2023

Annual Report and Accounts 2023

Year ended 31st March 2023

esbs

as individual as you

Contents

Member of the Building Societies Association

Earl Shilton Building Society (esbs) is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority – registration number 206078

CONTACT INFORMATION

Postal address: 22 The Hollow, Earl Shilton, Leicester LE9 7NB
Website address: www.esbs.co.uk
Telephone number: 01455 844422
Email address: enquire@esbs.co.uk

DIRECTORS

Alexander (Alex) C ROBINSON MBA BEng, Board Chair (Appointed 13th July 2022)
Martin J RICE LLB LLM (Distinction), Board Chair (Retired 13th July 2022)
Ian M DALE ACA, Senior Independent Director
Christopher R GREENWELL LLB
Darren J HICKMAN FCCA ACIB
Laura J MACKIE BA BSC ACIB
John STABLES BA BFP FCA
Paul TILLEY JP ACIB CeRGI CeMAP
Stephen T WIGFULL CA MMath MSc

CHIEF EXECUTIVE & SECRETARY

Paul TILLEY JP ACIB CeRGI CeMAP

FINANCE DIRECTOR

Stephen T WIGFULL CA MMath MSc

INTERNAL AUDITORS

RSM UK Risk Assurance Services LLP

EXTERNAL AUDITOR

BDO LLP
Chartered Accountants and Statutory Auditor

CHAIR'S STATEMENT
for the year ended 31st March 2023

1. Overview of the Society's results

In my first year as Chair of the Society, I am pleased to report that despite the difficult economic times, the Society continues to demonstrate very positive business performance. I have detailed the headline figures below but the specific details can be found in our Chief Executive, Paul Tilley's, report, which is the next section:

- Record mortgage advances of over £29 million;
- Shares balance from individual savings members up £9 million year-on-year;
- Continued positive feedback from our members;
- Healthy pre-tax profit of over £650,000;
- Mortgage book growth of over 5%; and
- Total asset growth of over 8%.

Although we delivered a healthy pre-tax profit this year, in November the Board took a conscious decision to reward savers ahead of increases in interest rates for our borrowers. This had the effect of reducing our profit, but we believe this is the appropriate approach both in the interests of our members and the long-term sustainability of the Society.

2. A review of the year

The Market

It has been a challenging economic environment, but the UK housing market remained relatively buoyant even with the headwinds of the conflict between Ukraine and Russia, high inflation and the corresponding cost of living crisis, and significant increases in interest rates. However, in recent months house prices have begun to soften as costs continue to rise and the interest rate increases filter through to mortgage payments. I am pleased to report that although arrears have increased, which is often the case when interest rates increase significantly leading to pressure on household budgets, they are at a modest level, for further detail see note 21 on page 53. Having said that, our Mortgage Team are closely monitoring the situation and can provide appropriate support as needed. In particular, members who do fall behind on payments are personally contacted and their circumstances carefully considered, so that we can agree to ways to help them to get back on track. If, for any reason, you have, or think that you may have future difficulties with payments for one of our mortgages, please contact us as soon as possible so we can determine how we might be able to help.

The 'mini budget' instigated a dash to fixed interest rate mortgages. This also coincided with the Society launching a fixed interest rate mortgage to aid with retention, so the Mortgage Team was very busy.

With regard to our savers, finally members were beginning to see some meaningful interest rates. We took note of the eight Bank of England Base Rate hikes in the year and in November increased the savings interest rates ahead of our mortgage customers. With all these things, there is a fine balance between improving savers' interest rates but also being mindful of the implications of higher interest rates for our borrowers. The Board took the view that we should support our savers and borrowers and we invested some of our profits to achieve this. It also resulted in some strong inflows of savings balances, as highlighted above, and mortgage applications, and we prudently balanced the savings inflows with mortgage lending.

Inflation

Although there were expectations that inflation would begin to rescind, it is still high and at the time of writing CPI was 10.1% for the year to 31st March 2023. This clearly has consequences for the economy as a whole and wage inflation. The Board carefully balanced providing pay rises and one-off payments to help colleagues with the sharp increases in costs, but we were mindful of achieving this in the context of delivering sustainable profit, whilst being an attractive employer and supportive to existing (and future) employees. We expect the cost of living challenge to continue as inflation works its way through the economy. We have also seen significant cost increases from a number of suppliers and in particular our IT costs, where we expect further increases as we improve our systems and technology. As a consequence, we expect that our management expenses ratio will continue to be under pressure, but we will look to ways to improve our efficiency and to prudently grow our revenue streams.

Climate Change

The Board continues to integrate climate considerations into our business strategies and risk management processes and the Board is also mindful of the physical and transitional effects of climate change and the associated financial risks and economic consequences, both for all, including the Society and its members. As part of our net zero carbon strategy, we are planning to install solar panels at our Head Office. In addition, although there is still debate as to the best green heating solution, we will continue to support our borrowing members by considering a further advance on their existing mortgages, where the purpose is to make their homes more energy efficient and if appropriate, to reduce their own carbon footprint. We will also continue to monitor developments in legislation, such as the implications of low EPC ratings, and technology and aim to support our members as alternatives evolve but also to understand the financial risks for the Society and our borrowers.

Board Changes

I would like to start by paying tribute to Martin Rice, who was Chair of the Society until July 2022, having served in that role for eight years and was a member of the Board for nine years in total. During those years, the market and regulation transformed significantly. Martin also had to deal with the complications of COVID-19 and all the intricacies of lockdown, social distancing and holding the team together. It is a credit to his stewardship and his personal qualities that the Society has continued to prosper and grow. On behalf of the Board, I would like to thank Martin for his support and guidance, and we wish him well in his retirement.

Looking to the future, the Board as a whole values diversity and inclusion and within the retirement cycle, we will look to recruit suitable replacements.

Looking Forward

Although these are uncertain times, we continue to plan for the future. We will invest in our people, in particular our Mortgage Team capacity, and systems, to improve our service offering and efficiency. We will also continue with the migration of our IT systems to the cloud and look to use technology to enhance our service levels for both our members and mortgage brokers. We pride ourselves on our personal service and we will continue to treat customers as individuals and aim to provide consistently fair mortgage and savings rates. The Society strongly values its heritage and the trust of our members and will ensure that they remain at the heart of how we operate. We also look forward to the introduction of the Consumer Duty regulation, which is consistent with our customer centric approach, and is designed to enhance the service and protection of retail customers. As you can imagine, the Society's team has been working hard to be ready when Consumer Duty goes live on 31st July 2023.

Finally, I would like to thank all the Board Members and my colleagues for their continued support and dedication to deliver long-term sustainable value for our members.

A C ROBINSON Board Chair

22nd May 2023

Introduction

I am pleased to report another successful year for the Society during turbulent times over the last 12 months. This is testament to the organisation's ability, being the people within it, to take change in its stride. The business continues to grow and thrive for the benefit of the customers of today, tomorrow and beyond.

The Chair's Statement highlights the economic, financial and people impacts of global and UK events – we stand ready to continue to adapt for the benefit of members and the ongoing sustainability of your Society.

The key metrics of mortgage growth, optimised but not maximised profitability, retention of high quality liquidity and robust capital measures continue to provide enviable financial stability for the Society and offers confidence to you as a member.

Costs have increased this year because of inflation but this was expected and managed within budget. In addition, the Society continues to reward its people and invest in systems to ensure we provide members with a deeply personal and relevant service allied to effective security controls.

I would like to take this opportunity to thank you, our members, for your ongoing support – it does really make a difference to us.

The Society is only as good as the people who work within it and I continue to be proud of the dedication, professionalism and collaborative approach that colleagues demonstrate every day and so I would like to record my sincere personal thanks to everyone.

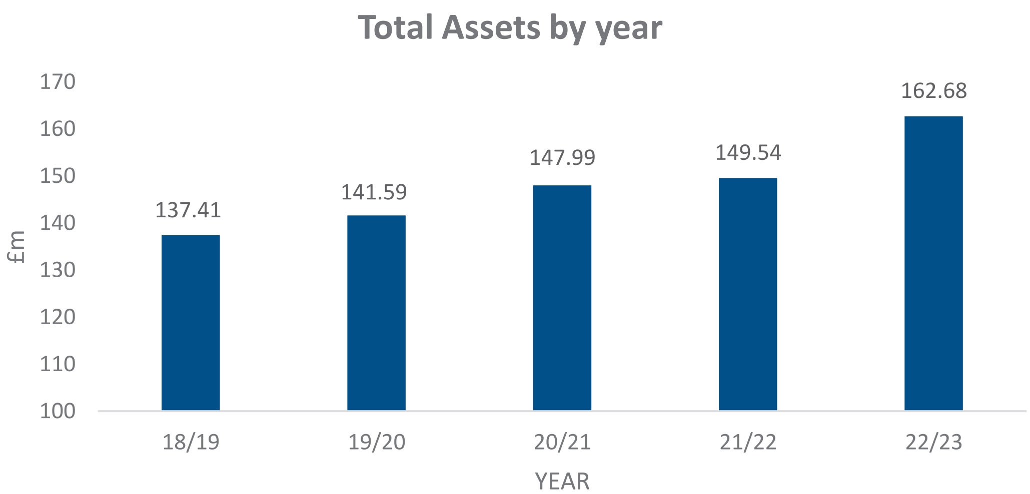
You, our members, own the Society and your best interests are at the heart of everything we do. Offering competitive products allied to a first class service remains our core strategic aim.

Growth

The last twelve months have seen the Society continue to grow the business, with increasing balances held by personal savers and owed by borrowers, despite the challenging external environment and highly competitive mortgage market. I was pleased to see that the Society pushed through the £150m assets barrier in the year ending with over £160m as at 31st March 2023 but without any material change to the Society's credit risk appetite.

Sadly, it was necessary to restrict and suspend new savings account opening to manage retail inflow during the year; this was a deliberate policy to sensibly manage liquidity for financial efficiency and to retain its high quality and accessibility. However, it did demonstrate that our products remain competitive and relevant, and this funding was used, in part, to enable our mortgage programme to flourish.

The Society continues to evolve its lending proposition and is cognisant of the challenging economic situation in order to continue to effectively manage credit risk. Our aim remains to prudently lend through external challenges. In this respect, we seek out many underserved borrowing segments of the mass market – for example, we help those looking to build their own home and for those self-employed borrowers where an individual approach to affordability is taken.



Mortgage balances are at an all-time high of over £125m and increased by over 5% year-on-year. Record new lending in any one year of nearly £30m drove this, and was generated through effective marketing, increased distribution and product pricing. This was despite the uncertainty of the property and mortgage markets caused by political and economic impacts, which led to higher mortgage rates for many. A number of our borrowers took the sensible decision to repay or reduce their debt from their own funds, which may have been driven by their concern over the worsening economic situation.

The Society refined its approach to existing borrowers to enable them, where conditions permitted, to switch to another product, including our first deployment of fixed rate mortgages, to provide either or both of lower or certainty of payments. This proved successful with record mortgage balances taking advantage to switch products.

