidate is able to commit the time required for the role. As part of the appraisal process, the time commitment made by each Non-Executive Director is assessed.

The attendance record of each director is on page 43.

Corporate Governance Report (continued)

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.

The Society Secretary provides support and guidance on corporate governance arrangements, and, if required, all directors have access to independent advice in order to effectively discharge their responsibilities. Papers, minutes, management information, policies and training material can be accessed via the Society's Board Portal. In advance of each financial year, the annual Board and Board Sub-Committee Schedule is approved to ensure there is sufficient capacity and resource to effectively discharge responsibilities.

In the spirit of collaboration and support, the Non-Executive Directors will evaluate the effectiveness of management information and suggest improvements to the Executive Directors and Executive Team. This ensures the information continues to provide sufficient oversight of business activities and facilitates informed decision-making.

The Chair ensures that Non-Executive Directors continually update their skills and knowledge to fulfil their role and responsibilities. Training and development needs are identified during the annual appraisal and skills matrix process and are regularly reviewed and discussed by the Nomination Committee. Directors are encouraged to attend industry seminars and conferences, and training sessions are routinely incorporated into the annual Board Schedule. During 2022/23, training sessions focused on interest rate risk, credit risk modelling and customer experience.

Section 3: Composition, Succession and Evaluation

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.

The Board has delegated responsibility for recruitment and succession planning to the Nomination Committee. Directors are recruited from a wide range of backgrounds to obtain the necessary skills and experience required to support the Society in achieving its goals and objectives. The Board is committed to promoting a culture of diversity, inclusion and equality.

On an annual basis, the Board and Executive Team complete a skills matrix which comprises a comprehensive and objective assessment of experience, qualifications and understanding of core subject matters. The matrix provides a holistic view of strengths, capabilities and gaps that are considered during the recruitment and succession planning process to ensure candidates complement and enhance composition.

During the recruitment process, monthly updates are presented to the Nomination Committee and escalated to the Board to ensure transparency. Non-Executive Directors are invited to contribute at various stages and are often involved in the interview and shortlisting process.

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.

The Nomination Committee is responsible for ensuring that the Board and Board Sub-Committees comprise the skills, knowledge and experience required in order to effectively discharge their responsibilities. This is facilitated by the appraisal and skills matrix process, the output of which is considered during recruitment.

As detailed within the Society's Rules, all directors are required to submit themselves for election or re-election at the Annual General Meeting. Members are provided with biographical information detailing each director's experience, and also have the opportunity to meet with the directors at the event in order to make an informed decision. The Chair and Deputy Chair are elected by the Board following the conclusion of the Annual General Meeting. Non-Executive Directors should not normally serve for more than nine years.

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 effectiveness is assessed internally on an annual basis, and externally by an experienced third-party every three years.

In 2022/23, an internal Board Effectiveness Workshop was facilitated by Hanover Search Group Limited. Recommendations were considered and a number of actions agreed and implemented to enhance effectiveness. The last external review was conducted by Clare Chalmers Limited in January 2021. The next external review will take place during 2023/24.

Each year, the performance of the Chair is appraised by the Senior Independent Director. All Non-Executive Directors and the Chief Executive Officer are subject to semi-annual performance reviews which are conducted by the Chair. The Chief Executive Officer will review the performance of the Chief Financial Officer in accordance with the Society's Performance Management Policy.

Section 4: Audit, Risk and Internal Control

Principle M –

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

The Board has delegated responsibility for the management and oversight of internal and external audit activities, and for ensuring the integrity of its financial statements and reporting to the Audit and Compliance Committee.

Full details of responsibilities and activity during the financial year can be found in the Audit and Compliance Committee Report on page 44.

Principle N –

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

The Board has satisfied itself that the annual report and accounts present a fair, balanced and understandable assessment of the Society's position, and provides the necessary information for members to assess strategy, performance and objectives.

Directors' responsibilities in relation to preparation of the annual report and accounts can be found on page 50, and the statement that the Society's accounts are prepared on the going concern basis can be found on page 33.

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.

The Board is ultimately responsible for setting risk appetite, determining risk management strategy, and identifying the principal risks that could threaten the delivery and / or performance of the Society's Strategy and Corporate Plan. The Board delegates the responsibility for the oversight and challenge of risk management to the Board Risk Committee, and the Executive Directors and Executive Team are responsible for the design, implementation, management, monitoring and reporting of risk-related matters. The Society's internal auditors provide independent and objective assurance that systems are appropriate and controls are operating effectively.

An assessment of the principal business risks to which the Society is exposed, and details of mitigating action taken, can be found in the Strategic Report on page 14.

Corporate Governance Report (continued)

Section 5: Remuneration

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.

The Society's Remuneration Policy is designed to ensure alignment with strategy, risk appetite and the desired culture, values and behaviours.

Directors are remunerated based on their expertise, commitment and overall contribution to the successful performance of the Society, and remuneration is set at a level to attract and retain the talent and skills required in order for the Society to achieve its long-term objectives. Executive remuneration is reflective of role and responsibility within the organisation.

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.

The Remuneration Committee reviews the Society's Remuneration Policy on an annual basis. No director is involved in decisions regarding their own remuneration.

Principle R –

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

Directors' remuneration is reviewed annually and is supported by an external benchmarking exercise.

The Executive Directors' benefit package is designed to motivate decision making in the interests of members.

As part of its approach to mitigate risk exposure, bonuses and incentives linked to sales performance or lead generation are not awarded to any directors or employees.

The Directors' Remuneration Report on page 48 explains how the Society complies with the principles relating to remuneration.

Directors' Attendance Record

	Board	Audit & Compliance	Board Risk	Remuneration	Nomination
Non-Executive Directors					
Peter Hubbard	10/(10)	5/(5)A	5/(6)A	3/(4)A	4/(4)
Nicole Coll	10/(10)	5/(5)	6/(6)	4/(4)	4/(4)
Joanna Baldwin	10/(10)	4/(5)A	6/(6)	4/(4)	4/(4)
Zamir Chaudhry	10/(10)	5/(5)	5/(6)	3/(4)A	4/(4)
Tariq Khatri	10/(10)	5/(5)	6/(6)	4/(4)	4/(4)
Executive Directors					
James Paterson (Joined: 1 May 2022 Appointed: 15 July 2022)	9/(9)	4/(5)A	4/(5)A	4/(4)A	4/(4)A
Stephen Heeley	10/(10)	5/(5)A	6/(6)A	3/(3)A	-
Jeremy Wood (Retired: 14 July 2022)	1/(2)	2/(2)A	1/(1)A	-	-
Kieron Blackburn (Resigned: 18 September 2022)	4/(4)	2/(3)A	3/(3)A	-	-
Samantha Ward (Returned from Maternity Leave: 19 September 2021/ Resigned: 17 February 2023)	4/(4)	0/(1)A	1/(2)A	-	-

Key: A - Attendee

() - The number of meeting the individual was eligible to attend.

Audit & Compliance Committee Report

Committee Chair's Statement

The Audit and Compliance Committee has delegated responsibility from the Board to ensure that the interests of members are protected in relation to financial reporting and internal controls. The Committee oversees the financial reporting process, the audit process, the system of internal controls, and compliance with relevant laws and regulations.

As Chair of the Committee, I am pleased to present our annual report which demonstrates our commitment to ensuring your Society continues to be successful well into the future.

Role and Responsibilities

The Committee is authorised by the Board to:

- Investigate any activity within its Terms of Reference;
- Seek any information that it requires from any employee of the Society, for which purpose all employees are directed to co-operate with any request made by the Committee; and
- Obtain external legal or independent professional advice to ensure its responsibilities are discharged effectively and for the benefit of members.

The Committee meets at least four times each year and comprises three independent Non-Executive Directors. Other regular attendees at meetings include the remaining Non-Executive and Executive Directors, the Chief Risk Officer and the Head of Risk and Governance. Throughout 2022/23, representatives from RSM Risk Assurance Services LLP, the Society's outsourced internal auditor, and PricewaterhouseCoopers LLP, the Society's the external auditor attended by invitation.

At least once each year, the Non-Executive Directors meet with the internal and external auditors without the Executive Directors present. In addition, the Chief Risk Officer has direct access to the Chair of the Audit and Compliance Committee and will meet with the Chair at least annually without the Executive Directors present.

The Committee approves the instruction of the internal and external auditors to carry out any non-audit assignments. A full review of internal and external audit provision is carried out every three years.

Financial Controls and Reporting

The main responsibilities of the Committee in respect of financial controls and reporting are to:

- Review and challenge where necessary the actions and judgements of management, in relation to the Society's financial statements and summary financial statement before submission to – and approval by – the Board, and before clearance by the auditors. Particular attention is paid to:

- The integrity of the financial statements and any formal announcements relating to the Society's financial performance;
- Critical accounting policies and practices;
- Decisions requiring significant elements of judgement; and
- Whether the financial statements taken as a whole are fair, balanced and understandable.

System of Internal Control

The Society has in place internal controls and an enterprise risk management framework to safeguard the interests of members and the Society's assets. The Committee is responsible for reviewing the effectiveness and appropriateness of these controls.

The following aspects were reviewed by the Committee during the year:-

- Control assurance reports authored by the second line of defence;
- Compliance monitoring results;
- Risk appetite reporting in respect of compliance, financial crime and legal risk appetite;
- The Society's policies on:
 - Compliance Approach;
 - Financial Crime;
 - Fitness and Propriety;
 - General Data Protection;
 - Gifts and Hospitality;
 - Procurement; and
 - Whistleblowing and Anti-Bribery and Corruption.

Internal Audit

The Committee is responsible for monitoring and reviewing the independence and effectiveness of the Society's internal audit function and the adequacy of resources. Throughout 2022/23, internal audit work was outsourced to RSM Risk Assurance Services LLP.

Prior to the start of each corporate year, the Committee approves the Internal Audit Plan. Interim progress reports alongside scheduled individual internal audit reports are presented at each meeting for review and challenge. A report covering the annual audit cycle is presented following the conclusion of each corporate year. The report provides an opinion in respect of the overall adequacy and effectiveness of the control environment.

During 2022/23, the internal audit plan covered the following areas:

- Cyber Risk;
- Equality, Diversity and Inclusion;
- Financial Crime;
- Liquidity Risk Management;
- Model Governance;
- Mortgage Underwriting;
- Operational Resilience;
- Recovery Planning;
- Regulatory Reporting;
- Third Party Management and Outsourcing; and
- Vulnerable Customers.

The Committee is satisfied that internal audit had an appropriate level of resource in order to deliver its 2022/23 plan and that it discharged its responsibilities effectively.

External Audit

The Committee, on behalf of the Board, conducts a thorough review of the provision of external audit services every three years. PricewaterhouseCoopers LLP was appointed to cover the external audit provision for the Society in October 2019. During 2022/23, the Committee concluded that the external audit provision was satisfactory – it is expected that the next review will take place in mid-2025. The Committee evaluates and approves the scope and content of the external audit plan and approves the level of fees. It monitors the effectiveness, resources, competency and independence of the external auditor and is satisfied in these matters.

Regulation and Compliance

The main responsibilities of the Committee in respect of regulation and compliance are to:

- Consider and report to the Board the effect of any statutory, regulatory or financial reporting changes, or corporate governance issues, which may affect the content and presentation of the Society's accounts, its systems of control and any other matters relating to the direction of the Society;
- Assess the adequacy of resource and skillset of those involved in independent compliance monitoring as well as instructing the compliance function to carry out specific review of any area of operations causing concern to the Committee;
- Maintain oversight of actions that have been allocated to the first line of defence following a compliance or risk assessment conducted by the second line of defence;
- Approve and monitor progress of the annual Combined Assurance Plan, taking into account the risk assessment of each area of the business; and
- Review the Society's policies and processes for detecting and preventing bribery, corruption and fraud.

There are two management committees which provide the Audit and Compliance Committee with additional assurance in respect of regulatory matters.

Regulatory Reporting Committee

The Regulatory Reporting Committee oversees regulatory reporting and provides governance over judgements and assumptions utilised as part of the reporting process. The committee is chaired by the Chief Financial Officer who submits updates to the Audit and Compliance Committee to ensure effective oversight of the internal control framework applied to regulatory reporting.

Regulatory Review Committee

The Regulatory Review Committee facilitates the implementation of regulatory change across the Society by ensuring change is identified, impact assessed and escalated to the appropriate committee for oversight. The committee is chaired by the Head of Risk and Governance, and updates are provided at each Audit and Compliance Committee via management information.

Audit & Compliance Committee Report (continued)

Audit and Compliance Committee Effectiveness

In accordance with its Terms of Reference, the Committee regularly reviews its own performance, composition and responsibilities to ensure it is operating at maximum effectiveness. Any changes considered necessary are escalated to the Board for approval.