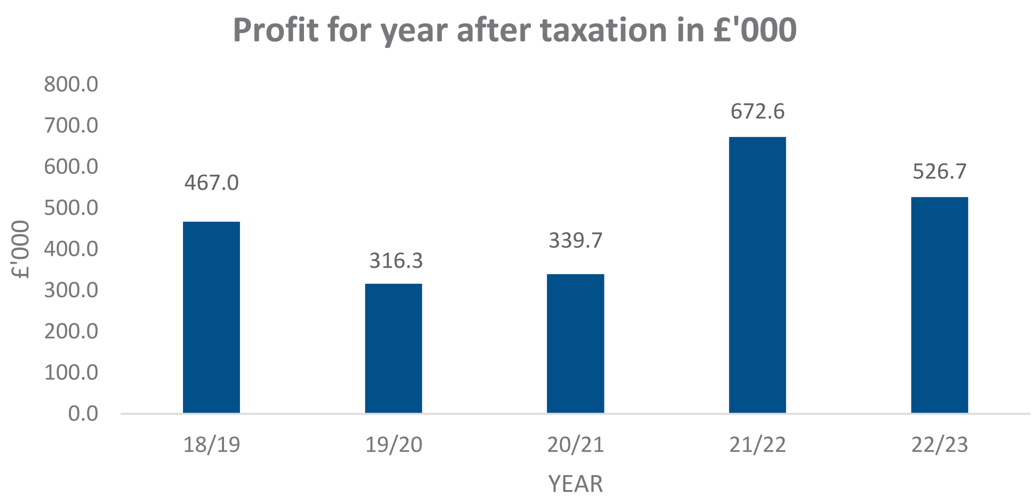
Profit / Capital

The level of profit reported this year shows a decrease from last year driven, as alluded to in the Chair's Statement, by the Society's decision to increase, on average, savers' interest rates more than those charged to borrowers and delaying a mortgage rate increase as long as was financially sensible. We have also increased borrowing rates much less than the increase in the Bank of England base rate to mitigate the cost increase for borrowers during a period of stressed finances for many.

Profit is used to further strengthen our financial resilience – as a mutual we look, as mentioned earlier, to optimise but not maximise returns – and to allow investment in the business moving forward to enhance our proposition to members. In addition, this year, given the cost of living challenges for savers and borrowers, we have deliberately reduced our profit to return value to members.

Profit was also impacted as the Society increased its impairment provision given the wider economic situation.

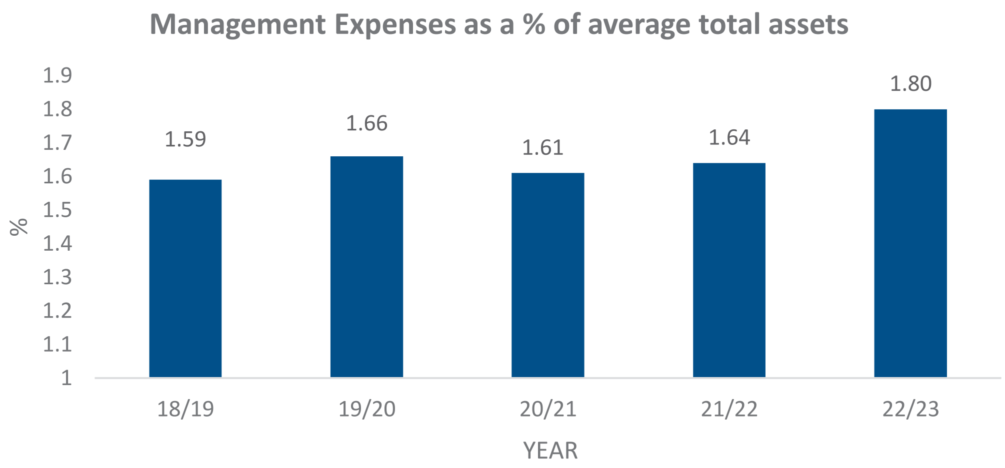
Capital, which is the accumulation of profit over the years, continues to increase as an absolute number and in percentage terms on a risk-weighted basis, but had modestly fallen on a non-risk-weighted basis given the increase in the size of the Society. All our capital ratios remain robust, significantly greater than both regulatory and internal requirements, and the Society remains in a very sound and stable financial position.



Management Expenses

As identified in the introduction, expenses in monetary terms and as a percentage of assets have increased both because of continued investment in people and systems but also reflects inflationary pressure. However, this investment ensures members continue to receive the level of service they have come to expect.

Each and every expenditure item is subject to evaluation and contracts with external suppliers are regularly reviewed to ensure they remain value for money.



Members

The cost of living is causing a significant financial impact to many, particularly borrowers. We continue to offer constructive assistance and forbearance to those affected and will continue to do so further into the future. Arrears have moved up, as expected, during the year reflecting the impact of higher interest rates, but remains within risk tolerance, for further detail see note 21 on page 53. The Society's effective and supportive collections process delivered by compassionate colleagues provides support to those in need.

The number of customers with the Society remained broadly static during the last calendar year, which was pleasing given that for several months the Society had to suspend new savings account opening to control funds inflow. Furthermore, 94% of new members, when asked during the last business year, stated they would recommend the Society to others – a very pleasing result.

These outcomes clearly demonstrate that members retain confidence in the Society. I remain passionate that we must continually seek ways to improve on the products and service we provide to members, and to simplify the processes we use.

Other Matters

The work undertaken in the community and charitable activities continues to play an important part in delivering a social contribution and retaining our heritage and culture. We continue to support many local organisations including support for alleviating homelessness.

The Society supports colleagues who wish to embark in charitable activity and additional leave is permitted for this purpose. In addition, the Society provides access to medical insurance and well-being mechanisms for all colleagues as a caring and compassionate employer. The Society remains committed to a diverse, equal and inclusive workforce and culture, where everyone can be heard and listened to.

In terms of awards, we have recently won for the third successive year the "Personal Finance Awards" "Best Self-Build Mortgage Lender" run by "The Money Pages" and was voted for by consumers.

I would also like to thank all our business partners, particularly the mortgage intermediary community, for assisting in the delivery of these results, and for their continued service to us during ever changing times.

After over 40 years of exemplary service, we said a fond farewell to Sally Hunt earlier this calendar year. On a personal level, I would like to take this opportunity to thank Sally for her loyalty, commitment and tireless work over the decades allied to her calm and professional manner. Sally's involvement culminated in her last role as the Society's Risk & Compliance Manager, and I know I say, on behalf of the Board, that we all wish Sally a very long, happy and relaxing retirement.

Looking Forward

The economic path forward is uncertain due to the effects of worldwide events, uplifts in inflation and cost of living challenges. There is a likelihood that credit conditions will continue to deteriorate. However, the Society is financially and operationally well positioned to continue to grow and develop in a sensible and controlled manner, within defined risk appetites.

Our capital ratios remain very healthy and they support our aspiration to continue to grow the Society at a controlled and prudent rate. Importantly, this will not be at the expense of taking on unknown and greater lending risk. Continuing to expand our distribution further, both direct to market and via the intermediated area, will help drive this growth aspiration.

Market conditions, particularly price competition, are expected to remain intense and how consumer confidence reacts to the affordability challenges will be vital to the performance of the economy. The Society expects economic growth to be modest, with further but limited rises in interest rates to curb inflation. The latter will be welcome news for savers, but the Society is aware that borrowers may need support and it will be on offer. We are planning for steady profitability moving forward whilst retaining our enviable financial stability. The cost base, driven by technology changes and continued development and reward of colleagues, will remain a key focus. Intense mortgage and savings competition has been factored into our decision making and forecasting.

The Society remains committed to a transformative digitisation strategy and last year we entered into revised contractual arrangements with our key technology partner to assist with deployment. As mentioned in the Chair's Statement, we are well on our way to full cloud migration to build operational resilience. This development will continue to be carefully managed to provide member benefit in a secure manner. Technological changes directed toward simplification and improvement, and automation and integration will continue to be identified and deployed where needed. There is a planned review of IT strategy and functionality, which will include how mortgage origination via intermediaries is undertaken and developing online onboarding of new savings members coupled with electronic withdrawal facilities. The Society's investment in technology will continue but does come at an increased cost.

Providing customer contact choice remains key – members should be able to decide how and when they communicate with us.

The Society continues to develop its climate change strategy and already permits borrowing to facilitate improvements to property to increase energy efficiency and reduce carbon footprint. It is likely that how the Society is managing its direct and indirect impact on climate will be reported in future versions of the Annual Report and Accounts.

As I conclude, it is worth reflecting that the Society has, so far, successfully navigated its way through the many uncertain and volatile times in its long history and will continue to do so. We remain here to serve you to the best of our abilities and thank you for being a member. It is a privilege to be the Society's Chief Executive and I look forward to seeing you at the Annual General Meeting in July.

P Tilley Chief Executive

22nd May 2023

The Directors have pleasure in presenting the One Hundred and Sixty Sixth Annual Report, Accounts and Business Statement of the Society for the year ended 31st March 2023.

OBJECTIVES AND ACTIVITIES

The principal objectives of the Earl Shilton Building Society ("the Society") are to attract funds by offering a range of straightforward savings and investment products in order to make available loans secured on land and property, most notably residential lending.

The Society has been developing simple, transparent and competitive financial products and services which provide choice and good outcomes for our members for over 160 years, and will continue to do so for the foreseeable future. The Society strongly values its heritage and the trust of our members and will ensure they remain at the heart of how we operate.

It is the Society's intention to continue promoting thrift and homeownership by remaining a traditional mutual building society offering excellent customer service through a variety of distribution channels.

APPLYING THE UK CODE OF CORPORATE GOVERNANCE

The UK Code of Corporate Governance 2018 ("the Code") applies to listed UK companies. It requires them to explain how they have applied the governance principles which are contained within the Code, to enable a company's shareholders to understand how effectively a company has complied.

As a mutually-owned organisation, the Society does not have the equivalent of shareholders and is not directly subject to the Code.

Nevertheless, the Board has voluntarily chosen to follow most of the principles of the Code where they are considered relevant (and the Board deems them appropriate) to an organisation of this size.

To assist members, a detailed explanation of how the Society will apply, or explain why the Society is not applying, appears in the Corporate Governance Report at page 17.

COMPLIANCE AND REGULATION

The Society is regulated by both the Financial Conduct Authority ("FCA") and the Prudential Regulation Authority ("PRA").

We fully support and accept the need for, and the responsibilities associated with, regulatory compliance.

For members' information, shown below is a breakdown of costs incurred in respect of the various regulatory, compliance and ombudsman bodies.

	2023 £	2022 £
Financial Ombudsman Service	2,081	1,743
Financial Conduct Authority and Prudential Regulation Authority	12,630	11,938
Financial Services Compensation Scheme	1,437	2,961

The Society takes its responsibility to adhere to various laws, statutes and codes of practice seriously throughout the business and does not seek to avoid compliance with them. It is the Society's objective to not only comply with the letter of the various requirements but also the spirit and to be entirely transparent in its disclosures.

DONATIONS AND COMMUNITY SUPPORT

As a local Society the Directors believe that it is important to support worthwhile causes in a prudent manner. No donations were made for political purposes (2022: nil) and listed below are organisations that the Society has helped during the year to 31st March 2023. In total the Society made contributions of support amounting to £3,600 (2022: £4,400), including charitable donations of £2,600 (2022: £3,450).

Action Deafness; Action Homeless; Alex's Wish; The Bodie Hodges Foundation; Children's Cancer and Leukaemia Group; Heart Link; Hope Against Cancer; Leicestershire Charity Link; Menphys; Redgate Farm Animal Sanctuary.

In addition, the Society and staff supported the Samaritans, which was the Society's nominated charity for the year.

CONDUCT RISK / TREATING CUSTOMERS FAIRLY

The Directors expect the Society to treat its customers fairly at all times. We would ask our members to let us know if they consider that we have not achieved this important commitment on any occasion. Do please contact our Chief Executive or the Senior Independent Director at the Society's Head Office in this regard. The Directors are determined to maintain the highest standards of honesty, integrity and fairness in the culture and conduct of the Society for the benefit of members.

The Society assesses and monitors culture via the Treating Customers Fairly & Conduct Risk Outcomes Management Information Report, emanating from the Retail Conduct of Business Risk Appetite Statement. Additionally, the Society has a Mission Statement and a Culture Statement. Cultural insights such as employee surveys, exit interviews, whistleblowing procedures and training data are used to review culture. As mentioned in the Chair's Statement earlier, a new Consumer Duty regulation is being deployed this year to continue to build upon the service and protection of retail customers.

If a member has any significant matter they wish to bring to the attention of any Committee Chair they are invited to do so by contacting the Society's Secretary.

TAXATION

The Society has again been awarded the Fair Tax Mark. This is an independent accreditation which demonstrates our commitment to paying the right amount of tax and to be transparent in regards to our tax affairs. The Society considers that taxation makes an important contribution to wider society, and a Taxation Policy which sets out the key tax principles that the Society adheres to is available on request from the Society's Secretary and on the Society's website at www.esbs.co.uk.

STAFF

We believe in the value of personal service and have avoided a call centre approach to dealings with our members. The Directors know that our staff are the "front line" in dealing with our members and wish to thank all the team for their continued dedication and hard work.

EQUALITY, DIVERSITY AND INCLUSION

The Society operates a Policy on Equality, Diversity and Inclusion to provide opportunity for all staff and Directors. No targets are deemed appropriate due to the Society's size and the fact we always seek to appoint the most appropriate candidate. The gender breakdown is detailed in the following table:

Role	Male (number)	Female (number)	Total (number)	Male	Female
Board	7	1	8	87%	13%
Senior Team	3	3	6	50%	50%
Staff	5	22	27	19%	81%
Total	15	26	41	37%	63%

CREDITOR PAYMENT POLICY

The Society's policy concerning the payment of trade creditors is to agree terms of payment, ensure that suppliers fulfil their contractual obligations and discharge the supplier's invoice for the complete provision of goods and services within the agreed payment terms. Creditor days were 19 at 31st March 2023 (2022: 24 days).

AUDITORS

The Society's auditors, BDO LLP, who were appointed at the 2019 AGM, have expressed their willingness to continue in office and, in accordance with Section 77 of the Building Societies Act 1986, a resolution to this effect will be proposed at the AGM.

FINANCIAL RESULTS AND KEY PERFORMANCE INDICATORS

Key performance indicators for the last three years are shown below:

	2023	2022	2021
Gross capital	£13.48m	£12.96m	£12.29m
Operating profit before impairment and provisions	£732,844	£770,703	£457,667
Profit for the year after taxation	£526,700	£672,625	£339,686
Total assets	£162.68m	£149.54m	£147.99m
Mortgage balances	£126.58m	£120.10m	£115.04m
Share balances	£140.76m	£131.76m	£131.06m
Liquidity ratio as a percentage of shares & borrowings	23.55%	20.92%	23.67%
Management expenses as a percentage of average total assets	1.80%	1.64%	1.61%

An explanation of the terms used above is as follows:

Gross capital represents the accumulation of profit for the Society over the years and provides protection for savers and a fund against future losses. This is referred to as general reserves on the Balance Sheet.

Operating profit before impairment and provisions shows the difference between interest charged to borrowers and paid to savers after allowing for fee and commission income/expenses and the expenses of running the Society.

Profit for the year after taxation takes into consideration provisions (or recoveries) on loans, investments and other assets and liabilities as well as Corporation Tax. It is added to general reserves each year.

Total assets indicate the overall size of the Society and the resources available to generate future returns.

Mortgage balances equate to the total amount owed to the Society by borrowers less accumulated impairment loss.

Share balances represent the total sum invested by personal savers.

Liquidity ratio as a percentage of shares & borrowings refers to the Society's liquid assets as per the balance sheet and is used to meet commitments as they fall due.

Management expenses as a percentage of average total assets provide a cost ratio when compared to the Society's average size over the year.

Capital and profit

Whilst delivering asset growth the Society maintained a strong capital position throughout the year. The Society uses a number of measures of capital as shown in the following table.

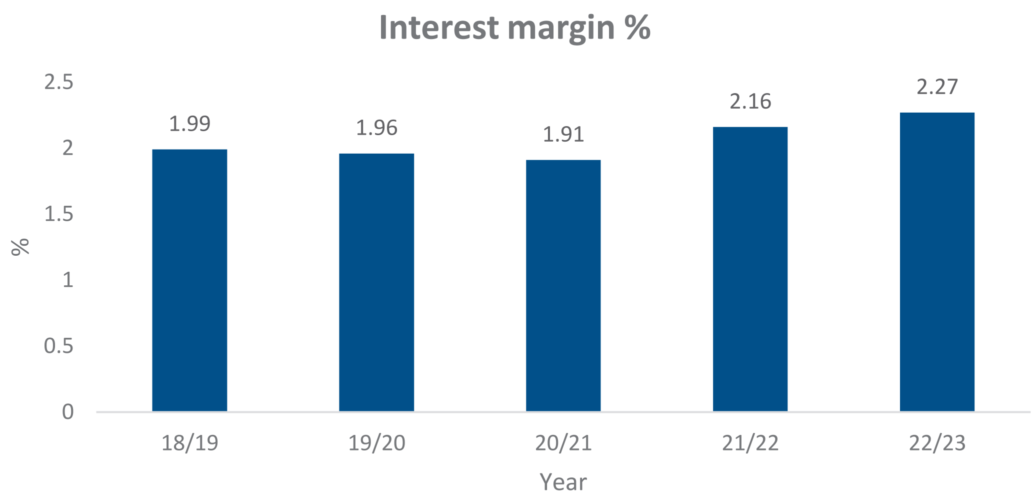
		2023	2022
Gross capital	Total	£13.48m	£12.96m
	As a % of total assets	8.29%	8.67%
Operating profit before impairment and provisions	Total	£732,844	£770,703
	As a % of average total assets	0.47%	0.52%
Profit for the financial year		£526,700	£672,625
Free capital (note a)	Total	£13.29m	£12.70m
	As a % of shares and borrowings	8.93%	9.33%
Core tier 1 capital	As a % of shares and borrowings	9.05%	9.51%
Risk-weighted core tier 1 ratio		24.71%	25.43%
Leverage ratio (note b)		8.20%	8.57%

Note a: Free capital is total reserves plus collective impairment provisions less tangible and intangible fixed assets.
Note b: The leverage ratio is a simplified measure of capital strength, calculated by dividing the core tier 1 capital by total assets plus mortgage commitments.

The risk-weighted core tier 1 ratio and the leverage ratio are measures of capital strength defined under UK regulations, and in both cases the Society's ratio is significantly higher than that required by the regulators, see the Society's Pillar 3 Disclosure Document for more details. It is important that the Society maintains healthy profit levels to support its growth and to be able to continue its lending programme. The Society's Gross capital as a percentage of shares and borrowings is shown in the annual business statement on page 56.

Interest margin

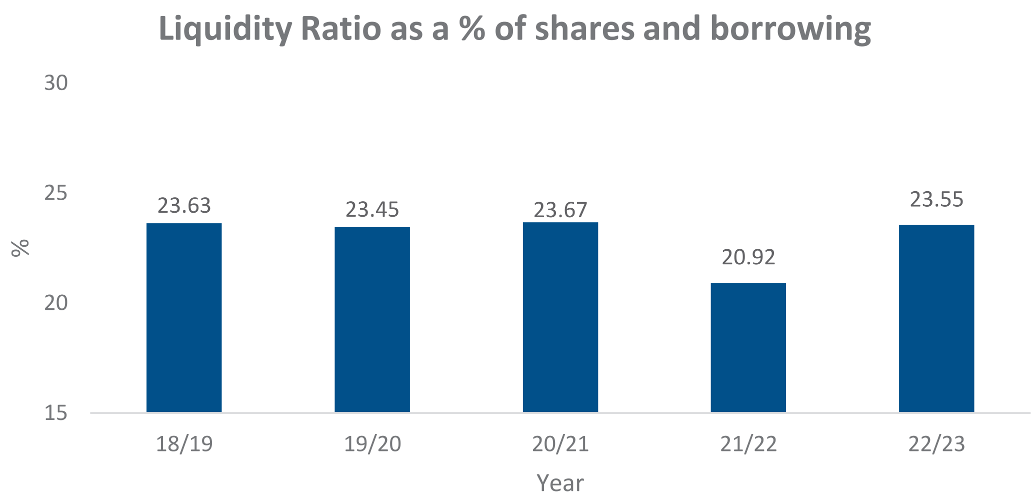
The net interest margin represents net interest receivable as a percentage of average total assets. This year, that has increased to 2.27% (2022: 2.16%).



Total assets

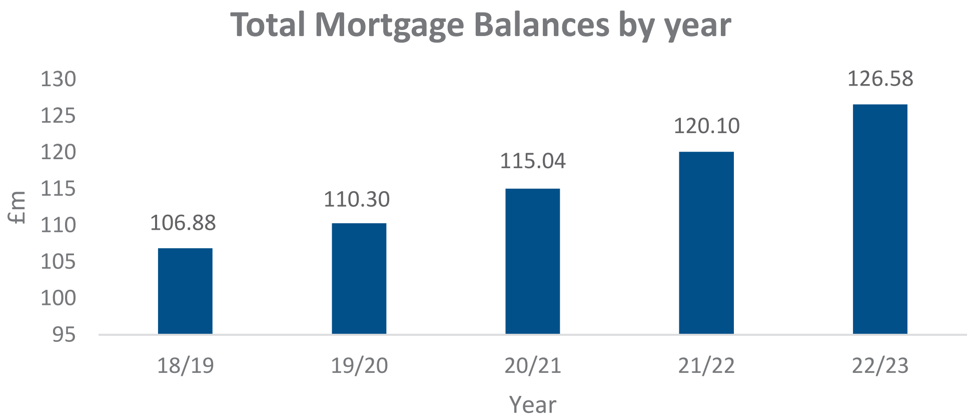
Total assets increased to £162.68m (2022: £149.54m), an increase of 8.79% (2022: 1.05%).

Liquid assets, as at 31st March 2023 were £35.04m (2022: £28.49m) which is 23.55% (2022: 20.92%) of shares and borrowings. These liquid assets, which are not lent to mortgage borrowers, have increased during the year as a percentage of shares and borrowings. They are maintained at a level which balances operational efficiency whilst enabling the Society to meet all its commitments as they fall due. Liquid assets remain above the Board's internal assessment of its minimum requirements and the minimum regulatory requirement, see the Society's Pillar 3 Disclosure Document for more details.



Mortgage lending

During the year £29.67m (2022: £27.49m) was advanced to borrowers to buy, refinance or improve their properties. Total mortgage balances at the end of the year amounted to £126.58m (2022: £120.10m). Mortgage balances increased in the year by £6.48m (2022: £5.06m), an increase of 5.40% (2022: 4.41%).



In common with other building societies, we experienced a number of cases in which borrowers could not meet their mortgage commitments. It continues to be the Society's policy to look at each individual case and try to make suitable arrangements which may include extending the term for repayment, temporary payment deferral or converting a capital and interest repayment mortgage to interest only. There were two (2022: three) mortgage accounts with forbearance measures at the end of the year. Provisions for impairment were £398,017 at the year-end (2022: £322,100). At 31st March 2023 there were zero (2022: one) mortgage accounts which were twelve or more months in arrears; more details on mortgage balances in arrears are given in note 21 on page 53. There were no properties in possession (2022: nil) at the year end. The Society recognises a provision for the impairment of a mortgage asset where there is objective evidence that a loss event has occurred which may impact the future cash flows expected from the asset. This is explained further in note 1 of the accounts.

Shares and borrowings

Total shares and borrowings, which includes amounts owed to credit institutions, increased by £12.65m (2022: increased by £0.76m) and amounted to £148.84m (2022: £136.18m), an increase of 9.30% (2022: increase of 0.56%). The retail savings market continues to account for substantially all of the Society's funding, although at 31st March 2023 the Society also held £0.51m of short-term wholesale borrowing from other financial institutions (2022: £0.50m).

FINANCIAL RISK MANAGEMENT

Financial Risk Management objectives and policies

The Society has a risk averse culture and maintains a policy of low exposure to risk so as to maintain public confidence and to allow the achievement of its objectives.