Significant judgements in relation to the Financial Statements

The Committee examined and challenged the key assumptions and areas of judgement made in the preparation of the financial statements. These were principally:

Impairment losses on loans and advances to customers

The Committee reviewed the amount of provision for impairment losses held by the Society. The Committee challenged the underlying assumptions and the economic scenarios, particularly in relation to the high levels of inflation that are present in the UK economy. This process included reviews of key input assumptions. These were:

- Consideration of the current economic environment, particularly in relation to the high levels of inflation that are present in the UK economy at the balance sheet date and the resultant cost-of-living squeeze that will restrict the money available to borrowers to meet their debt repayments; and
- Considering the amount by which the UK Government's financial support to borrowers during the COVID-19 pandemic may continue to artificially improve the payment performance of the mortgage book and as result understated the PD of mortgages held at 31 March 2023. An adjustment has been incorporated in the model to reflect this; and
- Incorporation of an assessment of the realisable asset value for those loans where payment issues have yet to manifest themselves, or those which have defaulted, in the form of a post model adjustment to the house price.

The reviews also considered the results of stress tests under a range of economic scenarios as well as a benchmark against other relevant building societies. The Committee concluded that the amount of provision for impairment losses is appropriate. Further information on impairment losses is provided in Notes 1 and 14 to the Accounts.

Effective Interest Rate (EIR)

The Committee reviewed and approved the assumptions and methodology behind the model used to determine effective lives and EIR adjustments.

Going Concern

The Committee also reviewed and challenged management's assessment of going concern, including consideration of the results from stress testing activities. Based on its review, the Committee concluded that the adoption of the going concern assumption to prepare the financial statements remains appropriate.

These Financial Statements

On behalf of the Board, the Audit and Compliance Committee has ensured that these financial statements present a fair, balanced and understandable assessment of the Society's position and prospects.

Nicole Coll

Chair of the Audit and Compliance Committee
14 June 2023



Directors' Remuneration Report

Committee Chair's Statement

The Society has adopted a remuneration policy which complies with the relevant elements of the regulators' remuneration codes, promotes the desired culture, values and behaviours, and facilitates a transparent process in respect of determining remuneration. The purpose of this report is to inform members of remuneration policies relating to Non-Executive and Executive Directors. The report also explains how Section 5 of the UK Corporate Governance Code ("the Code") is applied.

As Chair of the Remuneration Committee, I am pleased to present the Directors' Remuneration Report which outlines our transparent remuneration approach and provides insight as to how our policies and processes promote the long-term success of your Society.

Corporate Governance

The Code notes the following three principles:

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.

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.

Principle R -

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

Remuneration Committee

The principal function of the Committee is to set the over-arching principles, parameters and governance framework of the Society's remuneration policy such that they support the long-term success and sustainability of the Society and attract, retain and motivate directors and employees of the quality required to achieve strategic initiatives and business objectives. Director remuneration is reviewed on an annual basis using data from comparable organisations - and external consultants if considered necessary - to determine a suitable benchmark.

The Committee meets at least twice each year and membership comprises all Non-Executive Directors; the Executive Directors attend by invitation. No director or employee is involved in any decision about their own remuneration.

The main responsibilities of the Committees are to:

- ensure that a transparent, stretching and rewarding performance management structure is in place, and provide oversight of this structure to ensure that it is applied rigorously and fairly;
- ensure that the remuneration and benefits awarded are aligned with the Society's budget and consistent with industry standards; and
- approve the design of, and determine targets for, any performance related pay schemes operated by the Society and approve the total annual payments made under such schemes.

Non-Executive Directors

Non-Executive Director fees are based on comparable data from similar financial services organisations and are considered in consultation with the Chief Executive Officer. Remuneration comprises a basic fee with supplementary payments for Committee Chairs. Non-Executive Director fees are not pensionable, nor do the individuals participate in any incentive schemes or receive any other benefits. Non-Executive Directors have formal contracts of service.

Details of Non-Executive Directors' remuneration can be found in Note 7 to the Accounts.

Executive Directors

The remuneration for Executive Directors reflects roles and responsibilities within the Society. The total emoluments package is set by the Remuneration Committee with constituent elements of salary and benefits being agreed between the Committee and the individual Director. Benefit packages are designed to motivate decision making in the interests of members.

James Paterson and Stephen Heeley have service contracts dated 1 May 2022 and 5 July 2021, respectively. Twelve months' notice is required to be given by the Society to James Paterson and twelve months' notice by the individual. Six months' notice is required to be given to Stephen Heeley and six months' notice by the individual. There are no contractual arrangements in respect of bonuses, deferred consideration or amended arrangements in the event of a transfer of engagement.

James Paterson and Stephen Heeley receive access to a healthcare cash plan, receive private healthcare cover and have access to an online portal offering a range of retail discounts. Both Directors are enrolled into the Society's pension scheme and receive 11% employer contribution.

Details of Executive Directors' remuneration can be found in Note 7 to the Accounts.

Basic Salaries

Basic salaries are reviewed annually, supported by an external benchmarking exercise which takes place at least every three years.

As part of its approach to mitigate conduct risk exposure, bonuses and incentives linked to sales performance or lead generation are not awarded to any directors or employees.

Tariq Khatri

Chair of the Remuneration Committee

14 June 2023

Statement of Directors' Responsibilities in Respect of the Financial Statements

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

The Building Societies Act 1986 ("the Act") requires the directors to prepare Society Annual Accounts for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law).

Under the Act, directors must not approve the Annual Accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Building Societies Act 1986.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

The directors consider that the Report and Accounts and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy.

In the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Peter Hubbard

Chair

14 June 2023

Independent auditors’ report to the members of Dudley Building Society

Report on the audit of the annual accounts

Opinion

In our opinion:

- Dudley Building Society’s annual accounts (the “annual accounts”) give a true and fair view of the state of the Society’s affairs as at 31 March 2023 and of the Society’s income and expenditure and cash flows for the year then ended;
- the annual accounts have been properly prepared in accordance United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland”, and applicable law); and
- the annual accounts have been prepared in accordance with the requirements of the Building Societies Act 1986.

We have audited the annual accounts, included within the Report and Accounts (the “Annual Report”), which comprise: the statement of financial position as at 31 March 2023; the income statement and statement of comprehensive income, the statement of change in members’ interests, and the cash flow statement for the year then ended; and the notes to the annual accounts, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit and Compliance Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (“ISAs (UK)”) and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors’ responsibilities for the audit of the annual accounts section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Society in accordance with the ethical requirements that are relevant to our audit of the annual accounts in the UK, which includes the FRC’s Ethical Standard applicable to public interest entities and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC’s Ethical Standard were not provided to the Society.

Our audit approach

Overview

Materiality

- £302k (2022: £289k)
- Based on 1% of Society’s Net Assets

Scoping

- The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment of the operations of the Society.
- Audit procedures were performed over all material account balances and financial information of the Society.

Key audit matters

- Impairment of loans and advances to customers.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the annual accounts. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Capability of the audit in detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined in the Auditors' responsibilities for the audit of the annual accounts section, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Society and industry, we identified that the principal risks of non-compliance with laws and regulations related to Financial Conduct Authority's regulations, the Prudential Regulation Authority's regulations and the UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the annual accounts. We also considered those laws and regulations that have a direct impact on the annual accounts such as the Building Societies Act 1986. We evaluated management's incentives and opportunities for fraudulent manipulation of the annual accounts (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries and management bias in accounting and estimates. Audit procedures performed included:

- Discussions with management and those charged with governance including consideration of known or suspected non-compliance with laws and regulations and fraud;
- Reading key correspondence with the Financial Conduct Authority and the Prudential Regulatory Authority;
- Review of internal audit reports in so far as they related to the annual report;
- Reviewing relevant meeting minutes including those of the Audit and Compliance committee;
- Incorporation of an element of unpredictability in our testing through altering the nature, timing and/or extent of work performed;
- Challenging assumptions and judgements made by management in their views of significant accounting estimates (see key audit matter below); and
- Identifying and testing journal entries meeting certain risk-based criteria, including unusual or unexpected account combinations.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the annual accounts. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the 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) identified by the auditors, 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, and any comments we make on the results of our procedures thereon, 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. This is not a complete list of all risks identified by our audit.

The key audit matters below are consistent with last year.

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<i>Impairment of loans and advances to customers</i> Refer to note 1 for accounting policies and accounting judgements and estimation uncertainties and note 14 and note 26 for detailed disclosures around impairment provision and credit risk. An impairment provision of £1,159k (2022: £912k) is recognised by the Society against loans and advances to customers. The loans and advances represent mortgages	<i>Specifically in responding to our identified significant risk we performed the following procedures:</i> <ul style="list-style-type: none">• We understood, evaluated and challenged the appropriateness of the methodology, key assumptions and data used in determining the post model adjustments.• For the forecast house price and cost of living post model adjustments we reviewed the methodology to ensure that it appropriately addressed the identified risks.

Key audit matter

secured against residential property, commercial property or land.

Impairment provisions represent management's best estimate of the incurred loss within the portfolio at the balance sheet date. The identification and the determination of the provision is inherently judgemental. Management uses a model and a number of post model adjustments to achieve compliance with the requirements of IAS 36. The determination of impairment provision is complex and a number of significant judgments are involved in the estimation process.

Management uses an impairment model to calculate the specific and collective provision on an account level basis and applies post model adjustments to capture latent risks not addressed by the model, caused by the uncertain economic environments and potential suppression in time taken for default to emerge as a result of the COVID-19 financial support provided by the UK government.

The provision consists of a specific provision of £138k (2022: £234k), a collective provision of £322k (2022: £138k) and risk factor post model adjustments of £699k (2022: £540k).

There continues to be significant economic uncertainty driven by a number of factors including high levels of inflation, led by food and energy prices and uncertainty in relation to future house prices. As a result we deem the risk associated with the judgements made in determining the following risk factor post model adjustments to be significant;

- Forecast house prices changes of secured property at the expected point of disposal (£217k)
- Adjustment to increase the probability of default of borrowers to reflect increases in cost of living (£390k)

How our audit addressed the key audit matter

- We used economic experts to critically assess the reasonableness of the future HPI forecasts and the impact on disposable income assumptions utilised by management. In doing so we considered external economic data and consensus forecasts.
- Where appropriate we have assessed the impact of utilising alternative assumptions and methodologies in order to determine the reasonableness of the assumptions used.
- We independently reperformed the calculations of the post model adjustment.

We have evaluated the adequacy of the disclosure of estimation uncertainty relating to impairment of loans and advances to customers.

Based on the procedures we performed and the evidence obtained we concluded that the overall level of provision held is reasonable.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the annual accounts as a whole, taking into account the structure of the Society, the accounting processes and controls, and the industry in which it operates.

All of the Society's activities are in the United Kingdom with a single line of business being the provision of mortgages and savings products to the members and other customers. The accounting records for the Society are located at the Society's principal office in Dudley.

Audit procedures were performed over all material account balances and financial information of the Society.

We did not require involvement of any component auditors.

The audit procedures performed provided us with sufficient audit evidence as a basis for our opinion on the Society's annual accounts as a whole.

The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the process management adopted to assess the extent of the potential impact of climate risk on the Society's financial statements, and we remained alert when performing our audit procedures for any indicators of the impact of climate risk.

Our procedures did not identify any material impact in the context of our audit of the financial statements as a whole, or our key audit matters for the year ended 31 March 2023.

Materiality

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 financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate 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	£ 302k (2022: £ 289k).
How we determined it	1% of Net Assets.
Rationale for benchmark applied	The Society's principal activity is the provision of long-term residential mortgages to borrowers, financed by personal savings from members. The strategy is not one purely of profit maximisation but to provide a secure place for customer investments in a mutual environment. Therefore, we base our materiality calculation on net assets, as an appropriate benchmark.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £226k.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit and Compliance Committee that we would report to them misstatements identified during our audit above £15k (2022: £14k) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the Society's ability to continue to adopt the going concern basis of accounting included:

- A risk assessment to identify factors that could impact the going concern basis of accounting, including the current and forecast financial performance, regulatory metrics and the sector in which the Society operates. As part of our risk assessment, we reviewed and considered the Society's corporate plan, ICAAP and ILAAP, regulatory correspondence and management reports provided to key governance forums;
- Evaluation of the reasonableness of the Society's corporate plans, including testing key assumptions and performance of sensitivity analysis using our understanding of the Society and its financial and operating performance obtained through the course of our audit. We have also considered the historical accuracy of previous corporate plans as part of this assessment;
- Evaluation of the Society's access to the Bank of England funding facilities; and
- Testing of the appropriateness of the disclosures made in the Annual report and accounts.

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 the date on which the annual accounts are authorised for issue.

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.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Society's ability to continue as a going concern.

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the annual accounts and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the annual accounts does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the Annual Business Statement and Directors' Report we also considered whether the disclosures required by the Building Societies Act 1986 have been included.

Based on our work undertaken in the course of the audit, the Building Societies Act 1986 requires us also to report certain opinions and matters as described below.

Annual Business Statement and Directors' Report

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

- the Annual Business Statement and the Directors' Report have been prepared in accordance with the requirements of the Building Societies Act 1986;
- the information given in the Directors' Report for the year ended 31 March 2023 is consistent with the accounting records and the annual accounts; and
- the information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given.

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

Responsibilities for the annual accounts and the audit

Responsibilities of the directors for the annual accounts

As explained more fully in the Statement of Directors' Responsibilities in respect of the financial statements, the directors are responsible for the preparation of the annual accounts in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

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.

Auditors' 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 auditors' 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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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

Use of this report

This report, including the opinions, has been prepared for and only for the Society's members as a body in accordance with Section 78 of the Building Societies Act 1986 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Building Societies Act 1986 exception reporting

Under the Building Societies Act 1986 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit and compliance Committee, we were appointed by the directors on 19 September 2020 to audit the annual accounts for the year ended 31 March 2020 and subsequent financial periods. The period of total uninterrupted engagement is 4 years, covering the years ended *31 March 2020* to *31 March 2023*.



Nikhil Dhiri (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
14 June 2023





Income Statement

FOR THE YEAR ENDED 31 MARCH 2023

	Note	2023 £000s	2022 £000s
Interest receivable and similar income	2	21,157	14,637
Interest payable and similar charges	3	(7,825)	(3,350)
Net interest receivable		13,332	11,287
Fees and commissions receivable		65	65
Fees and commissions payable		(223)	(207)
Other operating income		11	10
Total operating income		13,185	11,155
Fair value (losses)/gains on financial instruments	4	(435)	137
Total income		12,750	11,292
Administrative expenses	5	(9,203)	(8,163)
Depreciation and amortisation	16, 17	(601)	(462)
Operating profit before impairment losses and provisions		2,946	2,667
Impairment (losses)/gains on loans and advances	14	(247)	239
Profit before tax		2,699	2,906
Tax expense	8	(531)	(642)
Profit for the financial year	25	2,168	2,264

The notes on pages 63 to 105 form part of these accounts. The above results are all derived from continuing operations.

Statement of Comprehensive Income

FOR THE YEAR ENDED 31 MARCH 2023

	2023 £000s	2022 £000s
Profit for the Financial Year	2,168	2,264
Other Comprehensive Income		
Items that may subsequently be reclassified to Profit or Loss		
Available for Sale investments		
Unrealised gains on debt securities	-	13
Other comprehensive income for the financial year net of tax	-	13
Total comprehensive income for the financial year	2,168	2,277

Statement of Change in Members' Interests

	General Reserves £000s	Available- for-Sale Reserve £000s	Total £000s
2023			
Balance as at 1 April 2022	28,999	-	28,999
Profit for the year	2,168	-	2,168
Total Comprehensive Income for the year	2,168	-	2,168
Balance as at 31 March 2023	31,167	-	31,167

	£000s	£000s	£000s
2022			
Balance as at 1 April 2021	26,739	(17)	26,722
Profit for the year	2,264	-	2,264
Other Comprehensive Income for the year (net of tax)	-	13	13
Transfer to general reserve on maturity	(4)	4	-
Total Comprehensive Income for the year	2,260	17	2,277
Balance as at 31 March 2022	28,999	-	28,999

The notes on pages 63 to 105 form part of these accounts. The above results are all derived from continuing operations.

Statement of Financial Position

AS AT 31 MARCH 2023

	Note	2023 £000s	2022 £000s
Assets			
Liquid Assets			
Cash in hand and balances with the Bank of England	9	92,209	101,254
Loans and advances to credit institutions	10	9,655	7,642
Debt securities	11	–	–
		101,864	108,896
Derivative financial instruments	12	3,501	1,442
Loans and advances to customers			
Loans fully secured on residential property	13	435,671	409,793
Other loans – loans fully secured on land	13	474	680
		436,145	410,473
Other debtors	15	981	529
Tangible fixed assets	16	799	979
Intangible fixed assets	17	1,459	1,624
Total Assets		544,749	523,943
Liabilities			
Shares	19	452,705	444,707
Amounts owed to other customers	20	58,489	48,365
		511,194	493,072
Derivative financial instruments	12	513	–
Other liabilities	21	734	778
Deferred tax liability	18	385	405
Accruals and deferred income	22	756	689
Reserves			
General Reserves	25	31,167	28,999
Total Liabilities and Equity		544,749	523,943

The notes on pages 63 to 105 form part of these accounts.

These accounts were approved by the Board of Directors on 14 June 2023 and were signed on its behalf by:

Peter J Hubbard

Peter J Hubbard (Jun 14, 2023 22:30 GMT+1)

Peter Hubbard
Chairman

James Paterson

James Paterson (Jun 14, 2023 22:27 GMT+1)

James Paterson
Chief Executive

Steve Heeley

Steve Heeley (Jun 14, 2023 22:29 GMT+1)

Stephen Heeley
Chief Financial Officer

Cash Flow Statement

FOR THE YEAR ENDED 31 MARCH 2023

	2023 £000s	2022 £000s
Cash flows from operating activities		
Profit before tax	2,699	2,906
Depreciation and amortisation	601	462
Impairment losses / (gains) on loans and advances to customers	247	(239)
Loss on disposal of debt securities	87	-
Non-cash interest movements on debt securities	9	329
Changes to the fair value adjustment of hedged risk	1,593	2,609
	5,236	6,067
Changes in operating assets and liabilities		
Movement in derivative financial instruments	(1,546)	(2,706)
(Increase)/Decrease in loans and advances to credit institutions	(270)	2,296
Increase in loans and advances from credit institutions	2,826	-
Increase in accruals and deferred income	66	188
(Increase) in Other assets	(453)	(14)
Increase in Other liabilities and provision for liabilities	203	18
Net (Increase) in loans and advances to customers	(27,511)	(6,619)
Net Increase/(Decrease) in shares	8,009	(1,682)
Net Increase/(Decrease) in amounts owed to other customers	7,278	(1,507)
Tax paid	(797)	(368)
Net cash (outflow) from operating activities	(6,959)	(4,327)
Cash flows from investing activities		
Purchase of debt securities	(10,046)	-
Sales of debt securities	9,959	10,000
Purchase of tangible and intangible fixed assets	(256)	(338)
Net cash (outflow) / inflow from investing activities	(343)	9,662
Net (Decrease) / Increase in cash	(7,302)	5,335
Cash and cash equivalents at start of year	108,896	103,561
Cash and cash equivalents at end of year	101,594	108,896
Cash and cash equivalents comprises:		
Cash in hand and balances with the Bank of England	9	92,209
Loans and advances to credit institutions repayable on demand	10	9,385
	101,594	108,896

The notes on pages 63 to 105 form part of these accounts.

Notes to the Accounts

1. Accounting Policies

1.1 BASIS OF PREPARATION

Dudley Building Society (the "Society") has prepared these annual accounts in accordance with the Building Societies Act 1986, the Building Societies (Accounts and Related Provisions) Regulations 1998 and Financial Reporting Standard 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS102"). The Society has also chosen to apply the recognition and measurement provisions of IAS 39 Financial Instruments: Recognition and Measurement (as adopted for use in the EU). The presentation currency of these annual accounts is sterling because that is the functional currency of the primary economic environment in which the Society operates. All amounts in the annual accounts have been rounded to the nearest £1,000 unless otherwise stated.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these annual accounts.

The preparation of these accounts in conformity with FRS102 requires the Directors to make judgements and estimates and use assumptions in the application of these policies that have significant effect on the values of reported assets and liabilities with a significant risk of material adjustment in the next year. Although these estimates are based on management judgement and best knowledge of the events, actions or amounts, taking into account historical evidence and any other relevant factors, actual results may differ from these estimates. The judgements and estimates used in these accounts are discussed in Note 1.13.

When preparing the accounts for the current year, the restatement of the prior year comparative balances have been assessed in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. Where appropriate, the restated balance has been disclosed.

Going concern

The accounts have been prepared on the going concern basis. This is set out in the Directors' report on page 30 and describes the assessment undertaken by the Directors to reach this conclusion.

IBOR Reform

The reform and subsequent replacement of the benchmark interest rates, most notably the GBP LIBOR and other inter-bank offered rates (IBOR) attracted a significant amount of focus for global regulators since the end of the last financial crisis. The Society's exposure to the interest rate benchmark reform was solely in relation to its financial assets and liabilities in the form of the derivative financial instruments that are part of the Society's risk management strategy to hedge the interest rate risk on the fixed rate mortgages and savings products.

As part of the reforms, the UK Financial Conduct Authority (FCA) required all firms with an exposure to the impacted benchmark rates to transition those contractual arrangements to an alternative risk-free benchmark rate, which in the Society's case is GBP SONIA (Sterling Overnight Index Average). There were a number of key differences between GBP LIBOR and SONIA. GBP LIBOR was a 'term rate', which means that it was published for a borrowing period (such as three months or six months) and was 'forward looking', because it was published at the beginning of the borrowing period. GBP SONIA is a 'backward-looking' rate, based on overnight rates from actual settled transactions, and it is published at the end of the overnight borrowing period.

The regulatory deadline for the completion of this process was 31 December 2021, after which time firms were compelled to adopt the benchmark rates prescribed by the International Swaps and Derivatives Association ('ISDA').

The process by which the Society transitioned all GBP LIBOR swaps to economically equivalent GBP SONIA swaps was completed in the prior year. The transition was approved by ALCO and was subsequently noted by the Board.

As a result of this transition, the Society had no exposure to GBP LIBOR after 31 December 2021.

Notes to the Accounts (continued)

1.2 MEASUREMENT CONVENTION

The annual accounts are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments and available-for-sale debt securities.

1.3 INTEREST

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

The calculation of the effective interest rate includes all contractual transaction costs and fees paid or received where the future cash flow can be measured reliably. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Interest income and expense presented in the Income Statement include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest rate basis;
- interest on available-for-sale investment securities calculated on an effective interest rate basis;
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate.

Fair value changes on other derivatives held for risk management purposes, and other financial assets and financial liabilities carried at fair value through the Income Statement, are presented in Total Income.

1.4 FEES AND COMMISSION

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

Other fees and commission income, including account servicing fees, sales commission and other fees, are recognised as the related services are performed.

1.5 EXPENSES

Operating Leases

Payments (excluding costs for services and insurance) made under operating leases are recognised in administrative expenses in the Income Statement on a straight-line basis over the term of the lease.

1.6 TAXATION

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

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expense in tax assessments in periods different from those in which they are recognised in the annual accounts. The following timing difference is not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met, to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference.

Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the reporting date. Deferred tax balances are not discounted.

1.7 FINANCIAL INSTRUMENTS

Recognition

The Society initially recognises loans, advances and deposits issued on the date on which the transactions are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Society becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

Classification

Financial Assets

The Society classifies its financial assets into one of the following categories:

- **Loans and Receivables**

'Loans and Receivables' are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Society does not intend to sell immediately or in the near term.

Loans and Receivables are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method (see 1.3).

- **Available-for-Sale**

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments comprise the Society's portfolio of debt securities. All available-for-sale investments are measured at fair value after initial recognition. Subsequent changes in fair value, other than impairment losses, are recognised in the Statement of Comprehensive Income (SOI) until sale or maturity of the assets, following which the cumulative gains or losses are removed from the SOI and recycled to the Income Statement.

Interest income is recognised in profit or loss using the effective interest method (see 1.3).

- **At Fair Value through Profit and Loss**

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the Income Statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

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

Notes to the Accounts (continued)

Fair Value Hedges

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

In September 2019, the IASB issued Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7. These amendments, which were also enacted into FRS102, modify specific hedge accounting requirements to allow hedge accounting to continue for impacted hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks (e.g. GBP LIBOR) are amended as a result of the ongoing interest rate benchmark reforms. The phase 1 reliefs were effective for years beginning on or after 1 January 2020.

Phase 1 reliefs

The phase 1 reforms provided temporary relief from applying the specific hedge accounting requirements to those hedging relationships that are directly affected by the IBOR reform. The reliefs result in hedge accounting being permitted to continue as the IBOR reforms should not directly result in hedge accounting terminating. The reliefs available under the phase 1 reforms cease to apply when the uncertainty arising from IBOR benchmark reform is no longer present.

The Society completed the transition to derivative financial instruments that are benchmarked against GBP SONIA in the prior year. As a result, the Society considers that uncertainty related to IBOR reform is no longer present and as such the phase 1 reliefs are no longer available.

Phase 2 reliefs

The IASB has subsequently issued amendments to these standards to provide temporary reliefs for instruments and hedges directly impacted by the IBOR reform. In August 2020 the ISAB issued Interest Rate Benchmark reform Phase Two. These amendments (effective for years beginning on or after 1 January 2021) address issues that might affect financial reporting during the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging

relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate (replacement issues).