The Society has a formal structure for managing risk, including a Board approved risk appetite statement, established risk limits, reporting lines, mandates and other control procedures. This structure is reviewed regularly by the Board of Directors, supported by its sub-committees, who are charged with the responsibility of managing and controlling the Society's risks, including the balance sheet exposure and the use of financial instruments for risk management purposes.

Principal Risks and Uncertainties

Risks arise from the very nature of being a building society. The Society is a retailer of savings and mortgage products and lends liquid assets to treasury counterparties. The most significant of these risks are as follows:

- **Credit Risk**

This is the risk of loss as a result of borrowers failing to meet their obligations to repay their loans.

The UK is experiencing a sharp rise in inflation attributed to rising energy costs following the conflict between Ukraine and Russia. CPI inflation for the year to 31st March 2023 was 10.1%. The Bank of England expects that inflation has peaked and is prepared to further raise the UK bank base interest rate to ensure this. With rising living and debt servicing costs, there is an emerging risk that households' income is not sufficient leading to an increase in forbearance and arrears in the Society's mortgage portfolio.

The Board is closely monitoring the war between Ukraine and Russia which has added to inflation pressures and economic uncertainty. The Society holds no assets in these countries, hence has no direct exposure to the conflict and is not directly impacted by economic sanctions imposed on Russia. However, the war contributes to high energy and food prices which has an impact on members and the mortgage credit risk referred to above.

A range of possible outcomes has been considered within the Society's stress testing of capital. This has included a 31% reduction in the House Price Index, an increase in default rates as a result of unemployment or rising costs and both increases and decreases in interest rates. This has shown that the Society is resilient in these adverse circumstances and that the business is sustainable. The Board considers that these are sufficient to cover the likely impact of a possible recession caused by high inflation levels.

All loan applications are assessed with reference to the Society's Lending Policy and where appropriate reviewed by the Lending Committee of the Board of Directors. Appropriate credit limits, in keeping with the Society's low risk appetite, have been established by the Board for individual counterparties and sectors. The Lending Policy is updated annually to reflect current conditions in the financial markets, including further refinement of nature limits and underwriting criteria.

Lending to other financial institutions is restricted to those with investment grade external credit ratings but includes lending to unrated building societies after specific credit assessment against certain defined criteria. The Assets and Liabilities Committee of the Board monitors counterparty credit risk.

- **Operational Risk**

This is the risk of loss through failed or inadequate systems, human error or other external factors including cyber-attack against the Society's IT systems.

Operational risk is controlled by a system of internal controls, central to which is continuous risk assessment which identifies and assesses all risks that may arise from operational activities together with appropriate mitigating actions. The security of the Society's IT systems is given particular focus in the light of the increasing frequency and sophistication of cyber-attacks against organisations in general and financial institutions in particular.

The Society maintains policies and procedures for all key internal processes. Adherence to these is monitored by senior management and oversight provided by the Risk & Compliance Committee.

- **Liquidity and Cash Flow Risk**

This is the risk that the Society does not have sufficient financial resources to meet its liabilities as they fall due.

The Society's liquidity policy requires that liquid assets are held at all times which are adequate to ensure there is no significant risk that liabilities cannot be met as they fall due and thus ensure full public confidence in the solvency of the Society. This is achieved by maintaining a prudent level of liquid assets and generally by matching receipts from savers with net mortgage lending and not relying on borrowing from other financial institutions or government backed finance schemes.

- **Interest Rate Risk**

The Society is exposed to movements in interest rates reflecting the mismatch between the dates on which interest receivable on assets and interest payable on liabilities are next reset or, if earlier, the instruments' maturities. The Society has a small tranche of Base Rate tracker mortgages with interest rate floors, mortgages at fixed rates and treasury instruments at fixed rates. This risk is managed by appropriate policies approved by the Board. The interest rate sensitivity of the Society as at 31st March 2023 is detailed in note 21 of the accounts.

- **Risks as a result of Climate Change**

This is the risk to the Society from physical impacts resulting from climate change and transitional risks from the United Kingdom moving to a net zero economy. The principle physical risk to the Society is that properties over which it holds a mortgage could become unsaleable due to adverse environmental conditions such as flooding. The Society models this risk according to scenarios which broadly correspond to those contained within the 2021 Biennial Exploratory Scenario published by the Bank of England. Transitional risks include the possibility that the UK government could enforce restrictions over the sale of properties that do not meet minimum Energy Performance Certificate ratings and so impact value.

These risks are being closely monitored by the Board, and it is anticipated that the Society's monitoring of climate change related risks will further develop in the future.

- **Other Risks and Uncertainties**

The Board has identified other key emerging risks, chief among these in times of economic uncertainty are strategic and reputational risks which the Board monitors. These risks are associated with the future prospects in the housing market and the UK economy in general.

The business risk of loss or reduction in profitability due to the failure to achieve business objectives is mitigated through the Society's corporate plan. The corporate plan sets out the strategic objectives and how key risks in achieving those objectives will be managed by the setting of detailed plans and monitoring of actual performance against these plans.

Regulatory risk is inherent given the volume and complexity of regulatory change and related costs. The FSCS levy which is paid by the Society, enables claims made by the customers of other banks and building societies to be met. While the Society is not expecting to incur further regular interest or capital levies, the Society would be required to contribute to the cost of compensation paid to savers should another financial institution fail. The Directors manage and monitor these risks on an ongoing basis and consider that any new levy costs could be absorbed by the Society.

Further details of the Society's risk management framework, principal risks and risk exposures can be found in the Pillar 3 Report available on request from the Society's Secretary and on the Society's website at www.esbs.co.uk.

GOING CONCERN

The Directors have prepared forecasts of the Society's capital position, financial position and liquidity for the period ending twelve months from the date of approval of these financial statements. Forecasts have also been prepared to assess the impact on capital, funding and liquidity positions of operating under a range of stressed but plausible conditions, including a severe economic downturn and changes to interest rates. Specifically the Directors have considered the principle risks and uncertainties detailed above.

On the basis of this assessment, the Directors are satisfied that the Society has adequate resources to continue in business for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual accounts.

EVENTS SINCE THE YEAR-END

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

DIRECTORS

The following persons were Directors of the Society during the year: Ian M Dale, Christopher R Greenwell, Darren J Hickman, Laura J Mackie, Martin J Rice, Alex C Robinson, John Stables, Paul Tilley and Stephen T Wigfull.

Ian M Dale is the Society's Senior Independent Director. Ian is an experienced former building society senior manager and will be pleased to look at any issues members might have that they would prefer not to raise in the usual way with the Society's Management Team or Board Chair.

Laura J Mackie and Paul Tilley retire by rotation and, being eligible, offer themselves for re-election. In the Notice of Annual General Meeting you will find brief biographical notes on the Directors standing for re-election.

At 31st March 2023 no Director had any interest in shares of any associated body of the Society.

On behalf of the Board of Directors
A C ROBINSON Board Chair

22nd May 2023

Earl Shilton Building Society is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. A schedule of interest rates paid during the year ended 31st March 2023 is included in the AGM pack.

INTRODUCTION

The purpose of this Report is to inform members of the current policy for remuneration of the Society's Directors including the two Executive Directors. In particular, the Report provides details of the different elements of the Executive Directors' remuneration and explains the process for determining them. The Report also notes details of incentive payments where these are made to both the Executive Directors and members of staff.

An advisory resolution will be put to the Society's AGM inviting members to vote on the Directors' Remuneration Report.

The Society complies with the relevant aspects of the FCA's Remuneration Code.

REMUNERATION POLICY

The Society's policy is to remunerate its Executive Directors through a combination of salary and benefits, which are regularly compared with other building societies and comparable financial institutions.

THE REMUNERATION COMMITTEE

The Committee comprises of three Non-Executive Directors. It is responsible for determining the remuneration levels of the Executive Directors, as well as the Board Chair and senior staff within the Society.

The Committee recommends to the Society's Board fee levels for Non-Executive Directors and salary and benefit levels for all other members of staff. The Committee meets at least twice a year. The members of the Committee during the year are detailed on page 18 of the Annual Report. Staff morale is subject to ongoing review by the Committee. Staff opinions are periodically sought via anonymised surveys.

The Committee takes account of the UK Corporate Governance Code 2018, as far as it is relevant and appropriate to an organisation of our size.

EXECUTIVE DIRECTORS' REMUNERATION

This aspect of the Remuneration Policy is designed to attract and retain high calibre and well-qualified Executives, having the skills and experience necessary to lead a small but sophisticated business operating in a highly regulated market. To achieve this, the Committee seeks to ensure that the overall level of remuneration awarded to the Executive Directors is fair, competitive, simple and reasonable by comparison to remuneration offered by similar building societies and equivalent financial institutions, as well as the contribution made by the Executive Directors to the success of the Society during the year. Executive Director remuneration is considered alongside staff remuneration. The basis for the increase in Executive Director pay is determined by a "Competency Framework" which includes business and individual performance metrics. Staff are notified of the percentage increase in Executive Director pay.

The Remuneration Committee operates independently and its discussions and recommendations to the Society's Board are free from influence by the Executive Directors.

BASIC SALARY

Basic salaries are reviewed annually by reference to jobs carrying similar responsibilities in comparable organisations.

INCENTIVES

A non-contractual payment calculated as a percentage of basic salary has been paid to all staff, including Executive Directors, in December for a number of years. The percentage amount is variable year on year with all staff receiving the same. This year a non-contractual payment of 1.00% of basic salary was paid (2022: 3.00%). In addition two non-reoccurring, non-contractual payments to each member of staff totalling £850 were agreed, to assist staff with financial pressures resulting from very high levels of inflation. The Society does not currently operate any incentive schemes linked to performance.

BENEFITS

The Society offers other taxable benefits to Executive Directors including a fully expensed car, health care provision, life assurance and permanent health insurance. As an alternative, a cash allowance is available in substitution for a fully expensed car and will be included in basic salary.

PENSION BENEFITS

The Society operates a contributory money purchase scheme and makes contributions for all qualifying staff, including Executive Directors. Pension contributions are calculated against basic salary only. The pension contribution rate for the Executive Directors is the same as the staff contribution rate.

CONTRACTUAL TERMS

The service contract terms for Executive Directors include a notice period of not less than six months by the individual and the same period by the Society. These terms are not alterable in the event of a transfer of engagements to another Society where employment is to be terminated.

NON-EXECUTIVE DIRECTORS’ REMUNERATION

All Non-Executive Directors are remunerated by fees which are reviewed annually and compared with other building societies and relevant comparable institutions. The Board Chair, Chair of the Audit Committee, Chair of the Risk & Compliance Committee, Chair of the Remuneration Committee and the Senior Independent Director also receive additional payments reflecting the additional duties and responsibilities of their roles. The Chair of the ALCO currently receives no additional payment given his concurrent role as Chief Executive.

Non-Executive Directors do not receive a salary or other taxable benefits and do not have service contracts, but are entitled to claim reimbursement of expenses incurred on behalf of the Society.

FURTHER INFORMATION

Details of remuneration paid to all Directors are contained in note 6 on page 43 of this Report and Accounts. No compensation arrangements are entered into which might reward poor performance.

The Remuneration Committee's complete Terms of Reference are available on request from the Society’s Secretary and on the Society’s website at www.esbs.co.uk.

During the period to which this report relates, the Chair of the Remuneration Committee was Laura J Mackie.

L J MACKIE
Chair of the Remuneration Committee

22nd May 2023

OVERVIEW

The Board is committed to best practice in Corporate Governance as it affects the Earl Shilton Building Society. The Board has voluntarily chosen to follow most of the principles of the UK Corporate Governance Code 2018 where they are considered relevant (and the Board deems them appropriate) to an organisation of this size and lack of complexity.

The Board assumes full responsibility for the overall strategy, the operation of the Society and the monitoring of performance. The Directors continue to believe that members are best served by the Society retaining its mutual status.

The AGM provides members with an opportunity to engage with the Directors either formally or informally. To encourage voting, the Society will financially support two charities, each of which will receive a donation based on the number of votes received. We use member questionnaires to obtain views on the Society. In the event of a significant vote (20% or more) against any resolution at the AGM, the Society would seek feedback from the membership to identify if any remedial action was considered necessary by the Board.

PRINCIPAL FUNCTIONS OF THE BOARD

The principal functions of the Board are to:-

- set the Society's strategy and risk appetite;
- measure its progress;
- ensure sufficient resources are available to meet the objectives;
- ensure the Society is prudently managed; and
- comply with all legal and regulatory requirements that affect the Society.

The Board meets at least nine times a year and separately undertakes a formal review of strategy at least annually. Additional Board meetings take place when required.

The Board Chair is responsible for the leadership of the Board, setting its direction and culture and ensuring effective contributions from all Directors.

The Board reviews the composition of the Committees on an annual basis to ensure each Committee has the appropriate expertise. Likewise, the Board reviews the Committees' Terms of Reference to ensure they remain relevant and up to date. These are available on request from the Society's Secretary and on the Society's website at www.esbs.co.uk.

The Board delegates certain functions and in some situations decision making to various Committees as follows:

COMMITTEES

Assets and Liabilities Committee ("ALCO")

- The ALCO monitors the Society's performance in key areas of financial risk including management of the balance sheet, interest rate margin and liquidity, ensuring compliance with the Society's financial risk policies and regulatory limits;
- it reviews and approves the risk characteristics and pricing structures of retail savings and mortgage products; and
- it reviews economic trends that may impact the Society and recommends strategic changes to the Board if necessary.

The ALCO consists of three Non-Executive Directors. The following Non-Executive Directors served during the year: M J Rice, I M Dale, L J Mackie and D J Hickman. In addition, the two Executive Directors, the Business Development & Marketing Manager, the Risk & Compliance Manager, and the Financial Controller are members of the Committee. The Chief Executive formally chaired the Committee throughout the year but the Finance Director acted as Chair for several meetings. The composition of the Committee changed during the year as follows: M J Rice left the Committee on 20th June 2022.

The ALCO meets at least nine times a year.

Audit Committee ("AC")

- The AC considers audit matters including internal and external audit arrangements, adequacy of internal controls and financial reporting;
- it approves the Internal Auditor's Combined Assurance Plan which is determined by the risk profile of the Society and receives and reviews their reports; and
- it advises the Board on whether the Society's annual accounts give a fair, balanced and understandable assessment of the Society's position and performance, business model and strategy.

The AC consists of three Non-Executive Directors. The following Non-Executive Directors served during the year: J Stables (Chair), I M Dale, L J Mackie and A C Robinson. In addition, the Executive Directors, the other Non-Executive Directors, the Risk & Compliance Manager, the Customer Services Manager and the Financial Controller and representatives from the external auditor and the outsourced Internal Auditor attend by invitation. The composition of the Committee changed during the year as follows: L J Mackie joined the Committee on 10th November 2022 replacing A C Robinson.

The AC meets at least four times a year including an evaluation, at the relevant time, of significant aspects of the financial statements covering areas such as materiality, profitability, accounting policies and judgements, and considers any relevant observations on these matters from the external auditors.

Full details of the work of this committee can be found in the Audit Committee Report on pages 26 and 27.

Risk & Compliance Committee ("RCC")

- The RCC considers the inherent risks in the business as detailed on pages 12, 13 and 14 of the Annual Report. The risks are identified and recorded in the Risk Register which is reviewed and monitored to ensure compliance with the Board's risk appetite;
- it reviews and recommends to the Board risk policies and risk limits in accordance with the overall risk appetite of the Board; and
- it approves annually a Compliance Plan and reviews adherence to it.

The RCC consists of three Non-Executive Directors. The following Non-Executive Directors served during the year: D J Hickman (Chair), C R Greenwell, L J Mackie, A C Robinson and M J Rice. In addition, the Executive Directors, the other Non-Executive Directors, the Risk & Compliance Manager and the Information Systems & Estates Manager attend by invitation. The composition of the Committee changed during the year as follows: M J Rice left the Committee on 12th May 2022 and A C Robinson joined the Committee on 10th November 2022 replacing L J Mackie.

The RCC meets at least four times a year.

Nominations Committee ("NC")

- The NC considers succession and future senior appointments, especially relating to the appointment of Non-Executive Directors and makes recommendations to the Board.

The NC consists of three Directors, two of whom are always independent. The following Directors served during the year: A C Robinson (Chair), C R Greenwell, M J Rice and J Stables. The composition of the Committee changed during the year as follows: M J Rice left the Committee on 20th June 2022.

The NC meets at least once a year.

Future Non-Executive Director recruitment relies upon various options including open advertising, in newspapers and on the internet. Different combinations can be employed dependent upon the particular skills that the Board requires an appointee to have to ensure its mix of skills and experience match the future corporate governance needs of the Society. The Society also employs specialist advisors who are able to assess a proposed appointee against the specification the Board has identified.

Remuneration Committee ("REMCO")

- The REMCO's responsibilities are contained in the earlier Directors' Remuneration Report.

The REMCO consists of three Non-Executive Directors. The following Non-Executive Directors served during the year: L J Mackie (Chair), C R Greenwell, A C Robinson and M J Rice. The composition of the Committee changed during the year as follows: M J Rice left the Committee on 13th July 2022. The Executive Directors and the HR Manager attend the meetings but are requested to leave relevant parts of the meeting if this is considered necessary.

The REMCO meets at least twice a year. No Remuneration Consultants were used during the year by the Committee in respect of the assessment of remuneration levels.

Lending Committee ("LC")

- The LC assesses mortgage applications that fall outside the Executive mandate.

The LC currently consists of all Directors and decisions can be made by any three members of which two must be Non-Executive Directors. The LC meets on an ad hoc basis.

ATTENDANCE AT MEETINGS

The figures in brackets are the maximum number of meetings that a Director could attend.

Director	Full Board (including Strategy Meetings)		ALCO		RCC		AC (including Accounts Meeting)		NC		REMCO	
I M Dale	11	(11)	9	(9)	-	-	5	(5)	-	-	-	-
C R Greenwell	9	(11)	-	-	4	(4)	-	-	1	(2)	*2	(2)
D J Hickman	11	(11)	9	(9)	*4	(4)	-	-	-	-	-	-
L J Mackie	11	(11)	9	(9)	1	(2)	2	(2)	-	-	*1	(2)
J Stables	10	(11)	-	-	-	-	*5	(5)	2	(2)	-	-
M J Rice	*2	(3)	2	(2)	1	(1)	-	-	1	(1)	-	-
A C Robinson	*11	(11)	-	-	2	(2)	3	(3)	*2	(2)	2	(2)
P Tilley	11	(11)	*9	(9)	-	-	-	-	-	-	-	-
S T Wigfull	11	(11)	*9	(9)	-	-	-	-	-	-	-	-

* Chair at the relevant meeting throughout the year or for part of it. Where Directors are not members of a Committee but attend by invitation no record is shown above.

BALANCE AND INDEPENDENCE

The offices of Board Chair and Chief Executive are distinct and are required to perform different duties. No one person may fulfil both roles. The Board Chair is responsible for leading the Board, ensuring its effectiveness and communicating with the Society's members on behalf of the Board. The Chief Executive is responsible for implementing the strategy agreed by the Board and managing the Society's business and operations within the parameters set by the Board.

The Senior Independent Director is Ian M Dale who is available to members if they have concerns regarding their membership of the Society and do not wish to contact either the Board Chair or Chief Executive.

The Non-Executive Directors periodically meet without the Executive Directors in attendance to provide further evidence of independent judgement.

BOARD APPOINTMENT AND PROFESSIONAL DEVELOPMENT

The Board regularly assesses the range of skills and experience of the Directors to determine if they match the needs of the business currently conducted and that being developed.

Recruitment of Directors follows a rigorous, formal and transparent procedure and once a Director is appointed an induction process is undertaken.

All Directors must meet the tests of fitness and propriety expected by the PRA and the FCA. All Directors who hold a Senior Management Function ("SMF"), as prescribed by the PRA and the FCA, must be registered with the regulators as an Approved Person. Directors who do not hold a SMF must be notified to the regulators.

The Board Chair ensures that the Directors are provided with sufficient information and training to enable them to discharge their duties as Directors.

Directors must stand for re-election at least every three years in accordance with Rule 26 of the Society's Rules. The Board expects that, in accordance with the UK Corporate Governance Code 2018, Non-Executive Directors will serve for a maximum period of nine years but in exceptional circumstances this may be extended and in those circumstances, the Non-Executive Director concerned will be required to stand for annual re-election. The Board considers all Non-Executive Directors to be independent in character and opinion except the person holding the role of Board Chair who can only be considered independent at the date of appointment.

In respect of Laura J Mackie and Paul Tilley who are standing for re-election this year, the Board considers that they continue to be effective, committed to the Society and provide the balance of skills and experience to enable the Board to discharge its duties.

All Directors are annually appraised individually with Directors taking responsibility for their development needs in conjunction with the Board Chair. The Board Chair evaluates the contribution made by all other Directors. The Board Chair is similarly evaluated by the other Directors led by the Senior Independent Director. The Board, ALCO, Audit Committee and Risk & Compliance Committee are individually subject to an annual self-evaluation.

The Board is responsible for the appointment and scrutiny of the Executive Directors as well as holding them to account and ultimately for their removal.

Prior to appointing a Director, and each year during their tenure, the Board assesses the capacity for each Director to undertake the role with the Society having due regard to time and external commitments. It is envisaged that an Executive Director would not hold more than one other significant appointment outside of the Society. Board approval is required prior to any Director taking on additional appointments after they become a Director of the Society.

Directors have access to the Society's Secretary who advises on governance matters. The appointment and removal of the Secretary is a matter for the whole Board.

APPLICATION OF THE CORPORATE GOVERNANCE CODE

The Code has five sections, each setting out ‘principles’ that should be followed, with further detailed ‘provisions’, explaining in more depth how the principles should be applied.

To assist members, the principles of each section are reproduced below and an explanation of how these have been applied/dis-applied follows. To assist readership, the principles are shown in italic text and are enumerated alphabetically, from A to R, appearing under five section headings, following the format of the Code.

With one exception, the provisions are not referred to.

If you wish to read more about the Code, you can view it at https://www.frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code.

UK Code on Corporate Governance

1. Board Leadership and Company Purpose

‘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*.’

Commentary:

The requirement for and composition of the Society’s Board is contained in the Society’s Rules. Established law requires the Board to have regard to the Society’s present and future membership, to ensure a sustainable business that continues to generate economic value, from intermediating between saving and borrowing members, creating capital from retained profit to support present and future members who wish to save, or to borrow to help them buy and improve their own homes.

Consistent with being a mutually owned organisation, the Board does not consider itself ‘entrepreneurial’ in the normal sense of that word, or in the context of the Code (which principally applies to limited companies), since that would imply taking financial risks which may not be in the interests of its members and the sustainability of the Society, or seeking to act beyond its purpose. However, the Board strives to ensure the Society remains profitable, efficient and to be innovative, wherever it can do so.

‘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*.’

Commentary:

The Society’s purpose is defined by the Building Societies Act 1986. The Board may not act beyond that purpose. The Board defines and monitors the Society’s strategy and culture, which are linked to providing members with savings and mortgages.

Its Directors are required to lead with integrity at all times, being consistent with the established legal duty of a building society Director to act in the best interests of its members, and to recognise that all Directors are regulated by the ‘Senior Managers Certification Regime’ (‘SMCR’), enforced by the Prudential Regulation Authority and the Financial Conduct Authority.