The amendments allow for modifications to be made to financial instruments to the extent that they are necessary to implement IBOR Reform and where the new basis for calculating cash flows is economically equivalent to the previous basis.

IAS 39 requires hedge relationships to be terminated where the contractual terms of the hedging or hedged instrument are changed or where the hedging or hedged instrument is disposed of. The relief allows hedge relationships to continue where changes to the hedging or hedged instruments are necessary as a direct consequence of interest rate benchmark reform, and the new basis is economically equivalent to the previous basis. Documentation in support of hedge accounting must be amended to reflect the changes.

The Society adopted phase 2 for the year ended 31 March 2022. The relief permitted the Society to amend its existing derivative contracts without the requirement to de-designate from their existing hedging relationship, which would otherwise have been required under IAS39, providing the amendments were made on an economic equivalent basis.

In the year to 31 March 2022 the Society transitioned all of its GBP LIBOR linked interest rate swap contracts with a maturity date after 31 December 2021 to GBP SONIA linked contracts on an economic equivalent basis. The Society has applied the IBOR Phase 2 reliefs to maintain all existing hedging relationships. Prior to implementation, the ALCO reviewed arrangements for the transition and noted that the process was designed in order that the impact on the Society's interest rate risk management and reported results should be minimal.

At 31 March 2023 the Society had no LIBOR linked exposures.

Financial Liabilities

The Society classifies all of its financial liabilities, other than derivatives, as measured at amortised cost or fair value through other comprehensive income.

Measurement:

Amortised Cost Measurement

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Fair Value Measurement

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

When available, 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 for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Society uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

De-recognition of financial instruments

The Society derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Society neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of: (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in the Income Statement. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Society is recognised as a separate asset or liability.

Impairment of financial assets not measured at fair value

At each reporting date, the Society assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is 'impaired' when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably. Objective evidence that financial assets are impaired includes:

- significant financial difficulty of the borrower or issuer;
- default or delinquency by a borrower;
- the restructuring of a loan or advance by the Society on terms that the Society would not consider otherwise;
- indications that a borrower or issuer will enter bankruptcy;
- the disappearance of an active market for a security; or
- observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

The Society considers evidence of impairment for loans and advances at both a specific asset and a collective level. All individually significant loans and advances are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances that are not individually significant are collectively assessed for impairment by grouping together loans and advances with similar debt to income based characteristics.

In assessing collective impairment, the Society uses statistical modelling of historical trends of the probability of default, the timing of recoveries and the amount of loss incurred and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or less than is suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are regularly refreshed to reflect experience against actual outcomes to ensure that they remain appropriate.

Notes to the Accounts (continued)

Post-model adjustments are applied to capture risks that may not be captured by the statistical models, particularly to assess potential impairment in respect of accounts where a risk event has occurred but has not yet resulted in arrears. Further details of such adjustment are shown in note 1.13.

Impairment losses on assets measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

The Society has a closed portfolio of equity release mortgage loans, representing 0.9% of total Loans and advances to customers (2022: 1.0%). A particular clause of the mortgage contract meets the definition of an insurance contract, which is accounted for under FRS103: where a borrower dies or goes into long term care and a redemption receipt is less than the contractual sum owed the Society does not have any further ability to recover amounts from the borrower or the estate.

Under FRS102 the Society has continued to account for these mortgage contracts using its existing accounting policies. The mortgage contract has been classified as being not unbundled. The impact of assessing the contracts as being "not unbundled" is that the income earned on the mortgage contracts is not split between interest and insurance premium and that the mortgage asset is included within loans and advances at the present value of future cash flows.

Measurement and recognition of the income earned on the mortgage contract has been undertaken in line with the Society's other mortgage contracts; the income earned has been included in the Income Statement within the 'Interest receivable and similar income' category. Within the Statement of financial position (page 61), the mortgage asset along with any impairment, if there were any, is disclosed in line with IAS 39. The insurance risk liability associated with the no-negative equity guarantee is calculated by estimating potential shortfalls arising at redemption, discounted at the effective interest rate, and is represented by the impairment provision.

The assessment incorporates assumptions relating to future house price values at the time of account redemption. Its assessment is also based on expected future outcomes relating to the date on which an account redeems which, given the nature of the product is expected to be on death of the borrower, but can be affected by health issues that would see borrowers move into care. It can also be affected by non-health related voluntary pre-payment.

Forbearance

A range of forbearance options is available to support customers who are in financial difficulty. The purpose of forbearance is to support customers who have temporary financial difficulties and help them get back on track. The options offered by the Society are:

- Temporary transfer to an interest only arrangement;
- Temporary reduced monthly payment;
- Product review;
- Capitalisation of arrears;
- Extension of mortgage term.

Before being granted a forbearance option, customers will need to provide evidence to support their request which is likely to include a budget planner, statement of assets and liabilities, bank / credit card statements, payslips and similar items, in order that the request can be properly assessed without prejudice. If the forbearance request is granted the account is monitored in accordance with our policy and procedures.

At the appropriate time the forbearance option that has been implemented is cancelled, with the exception of capitalisation of arrears, and the customer's normal contractual payment is restored.

Loans that are subject to restructuring may only be classified as restructured and up-to-date once a specified number and / or amount of qualifying payments have been received. These qualifying payments are set at a level appropriate to the nature of the loan and the customer's ability to make the repayment going forward.

Impairment losses are recognised in the Income Statement and reflected in an allowance account against loans and receivables. Interest on the impaired assets continues to be recognised through the unwinding of the discount. If an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through the Income Statement.

COVID-19

During the prior year the guidance issued by the FCA on how they expected mortgage lenders and administrators to treat customers fairly during the COVID-19 pandemic ceased to apply. After this time all remaining payment deferral arrangements made under the scheme reverted to the Society's normal forbearance arrangements as described above. As a result, at 31 March 2023 there are no mortgage accounts under COVID-19 payment deferral arrangements.

Impairment losses on available-for-sale investment securities are recognised by reclassifying the losses accumulated in the available-for-sale reserve. The cumulative loss that is reclassified from reserves to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment attributable to application of the effective interest method are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through the Income Statement; otherwise, any increase in fair value is recognised through the SOCI. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is always recognised in the SOCI.

1.8 CASH AND CASH EQUIVALENTS

For the purposes of the Cash Flow Statement, cash comprises cash in hand and unrestricted loans and advances to credit institutions repayable on demand. Cash equivalents comprise highly liquid unrestricted investments that are readily convertible into cash.

1.9 TANGIBLE FIXED ASSETS

Tangible fixed assets are stated at cost / deemed cost less accumulated depreciation and accumulated impairment losses. Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets; for example, land is treated separately from buildings.

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

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are as follows:

- Freehold premises – 50 years
- Short Leasehold property – the term of the lease
- Equipment, fixtures, fittings and motor vehicles – 3-7 years

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the Society expects to consume an asset's future economic benefits. During the year, the Society reduced the useful economic of the laptop assets within the Computer Equipment category in Note 16 to 3 years. The reduction resulted in an increased depreciation charge in the year of £42,000 compared to the previous basis.

1.10 INTANGIBLE FIXED ASSETS

Computer Software

Purchased software and costs directly associated with the internal development of computer software are capitalised and recognised as intangible assets where the software is an identifiable asset controlled by the Society, which will generate future economic benefits and where costs can be reliably measured. Costs incurred to establish technological feasibility or to maintain existing levels of performance are recognised as an expense incurred. Intangible assets are stated at cost less cumulative amortisation and any impairment charges.

Amortisation

Amortisation begins when the asset becomes available for operational use in accordance with the Directors' expectations and is charged to the Income Statement over the estimated useful life of the asset, which the Society estimates to be seven years or the contractual term, whichever best reflects the rate that the economic benefit is consumed. Where the capitalised cost represents an enhancement to an existing intangible asset, the estimated useful economic life is considered to be the remaining contractual period of the asset that is being enhanced. The Society reviews the amortisation period and method when events and circumstances indicate that the useful life may have changed since the last reporting date.

Intangible assets are tested for impairment in accordance with Section 27 of FRS102 when there is an indication of impairment.

Notes to the Accounts (continued)

1.11 IMPAIRMENT EXCLUDING FINANCIAL ASSETS AND DEFERRED TAX ASSETS

The carrying amounts of the Society's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. An impairment loss is reversed if and only if the reasons for the impairment have ceased to apply.

1.12 EMPLOYEE BENEFITS

Pensions – Defined contribution plans and other long-term employee benefits

The Society operates a defined contribution scheme funded by contributions from the Society and employees. Society contributions are charged to the Income Statement as incurred.

A defined contribution plan is a post-employment benefit plan under which the Society pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the Income Statement in the periods during which services are rendered by employees.

1.13 ACCOUNTING JUDGEMENTS AND ESTIMATION UNCERTAINTIES

In applying the Society's accounting policies, the Society is required to make estimates and apply judgements that can have a material effect on the carrying amounts of assets and liabilities. Such estimates and judgements are continually evaluated and are based on historical experience and expectations of future events believed to be reasonable under current circumstances.

The key judgements and estimates are set out below:

Impairment Provisions (£1,159,000, 2022: £912,000)

The Society reviews the mortgage portfolio on a monthly basis to assess for impairment. A degree of judgement is required when undertaking this evaluation. Impairment provisions are calculated using historical arrears experience, modelled credit risk characteristics and expected cash flows. Estimates are applied in respect of house prices, customer payment behaviour and the length of time expected to complete the sale

of properties in possession. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly and compared with actual experience.

The three main contributing factors towards the provisioning requirement are: the movement in house prices (measured using a house price index), the likelihood of default by the borrower (measured by the Propensity to Default – “PD”) and the value of the discount to be applied to a property if a forced sale is required. To ensure that the impairment methodology appropriately reflects the level of risk associated with each category within the mortgage book (including any payment related issues not yet identified), the probability of default is extrapolated from the actual historical loss experience and is applied across each category.

The UK Government 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 since the introduction of the support may have reduced as a result of this. The provision model may therefore be understating the PD of mortgages held at 31 March 2023. 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 £53,000 (2022: £107,000).

The UK continues to experience unusually high levels of inflation, led by food and energy prices, which may 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. Accordingly, to take account of this impact, the Board considers it appropriate to incorporate a further post model adjustment to increase the PD of borrowers. The adjustment was calculated by considering the change in the debt-to-income ratio, for borrowers considered to be most affected by the price rises, based on an assessment derived from the Office of National Statistics Consumer Price Index expenditure charts. The amount has been assessed as an increase in the monthly living costs of £354. This ratio is a key input to PD. The value of the post model adjustment included in the provision at the balance sheet date is £429,000 (2022: £433,000). Of this adjustment, £39,000 (2022: £64,000) represents an adjustment to the PD in respect of a particular cohort of accounts, where the model had calculated an estimate that was out of alignment with other cohorts, due to the low number of defaults experienced.

Whilst the Board believes that the UK housing market remains strong and will continue to grow in the long term, the Board acknowledges that there may be uncertainty in relation to house prices in the short term as a result of the ongoing inflationary pressures being experienced by households and the economic uncertainty resulting from wider geopolitical issues. To take account of this uncertainty, the Board considers it appropriate to incorporate a post model adjustment to reduce the house price at the point at which secured properties are expected to be disposed of. This represents a reduction in prices of 3% from the balance sheet date.

The amount has been assessed based on the forecast house price index at the point of disposal compared to the balance sheet date. The value of the post model adjustment included in the provision at the balance sheet date is £217,000 (2022: nil).

A sensitivity analysis has been undertaken on the monthly increase in living costs that are included in the impairment provision as a post model adjustment. A £100 per month decrease in the assessment of additional living costs would result in a decrease in the provision requirement of £135,000 whereas an increase in the assessment of additional living costs of £100 per month would result in an increase in the provision of £130,000.

A sensitivity analysis has been undertaken on the movement of the house price index included in the impairment provision as a post model adjustment. A further decrease in prices of 1%, i.e. taking the assumed reduction from 3% to 4%, would result in an increase in the value of the impairment provision of £81,000. An increase in the house price index of 1% relative to the assumption adopted, i.e. taking the assumed reduction from 3% to 2%, would result in a decrease in the value of the impairment provision of £75,000.

2. Interest Receivable and Similar Income

	2023 £000s	2022 £000s
On loans fully secured on residential property	17,919	15,200
On other loans	31	31
On debt securities	-	71
On other liquid assets	1,962	190
Net interest income / (expense) on derivatives	1,245	(855)
	21,157	14,637

All interest receivable on debt securities is in respect of income from fixed income securities and available for sale securities. Interest on loans fully secured on residential property includes interest accrued on impaired and past due residential mortgage assets of £118,000 (2022: £72,000).

3. Interest Payable and Similar Charges

	2023 £000s	2022 £000s
On shares held by individuals	6,722	3,227
On deposits and other borrowings	1,111	162
Net interest income on derivatives	(8)	(39)
	7,825	3,350

4. Fair Value Gains on Financial Instruments

	2023 £000s	2022 £000s
Gain on derivatives in designated fair value hedge relationships	1,549	2,620
Adjustments to hedged items in fair value hedge accounting relationships	(1,981)	(2,486)
(Loss) / gain on derivatives not in designated fair value hedge relationships	(3)	3
	(435)	137

The net loss from derivative financial instruments of £435,000 (2022: Gain £137,000) represents the net fair value movement on derivative 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.

5. Administrative Expenses

	2023 £000s	2022 £000s
Wages and salaries	4,358	3,888
Social security costs	461	394
Contribution to defined contribution plans	329	266
	5,148	4,548
Other administrative expenses	4,055	3,615
	9,203	8,163

Other administrative expenses include:

Operating lease costs:

Land and buildings	167	166
	167	166

Auditor's remuneration: The remuneration of the external auditor which is included within other administrative expenses above is set out below (excluding VAT):

	2023 £000s	2022 £000s
Audit of these annual accounts	166	147
Amounts receivable by the Society's auditor and its associates in respect of:		
Audit-related assurance services	–	30
	166	177

The audit-related assurance services for the prior year related wholly to an engagement to provide independent assurance over the Society's data supplied in respect of the Bank of England's Term Funding Scheme with additional incentives for SMEs.

6. Employees

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

	2023	2022
Full Time		
Principal Office & administration centre	65	57
Branch Offices	11	10
	76	67
Part Time		
Principal Office & administration centre	21	19
Branch Offices	21	25
	42	44
Total full time and part time	118	111

7. Remuneration of and Transactions with Directors

	2023 £000s	2022 £000s
(a) Remuneration of Directors		
Directors' emoluments		
Services as Directors (Non-Executive Directors)	183	183
Services in connection with Management (Executive Directors)	825	641
	1,008	824
Details of individual Directors' emoluments are as follows:-	2023	2022
Non-Executive	£000s	£000s
Zamir Chaudhry	33	31
Tariq Khatri	33	32
Peter Hubbard	50	48
Nicole Coll	38	35
Joanna Baldwin (Appointed: 4 May 2021)	29	25
Paul Doona (Resigned: 15 July 2021)	-	12
Total	183	183

Non-Executive Directors receive only fees for their services.

7. Remuneration of and Transactions with Directors (continued)

	Salary	Compensation For Loss of Office ¹	Benefits	Pension Contributions	Total
2023	£000s	£000s	£000s	£000s	£000s
Executive					
James Paterson (Joined 1 May 2022; Appointed Chief Executive Officer 15 July 2022)	229	–	–	25	254
Jeremy Wood (Resigned 14 July 2022)	83	–	–	–	83
Samantha Ward (Returned from Maternity leave on 19 September 2022; Resigned 17 February 2023)	55	118	–	21	194
Kieron Blackburn (Resigned 18 September 2022)	102	–	–	–	102
Stephen Heeley	172	–	1	19	192
Total Executive 2023	641	118	1	65	825

	Salary	Compensation For Loss of Office	Benefits	Pension Contributions	Total
2022	£000s	£000s	£000s	£000s	£000s
Executive					
Jeremy Wood	246	–	1	–	247
Samantha Ward (Commercial Director to 27 August 2021; Maternity leave from 1 October 2021)	104	–	1	11	116
Kieron Blackburn (Finance Director to 15 July 2021; Interim Commercial Director from 28 August 2021)	144	–	–	–	144
Stephen Heeley (Appointed 5 July 2021; Finance Director from 16 July 2021)	121	–	–	13	134
Total Executive 2022	615	–	2	24	641

Note 1 – The compensation for loss of office paid to Samantha Ward was in the form of a single payment concurrent with the final salary payment.

b) Directors' loans and transactions

At 31 March 2023, there were two (2022 (Restated): two) outstanding mortgage loans granted in the ordinary course of business to Directors or connected persons amounting to £686,760 (2022 (Restated): £692,109).

A register is maintained at the Head Office of the Society, under Section 68 of the Building Societies Act 1986, which shows details of all loans, transactions and arrangements with Directors and their connected persons. A statement of the appropriate details contained in the Register, for the financial year ended 31 March 2023 will be available for inspection upon request for a period of 15 days up to and including the Annual General Meeting.

8. Tax Expense

	2023 £000s	2022 £000s
The taxation charge for the year comprises:-		
Current tax at 19% (2022: 19%)	551	545
Deferred Taxation (See note 18)	(20)	97
Total Tax	531	642

Reconciliation of Current Tax charge

	2023 £000s	2022 £000s
Profit on ordinary activities before tax	2,699	2,906
Profit on ordinary activities before tax multiplied by the standard rate of Corporation Tax in the UK of 19% (2022: 19%)	513	552
Fixed asset differences	8	6
Expenses not deductible for tax purposes	1	2
Impact of change in tax rate	-	97
Other short term timing differences	9	(15)
Tax Charge	531	642

Current tax has been provided at the rate of 19%. On 3 March 2021 the Government announced its intention to increase the corporation tax rate from 1 April 2023. This rate will taper from 19% for businesses with profits of less than £50,000 to 25% for businesses with profits over £250,000. This increased rate of corporation tax has now been substantially enacted and therefore deferred tax balances at 31 March 2023 have been calculated at a rate of 25% (2022: 25%).

9. Cash in Hand and Balances with Bank of England

	2023 £000s	2022 £000s
Cash in hand	472	532
Bank of England Reserve Account	91,737	100,722
Balance included in cash flow statement	92,209	101,254

10. Loans and Advances to Credit Institutions

	2023 £000s	2022 £000s
Repayable on demand – included within cash and cash equivalents	9,385	7,642
In not more than three months	270	–
Total loans and advances to credit institutions	9,655	7,642

At 31 March 2023 £270,000 (2022: £Nil) of cash has been pledged by the Society against derivative contracts.

11. Debt Securities

	2023 £000s	2022 £000s
Gilts	–	–

The Directors consider the securities held as liquid assets are held with the intention of use on a continuing basis in the Society's activities and are therefore classified as 'financial fixed assets' rather than current assets.

During the year, the Society entered into two debt security transactions with a total nominal value of £10 million. The debt securities were disposed in full prior to the year-end.

Movements in the prior year comparative relate to the disposal of the gilt that formed part of the collateral pledged to the Bank of England under the Term Funding Scheme with additional incentives for SMEs.

Movements in debt securities during the year are summarised as follows:

	2023 £000s	2022 £000s
At the beginning of the year	–	10,399
Additions	10,046	–
Disposals and maturities	(9,959)	(10,000)
Movement in interest	–	(27)
Amortisation	–	(302)
Net loss on disposal recognised in Income Statement	(87)	–
Net losses from changes in fair value recognised in Other Comprehensive Income	–	(70)
At the end of the year	–	–

12. Derivative Financial Instruments

	Contractual / Notional Amount £000s	Assets Fair Values £000s	Liabilities Fair Values £000s
2023			
Derivatives designated as fair value hedges:			
Interest rate swaps	139,850	3,501	(513)
Derivatives not designated as fair value hedges:			
Interest rate swaps	–	–	–
Total recognised derivative assets / (liabilities)	139,850	3,501	(513)
	Contractual / Notional Amount £000s	Assets Fair Values £000s	Liabilities Fair Values £000s
2022			
Derivatives designated as fair value hedges:			
Interest rate swaps	88,600	1,442	–
Derivatives not designated as fair value hedges:			
Interest rate swaps	–	–	–
Total recognised derivative assets	88,600	1,442	–

At 31 March 2023 £270,000 of collateral was pledged against the Society's derivative contracts (2022: £Nil) where the fair value of those derivative contracts was not in the favour of the Society. The Society received £2,826,000 of pledged collateral for those derivative contracts where the fair value of those contracts were in the favour of the Society – see note 20. The Society provided no collateral to any other parties during the year, other than the Bank Of England – see notes 11 and 13 (2022: £Nil).

13. Loans and Advances to Customers

The maturity of advances secured on residential property, and advances secured on land from the reporting date is as follows:-

	2023 £000s	2022 £000s
Loans fully secured on residential property	439,913	412,195
Provision for impairment losses (see Note 14)	(1,159)	(912)
Fair value adjustment for hedged risk	(3,083)	(1,490)
	435,671	409,793
Loans fully secured on land	474	680
	436,145	410,473

	2023 £000s	2022 £000s
On call and at short notice	-	-
In not more than three months	5,324	3,684
In more than three months but not more than one year	10,720	10,146
In more than one year but not more than five years	67,667	66,482
In more than five years	356,364	332,524
	440,075	412,836
Less allowance for impairment (see Note 14)	(1,159)	(912)
Unamortised Effective Interest rate balances	(2,771)	(1,451)
	436,145	410,473

The maturity analysis above is based on contractual maturity, not expected redemption levels.

In common with most mortgage lenders, the Society anticipates that many loans will be repaid earlier than the contractual maturity dates disclosed above.

During the year and the prior year, the Society held £40,000,000 under the Bank England's Term Funding Scheme with additional incentives for SMEs (TFSME scheme). It made no drawings from the scheme in the year or in the prior year. As a participant to that scheme £116,526,000 of mortgage assets were pledged to the Bank of England as collateral (2022: £72,922,000).

14. Impairment (Losses)/Gains on Loans and Advances

	Loans fully secured on residential property £000s	Other loans fully secured on land £000s	Total £000s
Specific provision			
At 1 April 2022	376	–	376
Amounts written off	–	–	–
Credit for the year	(12)	–	(12)
At 31 March 2023	364	–	364
Collective provision			
At 1 April 2022	534	2	536
Charge for the year	259	–	259
At 31 March 2023	793	2	795
Specific provision			
At 1 April 2021	560	–	560
Amounts written off	(44)	–	(44)
Credit for the year	(140)	–	(140)
At 31 March 2022	376	–	376
Collective provision			
At 1 April 2021	632	3	635
Credit for the year	(98)	(1)	(99)
At 31 March 2022	534	2	536
Charge to the Income Statement in 2022 / 23			247
Credit to the Income Statement in 2021 / 22			(239)

In determining the level of the impairment provision of £1,159,000 (2022: £912,000) the potential adverse economic impact as a result of the cost of living squeeze has been considered. Additional risk factors to allow for house price reductions and uncertainties in the probability of default and the ability of homeowners to meet their debt repayments due to increases in the cost of living have been incorporated within the provision to reflect management's expectations of the likely outcome. Refer to note 1.13 for the sensitivities relating to these. The additional provision requirement as a result of these additional risk factors is £699,000 (2022: £540,000) and was made as part of the full year charge to the income statement of £247,000 (2022: credit of £293,000). The value of additional risk factors disclosed within the specific provision is £226,000 (2022: £142,000) and disclosed within the collective provision is £473,000 (2022: £398,000). The table below identifies the value of the impairment provision attributable to each risk factor:

2023	Underlying requirement £000s	Risk factor – risk band alignment £000s	Risk factor – model performance £000s	Risk factor – cost of living £000s	Risk factor – house price changes £000s	Total £000s
Specific	138	–	18	104	104	364
Collective	322	39	35	286	113	795
	460	39	53	390	217	1,159
2022	Underlying requirement £000s	Risk factor – risk band alignment £000s	Risk factor – model performance £000s	Risk factor – cost of living £000s	Risk factor – house price changes £000s	Total £000s
Specific	234	–	35	107	–	376
Collective	138	64	72	262	–	536
	372	64	107	369	–	912

15. Other Debtors

	2023 £000s	2022 £000s
Prepayments and Accrued Income		
Due within 1 year	981	524
Due in more than 1 year	–	5
	981	529

16. Tangible Fixed Assets

	Leasehold Land and Buildings £000s	Equipment, Fixtures, Fittings and Vehicles £000s	Computer Equipment £000s	Total £000s
Cost or valuation				
At 1 April 2022	1,430	228	570	2,228
Additions	–	–	46	46
At 31 March 2023	1,430	228	616	2,274
Depreciation				
At 1 April 2022	740	105	404	1,249
Charge for the year	105	17	104	226
At 31 March 2023	845	122	508	1,475
Net Book Value				
At 31 March 2023	585	105	108	799
At 31 March 2022	690	123	166	979

All land and buildings are occupied by the Society for its own use.