The Society operates a framework to provide assurance that Directors meet the fitness and propriety standards required by SMCR.

Strategy forms part of the Board agenda and two separate meetings are undertaken each year.

The Society’s Culture and Mission Statements are promoted to members via its website.

‘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*.’

Commentary:

The Board must ensure the Society can operate effectively at all times. It monitors business performance by the use of comprehensive and detailed management information and oversees how the Society’s risk and control framework is being operated. A comprehensive Committee structure is in place to facilitate this control mechanism via a three lines of defence model.

‘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*.’

Commentary:

The Board reports formally to its members at the Annual General Meeting of the Society each year. All members are invited to attend and may pose questions on the Annual Report and Accounts, the Auditors Report as well as the general business of the Society. Members are also given voting rights on key decisions, as required by the Society’s rules. Voting by post/on-line or by representative is provided for where a member cannot attend in person, with voting overseen by an independent scrutineer.

The Society’s other two key stakeholders are its regulators, the Prudential Regulation Authority (“PRA”) and the Financial Conduct Authority (“FCA”). The PRA and FCA are active in monitoring the Society’s performance and operations in order to ensure it observes the extensive regulations which all building societies are subject to (designed to ensure the safety and soundness of the financial services sector, protect customers and promote competition).

Members’ views are sought via a range of questionnaires.

‘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*.’

Commentary:

The Board is satisfied that its human resources policies are consistent with ensuring the long-term success of the Society. For instance, it rewards staff by reference to prevailing market rates for the Society’s locality and does not have any form of bonus schemes that might encourage unethical practices or otherwise target sales of its products by incentivisation.

The Society maintains speak-up (or often referred to as a ‘Whistleblowing’) arrangements, allowing any member of staff to raise a concern in confidence, which would be subject to investigation and considered independently, with appropriate action being taken when required. This complies with the Public Interest Disclosure Act 1998, as amended.

2. Division of responsibilities

‘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*.’

Commentary:

The Board Chair’s responsibility for leadership of the Board is made clear by their job description. The Board Chair must be satisfied that the Board is properly advised at all times. Their performance is subject to annual review, conducted by the Society’s Senior Independent Director, but involving all other members of the Board. The annual fee payable for the Board Chair’s role is determined by the Board’s Remuneration Committee, which for this item of business the Board Chair does not attend. No other incentives of any kind are payable. The Board Chair is subject to annual re-election by the Board, and approval to hold the position of Board Chair is required under SMCR, given jointly by the Prudential Regulation Authority and Financial Conduct Authority.

The Board Chair is considered independent at the time of appointment but because of a closer working relationship with the Chief Executive Officer, may not be considered so throughout their tenure. Nonetheless, the Board expects a candidate for the position of Board Chair to be able to demonstrate that they are capable of exercising objective judgement, that they can promote a culture of openness and debate at all times and be able to ensure the Board maintains an independent view of the performance of the Chief Executive Officer.

It is expected that a Board Chair would normally only act in that capacity for a maximum period of nine years (whether as Board Chair or taking into account any initial period as an independent Non-Executive Director before being elected to become Board Chair) after which they are expected to retire. The Society's Senior Independent Director along with its Nominations Committee will be expected to lead the process to select a successor to the incumbent Board Chair (usually due to their proposed retirement or the completion of the maximum term of nine years), upon which all members of the Board, including the incumbent Board Chair, may vote, as permitted by the Society's Rules. The final appointment of a successor will be by majority vote and provided the electee has received approval to hold the office of Board Chair from the Financial Conduct Authority and the Prudential Regulation Authority.

The Board Chair must facilitate constructive relationships among Directors and allow and encourage all members of the Board to contribute to its business, supported by appropriate reporting from the Executive Directors. The Board Chair conducts an annual review of the performance of members of the Board, save for the Financial Director who is a direct report to the Chief Executive Officer, who is responsible to conduct their performance review.

'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*.'

Commentary:

The Board is comprised of eight Directors, five of whom are Independent Non-Executives (the Board Chair not being considered as Independent) and two of whom are Executives. This ensures the Society's Executives' can be held to account at all times. The Board's composition and skills are reviewed annually by its Nominations Committee, chaired by the Board Chair. The Nominations Committee is also responsible for recommending all future appointments to Executive or Non-Executive positions (for example, following retirement, or resignation), subject in each case to the final approval of the Board.

The Society's Rule 12(4)(a) requires:

'the Board – (a) shall ensure the direction and management of all affairs and business of the Society by a sufficient number of Individuals fit and proper to be Directors or other Officers, in their respective positions, with prudence and integrity, in the best interests of the Society, in accordance with the Statutes, the Memorandum and these Rules'.

This rule imposes an accountability for the direction and management of the Society upon the Board itself. In practice, the Board delegates the management of the Society to its Executive Directors but subjects them to oversight and makes them responsible to report to the Board and its sub-committee meetings on all aspects of the Society's business.

'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*.'

Commentary:

Appointment to the Board is subject to a Director being made aware of the time commitment that will be expected of them, and the Board being satisfied that the appointee will be able to honour that expectation throughout their tenure, particularly having regard to any other business commitments they may have from time to time.

Directors are required to annually disclose other business commitments including time spent, which is then subject to oversight by the Board Chair, together with review by the Nominations Committee and ultimate approval by the Board.

'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*.'

Commentary:

The Board operates under detailed procedures set out in a Board Procedures Manual, maintained by the Society's Secretary. The Board considers its effectiveness annually and challenges itself on all aspects of its efficiency and the oversight it provides.

3. Composition, Succession and Evaluation

'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*.'

Commentary:

The Board's Nominations Committee meets annually (and more frequently when required) to consider succession plans, the requirements for new appointees, and the desired experience when a new Director is to be appointed.

The Committee is responsible for interviewing candidates for appointment and making a recommendation to the Board. As a minimum, all prospective appointees must possess the required experience.

The Society has a policy on equal opportunities and will consider applications from all sectors of society, without regard to race, gender, religion or disability, but subject in all instances to a prospective candidate demonstrating the desired experience and an understanding of the significant duties to which a Director is subject in law and the accountabilities which the role will impose upon them. In this respect, the Society does not actively promote 'diversity' in the context mentioned, since to do so may limit an appropriate appointment based on the experience and skills which the Society seeks. However, its policy on equal opportunities fully reflects the Equality Act 2010 and ensures that it does not discriminate against any one societal segment because of race, gender or social and ethnic backgrounds, and will always seek to appoint the most appropriate candidate.

All opportunities to join the Board as a Director are generally advertised, usually through a specialist recruitment agency or by open advertisement. Wherever possible appointees will be preferred if they are likely to live within 50 miles of the Society, or have some other substantive connection with Leicestershire, although this does not exclude appointees not fulfilling these requirements if their experience and skills are fully aligned with the expectations of the appointment and they are considered better suited in comparison with other candidates. Applications are welcomed from the Society's membership, in accordance with its Rules.

'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*.'

Commentary:

The first element of this principle is addressed in J. above and the Society complies. The second element is expanded upon by the provision associated with it. This specifically provides that:

'*All Directors should be subject to annual re-election. The Board should set out in the papers accompanying the resolutions to elect each Director the specific reasons why their contribution is, and continues to be, important to the company's long-term sustainable success*.'

The Society has chosen not to apply annual re-election of its Directors. It does so for several reasons: first, appointments are made for a fixed term of three years, subject to a maximum term for Non-Executive Directors of nine years' service (i.e. three successive terms). This can be terminated before the end of the three-year period by a majority of Directors voting to remove a particular Director in accordance with the Society's Rules, although this is only likely to be exercised if the Board considered a Director was not contributing to the Board, or their skills were no longer aligned to the Society's needs but they declined to voluntarily resign from their post. Secondly, the performance of all Directors is subject to annual appraisal by the Board Chair, who must also be satisfied and able to certify that each Director continues to exhibit the 'fit and proper' requirement of SMCR. Thirdly, both the Prudential Regulation Authority and the Financial Conduct Authority have enforcement powers, allowing them to discipline and debar a Director from serving in that capacity, either as a Director of the Society or elsewhere in financial services, in the event of misconduct or serious dereliction of duties. Finally, under certain circumstances, criminal proceedings may be brought against an errant Director.

The Board Chair's annual recertification of a Director must be thoughtful and given in upmost good faith, having regard to the Director's continuing ability to contribute to the stewardship and effective governance of the Society, in the interest of its members.

Given this rigorous framework and the depth of regulation to which the Society is subject generally, annual re-election of all Directors would not enhance materially the governance or accountability that already exists.

'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.*'

Commentary:

The Society has developed a detailed process of evaluating the Boards effectiveness which it normally employs each year, tested against a range of criteria which explore all aspects of its purpose. From time to time the Society will consider using an external facilitator for this process. The requirement to ensure each Director is annually appraised (including the Board Chair) is referred to in the responses to principles F and K.

4. Audit, Risk and Internal Control

'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.*'

Commentary:

Part VIII of the Building Societies Act 1986 makes detailed provision for the content and the auditing of the Society's accounts, going considerably further than the principles of the Code.

The Society's independent External Auditors make a report to the Annual General Meeting of the Society, which is subject to members' approval each year.

The Society also employs professional Auditors to fulfil the expectation of an internal audit function and the Internal Auditors work on an annual programme, testing the design of controls and the effectiveness of their operation. Both Internal and External Auditors report to the Board's Audit Committee, chaired by a Non-Executive Director. That Committee reports to the Board.

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

Commentary:

As per commentary under item "M." above.

'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.*'

Commentary:

The Society has adopted a robust framework to identify, manage, monitor and assess the principal risks to which it is subject.

It has a Risk & Compliance Manager who oversees the internal control framework. The Risk & Compliance Manager reports into the Board's Risk & Compliance Committee, chaired by a Non-Executive Director. That Committee reports to the Board.

5. Remuneration

'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.*'

Commentary:

The Board is ultimately accountable for the determination of the Society's strategy and promoting its long-term sustainable success. Execution of the strategy is delegated to the Chief Executive Officer, subject to Board oversight.

The Society rewards its Chief Executive Officer by reference to market rates for a comparable society or equivalent and taking account of skills, attributes and flight risk. The performance of the Chief Executive Officer is reviewed by the Board (led by the Board Chair) annually and that process has regard to the delivery of the strategy and the financial standing of the Society at the end of its business year.

Remuneration rewards are determined, and considered, as appropriate, by the Remuneration Committee in accordance with its Terms of Reference and notified or recommended to the Board as necessary. They generally reflect annual price inflation and evidence of pay awards at comparator firms.

The Society reserves the right to introduce incentive arrangements for all personnel and/or the Chief Executive Officer's performance at some time in the future (linked to strategy and long-term sustainability) but has not chosen to do so historically, reflecting a desire not to drive inappropriate behaviours. Any future bonus scheme (with none planned currently) would have to reflect regulatory expectations and may include provision for forfeiture and clawback in certain circumstances.

'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*.'

Commentary:

Remuneration is determined, or considered, as appropriate, by the Remuneration Committee in accordance with its Terms of Reference, and notified or recommended to the Board as necessary. The Chair of that Committee reports upon its activities on pages 15 and 16 of this report. The Board determines the remuneration payable to the annual Non-Executive Directors fees and personnel who are not part of the Executive and not a Director, by voting on proposals brought forward by the Remuneration Committee.

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

Commentary:

The Remuneration Committee is comprised of three independent Non-Executive Directors and, amongst other things, takes account of the expectations of this principle.

A C ROBINSON
Board Chair

22nd May 2023

The Audit Committee ("AC") acts with authority delegated to it by the Board to have oversight of the Society's financial reporting, adequacy of internal controls and the effectiveness of both internal and external audit. This report gives details of the responsibilities of the AC and the work performed over the year.