17. Intangible Fixed Assets

	2023 £000s
Cost or valuation	
At 1 April 2022	4,952
Additions	210
At 31 March 2023	5,162
Amortisation	
At 1 April 2022	3,328
Charge for the year	375
At 31 March 2023	3,703
Net Book Value	
At 31 March 2023	1,459
At 31 March 2022	1,624

Intangible assets at 31 March 2023 comprise of the cost of investment in the development of Computer Software and in the new online e-savings portal. As at 31 March 2023 £143,000 (2022: £Nil) of assets are in the course of construction. Amortisation is charged against these assets when they become ready for use by the business over an estimated useful life of either seven years or the remaining contractual term for these costs capitalised as part of the upgrade to the Unisys system.

18. Deferred Tax Liability

	2023 £000s	2022 £000s
Deferred taxation at 25% (2022: 25%) in respect of timing differences	385	405
Comprising:		
Accelerated capital allowances	405	460
Other timing differences	(20)	(55)
At 31 March – Deferred tax liability	385	405

	2023 £000s	2022 £000s
The movement on the deferred tax liability during the year was as follows:		
At the beginning of the year as previously reported – liability	405	308
Taxation (credit) / charge (see note 8)	(20)	97
At the end of the year	385	405

19. Shares

	2023 £000s	2022 £000s
Held by individuals	452,706	444,707
Fair value adjustment for hedged risk	(1)	-
	452,705	444,707
Shares are repayable with remaining maturities from the reporting date as follows:		
Accrued interest	3,079	1,187
On demand	208,899	242,143
In not more than three months	103,769	124,406
In more than three months but not more than one year	71,394	48,067
In more than one year but not more than five years	63,450	27,076
In more than five years	2,114	1,828
	452,705	444,707

20. Amounts owed to other customers

Amounts owed to other customers are repayable from the reporting date in the ordinary course of business as follows:-

	2023 £000s	2022 £000s
Amounts owed to Bank of England	40,404	40,148
Amounts owed to credit institutions	2,826	-
Amounts owed to other customers	15,259	8,217
	58,489	48,365
Accrued interest	459	164
Repayable on demand	-	-
In not more than three months	8,346	5,948
In more than three months but not more than one year	8,502	936
In more than one year	41,182	41,317
	58,489	48,365

At 31 March 2023 £2,826,000 collateral was received against the Society's derivative contracts (2022: £Nil) where the fair value of those derivative contracts was in the favour of the Society.

The amounts owed to the Bank of England relate to drawings under the Term Funding Scheme with additional incentives for SMEs (TFSME).

21. Other Liabilities

	2023 £000s	2022 £000s
Falling due within one year:-		
Corporation tax	300	546
Social security costs	130	134
Other creditors	304	98
	734	778

22. Accruals and Deferred Income

	2023 £000s	2023 £000s
Accruals falling due in less than 1 year	756	689

23. Provision for Liabilities

Financial Services Compensation Scheme (FSCS) Levy

As at the balance sheet date, the Society has no further exposure to the FSCS Levy.

24. Employee Benefits

Retirement Benefits

All current members of staff are offered membership of a defined contribution pension scheme. The assets of the scheme are held separately from those of the Society in an independently administered fund.

Contributions payable by the Society (including death in service premium) and the charge for the year was £343,000 (2022: £280,000). There were outstanding contributions of £33,000 (2022: £30,000) at the end of the year.

25. Reserves

	2023 £000s	2022 £000s
At the beginning of the year	28,999	26,722
Profit for the financial year	2,168	2,264
Other Comprehensive Income	–	13
At the end of the year	31,167	28,999
General Reserves	31,167	28,999
	31,167	28,999

26. Financial Instruments

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

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

Derivatives are only used by the Society in accordance with the Building Societies Act 1986 (as amended by the Building Societies Act 1997) to reduce the risk of loss arising from changes in interest rates or other factors specified in the legislation.

Derivatives are not used in trading activity or for speculative purposes.

The Society reduces its exposure to interest rate risk applying fair value hedging techniques as follows:

Activity	Risk	Hedging technique
Fixed rate mortgage lending	Sensitivity to increases in interest rates	Society pays fixed rate and receives variable interest
Fixed rate savings products and funding	Sensitivity to falls in interest rates	Society received fixed rate and pays variable interest

The fair value of derivative financial instruments held at 31 March 2023 is shown in Note 12.

26. Financial Instruments (continued)

The Society has a formal governance structure for managing financial and other risks, including an established risk appetite, risk limits, reporting lines, mandates and other control procedures. The ALCO monitors the financial risks (including the use of financial instruments), funding and liquidity in line with the Society's policy statements and reports any significant matters to the Board at its next meeting.

Financial assets and liabilities are measured on an on-going basis at either fair value or at amortised cost as shown in the table below:

Financial Instrument	Terms and Conditions	Accounting Policy
Loans and advances to credit institutions	<ul style="list-style-type: none"> • Fixed interest rate • Fixed term • Short to medium term maturity 	<ul style="list-style-type: none"> • Loans and receivables at amortised cost • Accounted for at settlement date
Loans and advances to customers	<ul style="list-style-type: none"> • Secured on residential property or land • Typical standard contractual term of 25 years • Fixed or variable rate of interest 	<ul style="list-style-type: none"> • Loans and receivables at amortised cost • Accounted for from date of advance
Shares	<ul style="list-style-type: none"> • Fixed or variable term • Fixed or variable interest rates 	<ul style="list-style-type: none"> • Amortised cost • Accounted for from the date of deposit
Amounts owed to credit institutions	<ul style="list-style-type: none"> • Fixed interest rate • Fixed term • Short to medium term maturity 	<ul style="list-style-type: none"> • Amortised cost • Accounted for at settlement date
Amounts owed to other customers	<ul style="list-style-type: none"> • Fixed or variable rate of interest • Fixed term • Short to medium term maturity 	<ul style="list-style-type: none"> • Amortised cost • Accounted for at settlement date
Derivative Financial Instruments	<ul style="list-style-type: none"> • Fixed interest received / paid converted to variable interest paid / received • Based on the notional value of the derivative 	<ul style="list-style-type: none"> • Fair value through profit and loss • Accounted for at trade date

Categories of financial assets and liabilities

Financial assets and liabilities are measured on an ongoing basis either at fair value or at amortised cost. Note 1.7 'Financial instruments' describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following tables analyse the Society's assets and liabilities by financial classification:

26.1 Financial Instruments

Carrying values by category

31 March 2023

	Held at amortised cost			Held at fair value			
	Loans and receivables	Other Financial assets and liabilities at amortised cost	Available- for-sale	Derivatives designated as fair value hedges	Unmatched derivatives	Non- financial assets and liabilities	Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Assets							
Cash in hand and balances with the Bank of England	92,209	-	-	-	-	-	92,209
Loans and advances to credit institutions	9,655	-	-	-	-	-	9,655
Debt securities	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	3,501	-	-	3,501
Loans and advances to customers	436,145	-	-	-	-	-	436,145
Other assets	-	-	-	-	-	3,239	3,239
Total Assets	538,009	-	-	3,501	-	3,239	544,749
Liabilities							
Shares	-	452,705	-	-	-	-	452,705
Amounts owed to other customers	-	58,489	-	-	-	-	58,489
Derivative financial instruments	-	-	-	513	-	-	513
Other liabilities	-	-	-	-	-	1,875	1,875
Total Liabilities	-	511,194	-	513	-	1,875	513,582

26.1 Financial Instruments (continued)

Carrying values by category

31 March 2022	Held at amortised cost			Held at fair value			
	Loans and receivables	Other Financial assets and liabilities at amortised cost	Available-for-sale	Derivatives designated as fair value hedges	Unmatched derivatives	Non-financial assets and liabilities	Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Assets							
Cash in hand and balances with the Bank of England	101,254	-	-	-	-	-	101,254
Loans and advances to credit institutions	7,642	-	-	-	-	-	7,642
Debt securities	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	1,442	-	-	1,442
Loans and advances to customers	410,473	-	-	-	-	-	410,473
Other assets	-	-	-	-	-	3,132	3,132
Total Assets	519,369	-	-	1,442	-	3,132	523,943
Liabilities							
Shares	-	444,707	-	-	-	-	444,707
Amounts owed to other customers	-	48,365	-	-	-	-	48,365
Derivative financial instruments	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	1,872	1,872
Total Liabilities	-	493,072	-	-	-	1,872	494,944

26.2 Financial Instruments

Valuation of financial instruments carried at fair value

The Society holds certain financial assets and liabilities at fair value, grouped into Levels 1 to 3 of the fair value hierarchy (see below).

Valuation techniques

Fair values are determined using the following fair value hierarchy that reflects the significance of the inputs in measuring fair value:

Level 1: The most reliable fair values of financial instruments are quoted market prices in an actively traded market. The Society's Level 1 portfolio mainly comprises debt securities for which traded prices are readily available.

Level 2: These are valuation techniques for which all significant inputs are taken from observable market data. These include valuation models used to calculate the present value of expected future cash flows and may be employed when no active market exists, and quoted prices are available for similar instruments in active markets. The Society's Level 2 portfolio mainly comprises interest rate derivatives, the fair value for which has been determined using the generally observable SONIA yield curves derived from quoted interest rates which match the timings of the cash flows and maturities of the instruments.

Level 3: These are valuation techniques for which one or more significant input is not based on observable market data. Valuation techniques include net present value by way of discounted cash flow models. The Society has no assets or liabilities that qualify as Level 3.

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

	Level 1 £000s	Level 2 £000s	Level 3 £000s	Total £000s
31 March 2023				
Financial assets				
Available for sale				
Debt Securities	-	-	-	-
Fair value through profit and loss				
Interest Rate Swaps	-	3,501	-	3,501
	-	3,501	-	3,501
Financial liabilities				
Fair value through profit and loss				
Interest Rate Swaps	-	513	-	513
	-	513	-	513

	£000s	£000s	£000s	£000s
31 March 2022				
Financial assets				
Available for sale				
Debt Securities	-	-	-	-
Fair value through profit and loss				
Interest Rate Swaps	-	1,442	-	1,442
	-	1,442	-	1,442
Financial liabilities				
Fair value through profit and loss				
Interest Rate Swaps	-	-	-	-
	-	-	-	-

Financial assets pledged as collateral

At 31 March 2023, £116,526,000 of mortgage assets held by the Society (31 March 2022 £72,922,000 of mortgage assets) were pledged to the Bank of England as collateral under the Term Funding Scheme with additional incentives for SMEs (TFSME scheme).

26.3 Financial Instruments

Credit Risk

Credit Risk is the main risk for a mortgage lender; the risk of financial loss arising as a result of the Society's borrowers failing to meet their obligations. The cost of managing those exposures which are considered to carry high risk requires intensive management.

All loan applications are assessed with reference to the Society's lending policy. Treasury counterparty limits are approved and monitored by ALCO and the Board. Further information on the Society's management of credit risk can be found in the Strategic report on page 14.

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

	2023	2022
	£000s	£000s
Cash in hand and balances with the Bank of England	92,209	101,254
Loans and advances to credit institutions	9,655	7,642
Debt securities	–	–
Derivative financial instruments	3,501	1,442
Loans and advances to customers	436,145	410,473
Total statement of financial position exposure	541,510	520,811
Off balance sheet exposure – mortgage commitments	14,063	23,264
	555,573	544,075

26.4 Financial Instruments

Loans and Advances to credit institutions, debt securities and derivative financial instruments

Industry Sector	2023 £000s	2023 %	2022 £000s	2023 %
Banks	9,655	9.5	7,642	7.1
Central Banks	91,737	90.5	100,722	92.9
Central Governments	–	–	–	–
Total	101,392	100.0	108,364	100.0

Geographic Region – Treasury Assets	2023 £000s	AA %	A+ %	A %	Other %	2022 £000s
United Kingdom	101,392	90.5	0.3	9.00	0.2	108,364

Geographic Region – Derivatives	2023 £000s	AA %	A+ %	A %	Other %	2022 £000s
United Kingdom	139,850	–	15.8	84.2	–	88,600

At 31 March 2023 none of the Society's treasury portfolio exposures were either past due or impaired (2022: Nil). There are no assets that would otherwise be past due or impaired whose terms have been renegotiated.

26.5 Financial Instruments

Loans and Advances to Customers

Mortgages Geographic Region	2023	2022
	%	%
East Anglia	10	11
East Midlands	5	5
Greater London	18	18
Northern	2	2
North West	9	8
Outer South East	24	23
South West	11	10
Wales	2	3
West Midlands	14	15
Yorkshire and Humberside	5	5
	100	100

26.6 Financial Instruments

Credit quality analysis of loans and advances to customers

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

	2023		2022	
	Loans fully secured on residential property	Loans fully secured on land - Other	Loans fully secured on residential property (Restated)	Loans fully secured on land - Other
	£000s	£000s	£000s	£000s
Neither past due nor impaired	422,728	524	384,376	680
Past due but not impaired				
< 3 months	2,942	-	3,951	-
> 3 months but < 6 months	185	-	-	-
> 6 months but < 12 months	-	-	1,204	-
> 12 months	-	-	-	-
Specifically impaired				
Not past due	12,930	-	21,067	-
< 3 months	787	-	1,196	-
> 3 months but < 6 months	193	-	-	-
> 6 months but < 12 months	98	-	204	-
> 12 months	-	-	111	-
Possession	-	-	86	-
Total	439,863	524	412,195	680
Allowance for impairment				
Specific	364	-	376	-
Collective	793	2	534	2
Total allowance for impairment	1,157	2	910	2

26.7 Financial Instruments

Fair value of collateral held

The Society holds collateral against each loan and advance in the form of property. The use of such collateral is in line with terms that are usual and customary to standard lending activities. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on changes in the Halifax House Price Index.

	2023		2022	
	Collateral value held against Loans fully secured on residential property £000s	Collateral value held against Loans fully secured on land £000s	Collateral value held against Loans fully secured on residential property £000s	Collateral value held against Loans fully secured on land £000s
Neither past due nor impaired	1,086,898	1,191	1,050,783	1,569
Past due but not impaired				
< 3 months	7,932	-	10,997	-
> 3 months but < 6 months	711	-	-	-
> 6 months but < 12 months	-	-	6,274	-
> 12 months	-	-	-	-
Specifically impaired				
Not past due	19,792	-	31,167	-
< 3 months	1,197	-	1,744	-
> 3 months but < 6 months	269	-	-	-
> 6 months but < 12 months	137	-	301	-
> 12 months	-	-	140	-
Possession	-	-	89	-
Total collateral value	1,116,936	1,191	1,101,495	1,569

Details of financial and non-financial assets obtained during the year by taking possession of collateral held as security against loans and advances as well as calls made on credit enhancements and held at the year-end are shown below.

	2023 £000s	2022 £000s
Property	-	89

The Society's policy is to pursue the timely realisation of the collateral in an orderly manner.

26.8 Financial Instruments

The tables below stratify credit exposures from mortgage loans and advances to retail customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan – or the amount committed for loan commitments – to the value of the collateral. The gross amounts exclude any impairment allowance. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on changes in the Halifax House Price Index.

	2023 %	2022 %
LTV ratio		
0-50%	45.74	48.22
51-75%	36.94	42.82
76-90%	14.01	7.98
91-100%	3.03	0.95
>100%	0.03	0.03
Weighted Average LTV	52.48	50.26

26.9 Financial Instruments

Forbearance

An explanation of what forbearance is, and the Society's forbearance strategies is provided in Note 1.7.

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

Type of forbearance	2023	2023	2022	2022
	Number	£000s	Number	£000s
Reduced Monthly Payment	1	93	3	1,056
	1	93	3	1,056

At 31 March 2023 there are 96 cases that are in an overpayment arrangements (2022: 106).

In accordance with previous years and with generally accepted practice for statutory disclosure, the above do not include cases where the full monthly contractual payment is being made but with Government support.

At 31 March 2023 the Society had 21 mortgages (31 March 2022: 26) with balances of £2,120,000 (31 March 2022: £1,414,000) in respect of deceased borrowers of which 9 (31 March 2022: 6) with balances of £1,145,000 (31 March 2022: £516,000) had been outstanding for more than 18 months since the date of the borrower's death.

26.10 Financial Instruments

Liquidity risk

Liquidity Risk is the risk that the Society will be unable to meet its financial obligations as they fall due in both 'business as usual' conditions and stressed situations.

At the Society, the main form of liquidity risk arises from the mismatch in the maturity period of long-term mortgage loans and short-term savings deposits. The Society mitigates this risk by ensuring it holds adequate high-quality liquid assets to cover a variety of severe but plausible stress scenarios.

Further information on the Society's management of liquidity risk can be found in the Strategic report on page 14.

The Society's liquid assets comprise of high quality liquid assets and certificates of deposits. The High-Quality Liquid Assets consist of balances in the Society's Bank of England reserve account and UK Government Gilts. At 31 March 2023 liquid assets as a percentage of shares, deposits and loans was 19.9% compared to 22.1% at 31 March 2022.

Maturity analysis for financial assets and financial liabilities

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

26.10 Financial Instruments (continued)

31 March 2023

	On demand	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	No specific maturity	Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Assets							
Cash in hand and balances with Bank of England	91,738	-	-	-	-	471	92,209
Loans and advances to credit institutions	9,655	-	-	-	-	-	9,655
Debt securities	-	-	-	-	-	-	-
Derivative financial instruments	-	55	572	2,874	-	-	3,501
Loans and advances to customers	-	5,324	10,720	67,667	356,364	(3,930)	436,145
Tangible Assets	-	-	-	-	-	799	799
Intangible Assets	-	-	-	-	-	1,459	1,459
Other Assets	-	-	-	-	-	981	981
Total Assets	101,393	5,379	11,292	70,541	356,364	(220)	544,749
Liabilities							
Shares	208,899	103,769	71,394	63,450	2,114	3,079	452,705
Amounts owed to other customers	-	8,346	8,502	41,182	-	459	58,489
Derivative financial instruments	-	-	4	509	-	-	513
Other Liabilities	-	-	-	-	-	1,875	1,875
Reserves	-	-	-	-	-	31,167	31,167
Total Liabilities	208,899	112,115	79,900	105,141	2,114	36,580	544,749
Net Liquidity Gap	(107,506)	(106,736)	(68,608)	(34,600)	354,250	(36,800)	-

26.10 Financial Instruments (continued)

31 March 2022

	On demand	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	No specific maturity and loss provision	Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Assets							
Cash in hand and balances with Bank of England	100,722	-	-	-	-	532	101,254
Loans and advances to credit institutions	7,642	-	-	-	-	-	7,642
Debt securities	-	-	-	-	-	-	-
Derivative financial instruments	-	3	25	1,414	-	-	1,442
Loans and advances to customers	-	3,684	10,146	66,482	332,524	(2,363)	410,473
Tangible Assets	-	-	-	-	-	979	979
Intangible Assets	-	-	-	-	-	1,625	1,625
Other Assets	-	-	-	-	-	528	528
Total Assets	108,364	3,687	10,171	67,896	332,524	1,301	523,943
Liabilities							
Shares	242,143	124,406	48,067	27,076	1,828	1,187	444,707
Amounts owed to other customers	-	5,948	936	41,317	-	164	48,365
Derivative financial instruments	-	-	-	-	-	-	-
Other Liabilities	-	-	-	-	-	1,872	1,872
Reserves	-	-	-	-	-	28,999	28,999
Total Liabilities	242,143	130,354	49,003	68,393	1,828	32,222	523,943
Net Liquidity Gap	(133,779)	(126,667)	(38,832)	(497)	(330,696)	(30,921)	-

26.11 Financial Instruments

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

31 March 2023

	On demand	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	No specific maturity	Total
	£000s	£000s	£000s	£000s	£000s	£000s
Liabilities						
Shares	208,118	105,278	72,305	66,413	-	452,114
Amounts owed to other customers	1,094	5,736	8,622	47,862	-	63,314
Derivative financial instruments	-	-	4	509	-	513
Other Liabilities	-	-	-	-	2,387	2,387
Total Liabilities	209,212	111,014	80,931	114,784	2,387	518,328

31 March 2022

	On demand	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	No specific maturity and loss provision	Total
	£000s	£000s	£000s	£000s	£000s	£000s
Liabilities						
Shares	240,454	126,820	48,978	29,754	-	446,006
Amounts owed to other customers	2,003	4,048	1,175	42,374	-	49,600
Derivative financial instruments	-	-	-	-	-	-
Other liabilities	-	-	-	-	1,838	1,838
Total Liabilities	242,457	130,868	50,153	72,128	1,838	497,444

26.12 Financial Instruments

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 comprise three types of risk: currency risk, interest rate risk and other price risk. As the Society is not exposed to foreign currencies the main market risk faced by the Society is interest rate risk. The Society's products are all based on market interest rates so are not exposed to other pricing risks.

Further information on the Society's management of interest rate risk can be found in the Strategic report on page 14.

The analysis below summarises the Society's exposure to interest rate risk and present the Society's assets and liabilities by repricing date, along with the derivative financial instruments that are used in the management of interest rate risk exposures.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Society's financial assets and financial liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 200-basis point (bp) parallel fall or rise in interest rates.

Other interest rate exposures, for example, basis risk (the risk of loss arising from changes in the relationship between interest rates which have similar but not identical characteristics) and prepayment risk (the risk of loss arising from early redemption of fixed rate mortgages and loans) are also monitored closely and regularly reported to ALCO.

26.12 Financial Instruments (continued)

31 March 2023

	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	No specific maturity and loss provision	Total
	£000s	£000s	£000s	£000s	£000s
Financial Assets					
Liquid Assets	101,112	-	-	752	101,896
Loans and advances	233,289	48,526	158,260	(3,930)	436,145
Derivative financial instruments	55	572	2,874	-	3,501
Other Assets	-	-	-	3,239	3,239
Total Financial Assets	334,456	49,098	161,134	61	544,749
Financial Liabilities					
Shares and amounts owed to customers	363,728	77,737	63,366	6,363	511,194
Derivative financial instruments	-	4	509	-	513
Other liabilities	-	-	-	1,875	1,875
Reserves	-	-	-	31,167	31,167
Total Financial Liabilities	363,728	77,741	63,875	39,405	544,749
Impact of Derivative Financial Instruments	98,950	(25,250)	(73,700)	-	-
Interest rate sensitivity gap					
Sensitivity to Profit and Reserves	69,678	(53,893)	23,559	(39,344)	-
Parallel shift of +2%	(164)	732	(1,686)	-	(1,118)

26.12 Financial Instruments (continued)

31 March 2022

	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	No specific maturity and loss provision	Total
	£000s	£000s	£000s	£000s	£000s
Financial Assets					
Liquid Assets	108,310	-	-	586	101,864
Loans and advances	257,759	42,354	112,723	(2,363)	410,473
Derivative financial instruments	3	25	1,414	-	1,442
Other Assets	-	-	-	3,132	3,132
Total Financial Assets	366,072	42,379	114,137	1,355	523,943
Financial Liabilities					
Shares and amounts owed to customers	418,471	45,658	27,593	1,350	493,072
Derivative financial instruments	-	-	-	-	-
Other liabilities	-	-	-	1,872	1,872
Reserves	-	-	-	28,999	28,999
Total Financial Liabilities	418,471	45,658	27,593	32,221	523,943
Impact of Derivative Financial Instruments	82,300	(16,900)	(65,400)	-	-
Interest rate sensitivity gap					
Sensitivity to Profit and Reserves	29,901	(20,179)	21,144	(30,866)	-
Parallel shift of +2%	(73)	256	(1,045)	-	(862)

27. Operating Leases

Annual commitments under non-cancellable operating leases are as follows:-

	2023 £000s	2022 £000s
Up to five years	51	26
Over five years	119	140

28. Related Parties

	No of key management personnel and their close family members	Amounts in respect of key management personnel and their close family members £000s		No of key management personnel and their close family members (Restated)	Amounts in respect of key management personnel and their close family members (Restated) £000s
Mortgage Loans					
At 1 April 2022	2	692	At 1 April 2021	2	697
Net Movements in the year	-	(5)	Net Movements in the year	-	(5)
At 31 March 2023	2	687	At 31 March 2022	2	692
Deposit accounts and investments					
At 1 April 2022	9	14	At 1 April 2021	9	23
Net Movements in the year	(1)	3	Net Movements in the year	-	(9)
At 31 March 2023	89	17	At 31 March 2022	9	14

At 31 March 2023, there were two (2022 (Restated): two) outstanding mortgage loans granted in the ordinary course of business to Directors or connected persons amounting to £686,760 (2022 (Restated): £692,109).

All Directors are required to maintain a savings balance of at least £1,000 each in the Society. At 31 March 2023 the aggregate balances held by Non-Executive and Executive Directors in Dudley Building Society savings accounts was £16,988 (2022: £14,385).

Key management personnel and their close family members paid interest totalling £30,249 (2022 (Restated): £24,716), received interest totalling £126 (2022: £90), and paid no fees and commissions during the year.

The prior year comparative for mortgage loans has been restated to 2 loans with an aggregate balance of £692,109 to incorporate a loan to a related party that was previously not reported.

29. Capital

The Board's policy is to increase the Society's capital base to further strengthen the confidence members and other stakeholders have in the Society as well as support continued investment in the development of the business. The Society's capital requirements are set and monitored by the PRA. The Society operates a formal ICAAP to determine and demonstrate how these requirements are met. The ICAAP also sets out the framework for the Society's internal governance and oversight of its risk and capital management policies and is used to assist with the management of capital and risk exposures.

The Society's actual and forecast capital positions are reviewed against a risk appetite that requires capital to be maintained at a specific minimum level above regulatory capital requirements. There have been no material changes to the Society's management of capital in the year.