Committee responsibilities
The primary responsibilities of the Committee are as follows:

- assess the effectiveness of the systems of inspection and internal control;
- review, monitor and assess the integrity of the financial statements, including accounting policies and significant reporting issues and judgements and advise the Board as to whether the Annual Report and Accounts, taken as a whole, gives a fair, balanced and understandable assessment of the Society's position and prospects;
- monitor and review the performance of the outsourced internal audit function;
- oversee the relationship with the external auditor, review the independence of the external auditor and assess the effectiveness of the external audit process;
- conduct the tender process and make recommendations to the Board about the appointment, remuneration (and terms), reappointment and removal of the internal auditor and external auditor;
- report to the members if the Board failed to accept the Committee's recommendations regarding the external auditor's appointment, reappointment or removal explaining the reasons why the Board has taken a different position;
- review and approve the annual internal and external audit plans;
- monitor the provision of non-audit services by the external auditor; and
- ensure that the Society has an effective whistle-blowing policy.

Membership and attendance
The AC consists of three Non-Executive Directors. The following Non-Executive Directors served during the year: J Stables (Chair), I M Dale, A C Robinson and L J Mackie. L J Mackie joined the Committee on 10th November 2022 replacing A C Robinson. In addition, the Executive Directors, other Non-Executive Directors, the Risk & Compliance Manager, the Customer Services Manager and the Financial Controller and representatives from the external auditor and the outsourced internal auditor attend by invitation.

I M Dale and J Stables have recent relevant financial experience and the AC as a whole has competence relevant to the sector.

The Committee meets at least quarterly, and at least once each year with the external auditor and the internal auditor without Executive Directors or Senior Management being present.

Following each Committee meeting, the minutes of the meeting are distributed to the Board.

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 as follows:

- Loss provisioning: the Society calculates impairment provisions by use of the methodology and judgements as noted in the Accounting Policies in note 1 to the accounts. The Committee has monitored the quality of the Society's loan book and has reviewed the appropriateness of the overall level of impairment provision. The Committee is satisfied with the provisioning methodology and the amounts provided.
- Effective Interest Rate (EIR) adjustments: interest income is recognised using a constant yield over the expected behavioural life of mortgage loans. The Committee reviewed the assumptions and methodology behind the models used to determine effective lives and EIR adjustments and concluded that these were satisfactory.
- Going concern: the Society adopts the going concern basis in preparing the annual accounts as reported on page 14 of the Directors' Report. The Committee agreed that this judgement was appropriate, taking into account the longer-term viability of the Society, and advised the Board accordingly.

Internal Audit
The Committee monitors the activities and effectiveness of internal audit and agrees the annual internal audit plan and fee. At each meeting the internal auditor presents a summary audit status tracking report and a report on the progress of each individual audit performed in the quarter. The Committee has regard to the level of internal audit resources applied, the implications of any internal audit recommendations and the tracking of outstanding actions.

During the year, the internal audit plan covered the following areas:

- Financial Risk Management
- Mortgage Underwriting
- Credit Risk Management
- Third Party Management
- Operational Resilience
- Mitigating the risks arising from Technology Change

In common with other building societies of its size and structure, the Society outsources its internal audit function to an independent firm of advisors with appropriate specialist expertise. RSM Risk Assurance Services LLP (RSM) has held this position for a number of years. Based on the work performed in 2022/23, RSM concurs with the Board's opinion that the Society's framework for risk management, governance and internal control is adequate and effective.

The Committee meets privately with the internal auditor at least once a year without the Executive being present. At this meeting the internal auditor can openly discuss the perceived risks to the Society, the transparency, openness and proficiency of management and whether there has been any restriction of scope.

System of Internal Control
The Society has in place internal controls and a risk management framework to safeguard the members' and the Society's assets. The Committee is responsible for reviewing the effectiveness and appropriateness of these processes. The Committee reviewed the internal control framework through regular reporting from the Senior Management Team, the internal audit function and the external auditor. The work of the Committee gave assurance to the Society's Board that there were no material breaches of control or regulatory standards during the year.

External Audit
The Committee evaluated and approved the scope and content of the external audit plan, and approved the level of fees. The Committee monitored the effectiveness of the external auditor and the progress of external audit work against plan, with regard to the resources, competency and independence of the audit team. This review concluded that the work performed by BDO LLP was independent, objective and effective. BDO LLP has held the position of the Society's external auditors since 10th July 2019.

Any proposal to employ external auditors to perform non-audit functions is reviewed by the Committee with regard to audit objectivity and independence and is subject to the Society's Non-Audit Services Policy.

The Committee meets privately with the external auditor at least once a year without the Executive being present. At this meeting the external auditor can openly discuss the perceived risks to the Society, the transparency, openness and proficiency of management, whether there has been any restriction of scope and confirm audit independence.

Audit Committee Effectiveness
The Committee conducts an annual review of its own effectiveness and performance against its terms of reference. Accordingly, the Committee concluded that it operated effectively and in accordance with its terms of reference.

J STABLES
Chair of the Audit Committee

22nd May 2023

STATEMENT OF DIRECTORS' RESPONSIBILITIES

DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND ACCOUNTS, THE ANNUAL BUSINESS STATEMENT AND THE DIRECTORS' REPORT FOR THE YEAR ENDED 31st MARCH 2023

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

The Building Societies Act 1986 ("the Act") requires the Directors to prepare annual accounts for each financial year. Under that law they have elected to prepare the annual accounts in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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

The Directors consider the annual report and accounts to be fair, balanced and understandable and provides the information necessary for members to assess the Society's position, performance, business model and strategy.

In preparing annual accounts, the Directors are required to:

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

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

DIRECTORS' RESPONSIBILITIES FOR ACCOUNTING RECORDS AND INTERNAL CONTROL

The Directors are responsible for ensuring that the Society:

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

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

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

A C ROBINSON
Board Chair

22nd May 2023

Opinion on the financial statements

In our opinion, the financial statements:

- give a true and fair view of the state of Society's affairs as at 31 March 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986.

We have audited the financial statements of Earl Shilton Building Society (the 'Society') for the year ended 31 March 2023 which comprise the Statement of Income and Retained Earnings, the Balance Sheet, the Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the audit committee.

Independence

Following the recommendation of the audit committee, we were appointed by the members on 8 July 2020 to audit the financial statements for the year ending 31 March 2020 and subsequent financial periods. The period of total uninterrupted engagement including retenders and reappointments is 4 years, covering the years ending 31 March 2020 to 31 March 2023. We remain independent of the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Society.

Conclusions relating to going concern

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

- Reviewing the Internal Capital Adequacy Assessment Process (ICAAP), Internal liquidity adequacy assessment process (ILAAP) and regulatory capital and liquidity requirements;
- Challenging the appropriateness of the Directors' assumptions and judgements made in their base forecast and stress-tested forecast, including reverse stress test scenarios. In doing so we agreed key assumptions such as forecast growth to historic actuals and relevant market data and considered the historical accuracy of the Directors' forecasts;
- Review of key ratios, such as liquidity coverage ratio and Common equity tier 1 capital ratio for significant deterioration; and
- Assessing how management have factored in key external factors expected to affect the Society such as the ongoing cost of living crisis, checking these had been appropriately considered as part of the Directors' going concern assessment.

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

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

Overview

		2023	2022
Key audit matters	Revenue Recognition	✓	✓
	Impairment loss / (credit) on loans and advances	✓	✓
Materiality	£134,000 (2022:£101,000) based on 1% (2022: 0.8%) of Net assets.		

An overview of the scope of our audit

Our audit approach was developed by obtaining an understanding of the Society's activities and the overall control environment. Based on this understanding, we assessed those aspects of the Society's transactions and balances which were most likely to give rise to a material misstatement.

Key audit matters

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

Key Audit Matter		**How the scope of our audit addressed the key audit matter**
Revenue Recognition The Society's accounting policies are disclosed in note 1 with detail about judgements in applying Accounting policies and critical accounting estimates on page 41/note 1.11. As disclosed in Note 1.11 the EIR asset at year-end is £44,000 (2022: £13,000).	The Society's mortgage interest income is recognised using an effective interest rate ("EIR") method in accordance with the requirements of the applicable accounting standards. This method involves adjusting fee and interest income to ensure it complies with the EIR method. The model used to achieve this are complex and reliant on the completeness and accuracy of input data. Significant management judgement is also required to determine the expected cash flows for the Society's loans and advances within this model. The key assumptions in the EIR model are the directly attributable fees and costs and the expected behavioural life and redemption profiles of the mortgages due to the impact on timing and quantum of expected future cash flows. Errors within the EIR model themselves or bias in key assumptions applied could result in the material misstatement of revenue. Revenue recognition is therefore considered to be a significant risk area.	We assessed whether the revenue recognition policies adopted by the Society are in accordance with requirements of the applicable accounting framework. This included an assessment of the types of fees and costs being spread within the effective interest rate model versus the requirements of the applicable financial reporting standard. Through inspection of contractual terms we challenged the fees and costs included or excluded from the EIR estimates, including early redemption charges. We tested the completeness and accuracy of data and key model inputs feeding into the EIR model by agreeing samples back to the source documents. This includes the data used in the historical behavioural life redemption profiles. The arithmetical accuracy and logic in the model was also tested. We challenged the reasonableness of the loan behavioural life assumptions used by management considering historical experience of loan behavioural lives based on customer behaviour, product type, market factors and recent performance. We assessed the model for their sensitivities to changes in the key assumptions by considering different profiles of behavioural life. With the involvement of our data analytics specialists, we have independently performed a full recalculation of the contractual interest recognised during the financial year on loans advanced. We reviewed the relevant interest income and EIR disclosures made by management for compliance with accounting standards and agreed the disclosures to supporting evidence. **Key observations:** We have not identified any indicators that the assumptions included in the EIR model are unreasonable in consideration of the Society's mortgage portfolio, historic behaviours and current economic and market conditions.

<table>
<tr><th colspan="2">Key Audit Matter</th><th>How the scope of our audit addressed the key audit matter</th></tr>
<tr><td>Impairment loss / (credit) on loans and advances

The Society's accounting policies are detailed on page 39/note 1 with detail about judgements in applying Accounting policies and critical accounting estimates on page 40/note 1.11.

As disclosed in Note 12, the collective impairment provision at year-end is £398,017 (2022: £322,100).</td><td>The Society accounts for the impairment of loans and advances to customers using an incurred loss model.

In accordance with the recognition and measurement criteria of applicable accounting standards, management has calculated two types of provisions.

(i) A specific provision is calculated for loans where there is an observable loss event.
(ii) A collective provision is recognised for loans which are impaired as at the year-end date and, whilst not specifically identified as such, are known from experience to be present in any portfolio of loans.

Estimating both the specific and collective loan loss provision requires significant management judgement and estimate in determining the value and timing of expected future cash flows.

The specific provision is sensitive to key judgements and assumptions in respect to the underlying value of collateral held.

The collective provision is calculated within a model that uses a combination of the Society's historical experience, segmentation of the loans by risk and external data, adjusted for current conditions including cost of living crisis & developments in Ukraine. The model is sensitive to key judgements and assumptions including probability of defaults, house price movements and forced sale discounts against collateral.

Due to the sensitivity to key inputs judgements and estimates and high degree of estimation uncertainty the Society's collective impairment provision has a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. Error within the loan loss provisioning model itself or bias in key assumptions applied could result in the material misstatement of impairment provisions.

For these reasons we considered this to be a key audit matter.</td><td>We tested the operating effectiveness of the system control that identifies loans in arrears which are then flagged for investigation.

We assessed the specific and collective provision methodology against the requirements of applicable accounting standards.

We checked the completeness and accuracy of data and key assumption inputs feeding into the collective and specific provision calculations through reconciliation to underlying records.

We checked that management's stated loan provisioning assumption inputs have been consistently applied to the specific provision and collective provision model calculations.