	Note	2023 £000s	2022 £000s
Common Equity Tier 1			
General reserve	25	31,167	28,999
Available for sale reserve	25	-	-
Prudent valuation adjustment	-	(3)	(1)
Intangible assets	17	(1,459)	(1,624)
Total common equity tier 1 capital		29,705	27,374
Tier 2 Capital			
Collective provision	14	795	536
Total tier 2 capital		795	536
Total regulatory capital		30,500	27,910

30. Country by Country Disclosures

Basis of preparation

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 Capital Requirements Directive IV (CRD IV) requires credit institutions and investment firms in the EU to report annually, specifying, by Member State and by third country in which they have an establishment, the following information on a Society basis for the financial year:

Name, nature of activities and geographical location:

The single subsidiary of the Society was dissolved on 15 June 2021. The Society only operates in the United Kingdom. The Society is a Credit Institution whose principal activities are deposit taking and secured lending.

Average number of employees:

As disclosed in note 6 to the accounts.

Annual turnover:

Equivalent to total income and, along with profit before tax, is as disclosed in the Income Statement on page 59.

Corporation tax paid:

As disclosed in the cash flow statement on page 62.

Public subsidies:

There were none received in the year.

Independent auditors' report to the directors of Dudley Building Society

Report on the audit of the country-by-country information

Opinion

In our opinion, Dudley Building Society's country-by-country information for the year ended 31 March 2023 has been properly prepared, in all material respects, in accordance with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

We have audited the country-by-country information for the year ended 31 March 2023 in the Country-by-Country Report.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the country-by-country information section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Society in accordance with the ethical requirements that are relevant to our audit of the country-by-country information in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Emphasis of matter - Basis of preparation

In forming our opinion on the country-by-country information, which is not modified, we draw attention to note 30 of the country-by-country information which describes the basis of preparation. The country-by-country information is prepared for the directors for the purpose of complying with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013. The country-by-country information has therefore been prepared in accordance with a special purpose framework and, as a result, the country-by-country information may not be suitable for another purpose.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the Society's ability to continue to adopt the going concern basis of accounting included:

- A risk assessment to identify factors that could impact the going concern basis of accounting, including the current and forecast financial performance, regulatory metrics and the sector in which the Society operates. As part of our risk assessment, we reviewed and considered the Society's corporate plan, ICAAP and ILAAP, regulatory correspondence and management reports provided to key governance forums;
- Evaluation of the reasonableness of the Society's corporate plans, covering a period up to March 2026, including testing key assumptions and performance of sensitivity analysis using our understanding of the Society and its financial and operating performance obtained through the course of our audit. We have also considered the historical accuracy of previous corporate plans as part of this assessment;
- Evaluation of the Society's access to the Bank of England funding facilities; and
- Testing of the appropriateness of the disclosures made in the Annual report and accounts.

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 the date on which the country-by-country information is authorised for issue.

In auditing the country-by-country information, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the country-by-country information is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Society's ability to continue as a going concern.

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

Responsibilities for the country-by-country information and the audit

Responsibilities of the directors for the country-by-country information

The directors are responsible for the preparation of the country-by-country information in accordance with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013 as explained in the basis of preparation in note 30 and accounting policies in note 1 to the country-by-country information, and for determining that the basis of preparation and accounting policies are acceptable in the circumstances. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of country-by-country information that is free from material misstatement, whether due to fraud or error.

In preparing the country-by-country information, 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.

Auditors' responsibilities for the audit of the country-by-country information

It is our responsibility to report on whether the country-by-country information has been properly prepared in accordance with the relevant requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Our objectives are to obtain reasonable assurance about whether the country-by-country information as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 this country-by-country information.

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

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 the Financial Conduct Authority's regulations, the Prudential Regulation Authority's regulations and the UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the country-by-country information. We also considered those laws and regulations that have a direct impact on the country-by-country information such as the Capital Requirements (Country-by-Country Reporting) Regulations 2013. We evaluated management's incentives and opportunities for fraudulent manipulation of the country-by-country information (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries and management bias in accounting estimates. Audit procedures performed included:

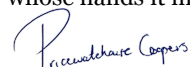
- Discussions with management and those charged with governance including consideration of known or suspected non-compliance with laws and regulations and fraud;
- Reading key correspondence with the Financial Conduct Authority and the Prudential Regulatory Authority;
- Review of internal audit reports in so far as they related to the annual report;
- Reviewing relevant meeting minutes including those of the Audit and Compliance committee;
- Incorporation of an element of unpredictability in our testing through altering the nature, timing and/or extent of work performed;
- Challenging assumptions and judgements made by management in their significant accounting estimates (see key audit matters below); and
- Identifying and testing journal entries meeting certain risk-based criteria, including unusual or unexpected account combinations.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the country-by-country information. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the country-by-country information is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinion, has been prepared for and only for the Society's directors in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, save where expressly agreed by our prior consent in writing.



PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors
Birmingham
14 June 2023

Annual Business Statement

FOR THE YEAR ENDED 31 MARCH 2023

1. Statutory Percentages

	2023	2022	Statutory limit
	%	%	%
Lending limit	0.33	0.29	25.00
Funding limit	11.44	9.81	50.00

The above percentages have been calculated in accordance with the provisions of the Building Societies Act 1986.

The lending limit measures the proportion of business assets not in the form of loans fully secured on residential property.

The funding limit measures the proportion of shares and borrowings other than those from individuals.

Business assets are the total assets of the Society as shown in the Statement of Financial Position plus impairment provisions, less tangible fixed assets and liquid assets.

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

The statutory limits are laid down under the Building Societies Act 1986 and ensure that the principal purpose of a building society is that of making loans which are secured on residential property and that the Society is funded substantially by its members.

Annual Business Statement (continued)

FOR THE YEAR ENDED 31 MARCH 2023

2. Other Percentages

	2023 %	2022 %
As a percentage of shares and borrowings		
Gross capital	6.10	5.88
Free capital	5.97	5.66
Liquid assets	19.93	22.09
As a percentage of mean total assets		
Profit after tax	0.41	0.43
Management expenses	1.83	1.64

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

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

'Gross capital' comprises general reserves and Available-for-Sale reserves. 'Free capital' comprises gross capital and impairment provision less intangible fixed assets.

'Liquid assets' represents the total of cash in hand, treasury bills, loans and advances to credit institutions and debt securities as shown in the Statement of Financial Position.

'Mean total assets' are the average of the total assets at the beginning and end of the relevant financial years.

'Profit after taxation' represents the profit for the financial year as shown in the income statement.

'Management expenses' represent the aggregate of administrative expenses, depreciation and amortisation and other operating charges.

Annual Business Statement (continued)

FOR THE YEAR ENDED 31 MARCH 2023

3. Information Relating to the Directors at 31 March 2023

Name	Date of Birth	Date of Appointment	Occupation	Other Directorships
Peter Hubbard	05/11/1955	16/01/2020	Non-Executive Director	Edgepool Limited Exeter Cash Plan Holdings Limited The Exeter Cash Plan
Nicole Coll	25/01/1976	16/01/2020	Non-Executive Director	CAF Financial Solutions Limited Credit Suisse Asset Management Limited DF Capital Bank Limited DF Capital Holdings PLC The Granville School
Joanna Baldwin	09/06/1950	01/05/2021	Non-Executive Director	
Zamir Chaudhry	02/01/1974	13/09/2018	Strategy and Risk Advisor	
Tariq Khatri	18/06/1968	13/12/2018	Management Consultant	
James Paterson	28/05/1984	01/05/2022	Chief Executive Officer	
Stephen Heeley	02/05/1969	05/07/2021	Chief Financial Officer	

Documents may be served on the above-named Directors at the Society's Registered Office at 7 Harbour Buildings, The Waterfront, Brierley Hill, DY5 1LN. James Paterson and Stephen Heeley have service contracts dated 1 May 2022 and 5 July 2021, respectively.

Twelve months' notice is required to be given by the Society to James Paterson and twelve months' notice by the individual. Six months' notice is required to be given by the Society to Stephen Heeley and six months' notice by the individual. There are no contractual arrangements in respect of bonuses, deferred consideration or amended arrangements in the event of a transfer of engagement.

Annual Business Statement (continued)

FOR THE YEAR ENDED 31 MARCH 2023

4. Information Relating to the Other Officers at 31 March 2023

Name	Occupation	Other Directorships
Lorraine Breese-Price	Chief Customer Officer	-
Martin Langlands	Chief Risk Officer	-
Robert Oliver	Distribution Director	Macclesfield Rugby Union Football Club Limited
Claire Hyde	Head of Risk and Governance and Society Secretary	-
Lisa Talbot	Head of Employee Experience	

Appendix to the Annual Report (Unaudited)

Performance highlights

Net interest margin ratio

Net interest margin is calculated as the interest income and similar income less interest expense and similar charges for the financial year as a percentage of the mean total assets.

	2023 £000s	2022 £000s
Interest receivable and similar income	21,157	14,637
Interest payable and similar charges	(7,825)	(3,350)
Net interest receivable	13,332	11,287
Opening total assets	523,943	525,741
Closing total assets	544,749	523,943
Mean total assets	534,346	524,842
Net interest margin	2.49%	2.15%

Management expenses ratio

Management expenses ratio is calculated as the aggregate of administrative expenses, depreciation and amortisation and other operating charges as a percentage of mean total assets.

	2023 £000s	2022 £000s
Administrative expenses	9,203	8,163
Depreciation and amortisation	601	462
Management expenses	9,804	8,625
Opening total assets	523,943	525,741
Closing total assets	544,749	523,943
Mean total assets	534,346	524,842
Management expenses ratio	1.83%	1.64%

Gross capital

Gross capital ratio is calculated as the aggregate of general reserves and available-for-sale reserves as a percentage of the aggregate of shares and amounts owed to other customers.

	2023 £000s	2022 £000s
General reserve	31,167	28,999
Available-for-sale reserve	–	–
Gross capital	31,167	28,999
Shares	452,705	444,707
Amounts owed to other customers	58,489	48,365
Total shares and deposits	511,194	493,072
Gross capital ratio	6.10%	5.88%

Liquid assets (% of SDL)

Liquid assets ratio is defined as the aggregate of cash in hand and balances with Bank of England, loans and advances to credit institutions and debt securities as a percentage of the aggregate of shares and amounts owed to other customers.

	2023 £000s	2022 £000s
Cash in hand and balances with the Bank of England	92,209	101,254
Loans and advances to credit institutions	9,655	7,642
Debt securities	–	–
Liquid assets	101,864	108,896
Shares	452,705	444,707
Amounts owed to other customers	58,489	48,365
Total shares and deposits	511,194	493,072
Liquid assets ratio	19.93%	22.09%

Mean total assets

Mean total assets is defined as the average of the total assets at the beginning and end of the relevant financial years.

	2023 £000s	2022 £000s
Opening total assets	523,943	525,741
Closing total assets	544,749	523,943
Mean total assets	534,346	524,842

Customer feedback

The customer feedback rating is defined as the net promoter score. Based on the responses to a single survey question that is measured on an eleven-point scale from 0 to 10, the net promoter score is calculated as the percentage of responders who are deemed to be promoters (who answer the survey question with a score of 9 or 10) less the percentage of responder who are deemed to be detractors (who answer the survey question with a score of less than or equal to 6).

Get in touch

Principal Office

Dudley Building Society
7 Harbour Buildings, The Waterfront,
Brierley Hill DY5 1LN

01384 231414
enquiries@dudleybuildingsociety.co.uk

Brierley Hill

107 High Street, Brierley Hill DY5 3AU

01384 70420
brierleyhill@dudleybuildingsociety.co.uk

Dudley

Dudley House, Stone Street, Dudley DY1 1NP

01384 253034
dudley@dudleybuildingsociety.co.uk

Kingswinford

1 Townsend Place, Kingswinford DY6 9JL

01384 278326
kingswinford@dudleybuildingsociety.co.uk

Perton

6 Anders Square, Perton WV6 7QH

01902 755540
perton@dudleybuildingsociety.co.uk

Gornal Wood

20 Abbey Road, Gornal Wood DY3 2PG

01384 214671
gornalwood@dudleybuildingsociety.co.uk



Opening hours*

Monday, Tuesday, Thursday
and Friday: 9.00am – 5.00pm

Wednesday: 9.30am – 5.00pm

Saturday: 9.00am – 12.00pm

Sunday: Closed

Stay in touch

From time to time, we'd like to contact you with all the latest news and updates from Dudley Building Society.

We think it is important for us to stay connected and for you to get the most out of your membership.

Please ensure your marketing preferences and contact details are up to date when talking to a member of our team or by registering with us online.

dudleybuildingsociety.co.uk



Follow us on social media
for the latest on what we're up to.

 @DudleyBS

 Dudley Building Society

 Dudley Building Society

 @dudleybuildingsociety

Dudley Building Society is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority (registration number 161294).

dudley
your Building Society