We profiled the loan population and tested a sample of loans, including performing loans for impairment indicators including arrears and high loan to values to identify individual loans, which may have impairments not identified by management to challenge the completeness and accuracy of management's impairment provision estimate.

We assessed the collective impairment provision for sensitivity to changes in key inputs to identify areas requiring additional focus.

We assessed management's valuation of collaterals by challenging assumptions in relation to costs to sell, overlays, as well as consideration of climate change, inflation and the wider macroeconomic outlook.

For the specific and collective impairment provision, we evaluated and challenged management's key assumptions in the model. The assumptions challenged included forced sales discount, discount applied on the House Price Index (HPI), other sales costs, probability of default and the discount level applied to the valuation of properties. These were challenged with reference to historic Society experience, the reasonableness of external data points used, and the level of the overall collective impairment provision to comparable peer Societies.

We assessed the adequacy of the Society's disclosures in respect of loan loss provisioning and of the degree of estimation involved in determining the provision.

Key observations:

We have not identified any indicators to suggest that the provision for loans and advances to customers is unreasonably estimated in consideration of the key assumptions and judgements made or that the related disclosures are not appropriate</td></tr>
</table>

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	2023 £	2022 £
Materiality	134,000	101,000
Basis for determining materiality	1% of Net assets	0.8% of Net assets
Rationale for the benchmark applied	We determined that Net assets was the most appropriate benchmark considering the different stakeholders as this is considered to be the measure which closely corresponds to regulatory capital. Regulatory stability is considered to be a main driver for the Society as well as the purpose of the Society which is to optimise rather than maximise profits.	
Performance materiality	101,000	76,000
Basis for determining performance materiality	75% of materiality On the basis of our risk assessment together with factors such as our assessment of the Society's overall control environment, and expected total value of known and likely misstatements, based on past experience, our judgement was that overall performance materiality for the Society should be 75% of materiality.	

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £5,000 (2022: £3,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information

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

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

We have nothing to report in this regard.

Other Building Societies Act 1986 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Building Societies Act 1986 and ISAs (UK) to report on certain opinions and matters as described below.

Annual business statement and Directors' report	In our opinion, based on the work undertaken in the course of the audit: • The annual business statement and the Directors' report have been prepared in accordance with the requirements of the Building Societies Act 1986; • The information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and • The information given in the annual business statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given. In the light of the knowledge and understanding of the Society and its environment obtained in the course of the audit, we have not identified any material misstatements in the Directors' report.
Matters on which we are required to report by exception	We have nothing to report in respect of the following matters in relation to which the Building Societies Act 1986 requires us to report to you if, in our opinion: • adequate accounting records have not been kept; or • the financial statements are not in agreement with the accounting records; or • we have not received all the information and explanations we require for our audit.

Opinion on other matter prescribed by the Capital Requirements (Country-by-Country Reporting) Regulations 2013

In our opinion the information given on page 56 for the financial year ended 31 March 2023 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Responsibilities of Directors

As explained more fully in the statements of Director's responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined 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:

Non-compliance with laws and regulations

We gained an understanding of the legal and regulatory framework applicable to the Society and the industry in which it operates and considered the risk of acts by the Society which would be contrary to applicable laws and regulations, including fraud. These included but were not limited to compliance with the Building Societies Act 1986, Prudential Regulation Authority ("PRA") and Financial Conduct Authority ("FCA") regulations, United Kingdom Generally Accepted Accounting Practice, pension legislation, tax legislation.

We considered compliance with this framework through discussions with the Audit Committee and performed audit procedures on these areas as considered necessary. Our procedures involved enquiry with the management, Audit Committee, Risk Committee and the board, review of the reporting to the Directors with respect to compliance with laws and regulation, review of board meeting minutes and review of legal correspondence.

Irregularities including fraud

We assessed the susceptibility of the financial statements to material misstatement, including fraud and considered the fraud risk areas to be management override of controls and in relation to accounting estimates such as the EIR and loan loss provisioning.

Our procedures included:

- obtaining an understanding of the control environment that the Society has in place for monitoring compliance with laws and regulations;
- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with the relevant laws and regulations discussed above;
- enquiring of management and those charged with governance about their own identification and assessment of the risks of irregularities, including fraud;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and correspondence with the Financial Conduct Authority and the Prudential Regulation Authority for instances of fraud or non compliance with laws and regulations;
- in addressing the risk of material misstatements due to fraud through management override of controls, testing the appropriateness of journal entries and other adjustments by agreeing them to supporting documentation, and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business, if any;
- in addressing the risk of fraud in accounting estimates, the procedures performed in the key audit matters section of our report assessing whether the judgements made in making accounting estimates are indicative of a potential bias;
- we held a discussion with BDO Forensics team to consider fraud risk factors to inform our risk assessment process.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that 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, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

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

Use of our report

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

Timothy West (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London, UK

22nd May 2023

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

STATEMENT OF INCOME AND RETAINED EARNINGS
for the year ended 31st March 2023

	Notes	2023 £	2022 £
Interest receivable and similar income	2	5,909,493	3,951,743
Interest payable and similar charges	3	(2,360,747)	(738,288)
Net interest income		3,548,746	3,213,455
Fees and commissions receivable		33,129	25,836
Fees and commissions payable		(33,481)	(24,524)
Total net income		3,548,394	3,214,767
Administrative expenses	4	(2,731,397)	(2,363,585)
Depreciation and amortisation	13, 14	(84,136)	(80,382)
Loss on disposal of tangible fixed assets		(17)	(97)
Operating profit before impairment and provisions		732,844	770,703
Impairment (debit) / credit on loans and advances	12	(75,917)	73,054
Profit before tax		656,927	843,757
Tax expense	8	(130,227)	(171,132)
Profit for the financial year		526,700	672,625
Retained reserves:			
General reserves at the beginning of the year		12,957,871	12,285,246
General reserves at the end of the year		13,484,571	12,957,871

The notes on pages 38 to 55 form part of these accounts.

Profit for the financial year represents the Society's total comprehensive income for the financial year and is attributable to the members of the Society.

Profit for the financial year arises from continuing operations.

BALANCE SHEET
as at 31st March 2023

	Notes	2023 £	2022 £
ASSETS			
Liquid assets			
Cash in hand		100,535	101,440
Treasury bills	10	4,957,744	1,999,348
Loans and advances to credit institutions	9	28,965,724	25,388,887
Debt securities	10	1,020,553	1,001,350
Total liquid assets		35,044,556	28,491,025
Loans and advances to customers			
Loans fully secured on residential property		126,053,857	119,524,127
Loans fully secured on land		529,536	579,566
Total loans and advances to customers	11	126,583,393	120,103,693
Tangible fixed assets	13	583,437	576,388
Intangible assets	14	10,247	791
Prepayments and accrued income		455,256	363,616
Total assets		162,676,889	149,535,513
LIABILITIES			
Shares	16	140,760,939	131,762,961
Amounts owed to credit institutions	17	505,973	500,438
Amounts owed to other customers	18	7,571,181	3,920,412
Total shares and borrowings		148,838,093	136,183,811
Corporation tax payable	19	118,355	162,210
Accruals and deferred income	20	194,032	201,923
Deferred Tax liability	15	41,838	29,698
Total liabilities		149,192,318	136,577,642
RESERVES			
General reserves		13,484,571	12,957,871
Total liabilities and reserves		162,676,889	149,535,513

The notes on pages 38 to 55 form part of these accounts.
Approved by the Board of Directors on 22nd May 2023, and signed on its behalf by:

A C Robinson
Board Chair

P Tilley
Chief Executive

S T Wigfull
Finance Director

CASH FLOW STATEMENT
for the year ended 31st March 2023

	Notes	2023 £	2022 £
Cash flows from operating activities			
Profit before tax		656,927	843,757
Adjustments for			
Depreciation and amortisation	13, 14	84,136	80,382
Loss on disposal of tangible fixed assets		17	97
Increase / (Decrease) in impairment of loans and advances	12	75,917	(73,054)
Total		816,997	851,182
Changes in operating assets and liabilities			
(Increase) in prepayments and accrued income		(153,638)	(86,738)
(Decrease) / increase in accruals and deferred income		(7,890)	16,910
Net (increase) in loans and advances to customers		(6,555,618)	(4,995,138)
Net increase in shares		8,997,976	706,182
Net increase in deposits and other borrowings		3,656,305	56,068
Net (increase) / decrease in loans and advances to credit institutions		(1,250,000)	500,000
Taxation paid		(161,942)	(75,554)
Net cash generated by / (used in) operating activities		5,342,190	(3,027,088)
Cash flows from investing activities			
Purchase of debt securities	10	(1,000,195)	(1,000,200)
Sale of debt securities	10	1,000,200	1,000,200
Purchase of treasury bills	10	(6,898,681)	(2,998,505)
Sale of treasury bills	10	3,983,076	2,000,399
Purchase of tangible fixed assets	13	(87,558)	(38,956)
Proceeds from disposal of tangible fixed assets		100	29
Purchase of intangible assets	14	(13,200)	-
Net cash (used in) investing activities		(3,016,258)	(1,037,033)
Net increase / (decrease) in cash and cash equivalents		2,325,932	(4,064,121)
Cash and cash equivalents at the beginning of the year		25,240,327	29,304,448
Cash and cash equivalents at the end of the year		27,566,259	25,240,327
Analysis of the balances of cash and cash equivalents shown in the balance sheet			
Cash in hand		100,535	101,440
Loans and advances to credit institutions repayable within 3 months	9	27,465,724	25,138,887
	22	27,566,259	25,240,327

Total cash interest received during the year totalled £5,647k (2022: £3,811k) and total cash interest paid during the year, and not capitalised to a savings account, totalled £64k (2022: £20k).

The notes on pages 38 to 55 form part of these accounts.

1 ACCOUNTING POLICIES

1.1 Basis of preparation
Earl Shilton Building Society ("the Society") has prepared these Society 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 ("FRS 102") as issued in March 2018.

The presentation currency of these annual accounts is sterling. Amounts in the annual accounts have been rounded to the nearest £ unless otherwise stated.

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

Judgements made by the Directors in the application of these accounting policies that have a significant effect on the annual accounts, and estimates with a significant risk of material adjustment in the next year are discussed in note 1.11 below.

Administrative expenses represent the ongoing costs of running the Society and are accounted for on an accruals basis in the Statement of Income and Retained Earnings.

These accounts have been prepared on a going concern basis as the Board have made the judgement that the Society has adequate resources to continue in business for the foreseeable future. For more details on the going concern assessment see the Directors' Report on page 14.

1.2 Measurement convention
The annual accounts are prepared on a going concern basis under the historical cost convention.

1.3 Interest
Interest income and expense presented in the Statement of Income and Retained Earnings represents interest on financial assets and financial liabilities measured at amortised cost. Interest income and expense are recognised in the Statement of Income and Retained Earnings using the effective interest method. The 'effective interest rate' 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 expected future credit losses. The calculation of the effective interest rate includes transaction costs and fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

1.4 Fees and commission
Fees and commissions income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate (see 1.3). Such income and expense include loan arrangement fees, introducers' commission, valuation fees and product switching fees.

Other fees and commission income is recognised as the related services are performed, and relates mainly to account servicing fees and sales commission (other than loan introducers' commission).

1.5 Taxation
Tax on the profit or loss for the year comprises current and deferred tax.

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 balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax occurs due to timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the annual accounts.

Deferred tax recognised on timing differences between accumulated depreciation and tax allowances for the cost of a fixed asset is reversed if and when all conditions for retaining the tax allowances have been met.

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 balance sheet date. Deferred tax balances are not discounted. Deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

1.6 Financial instruments
The Society's financial instruments consist of financial assets, principally liquid assets (cash, treasury bills, loans and advances to credit institutions and debt securities) and loans and advances to customers (mortgages); and financial liabilities, principally shares and borrowings (customer deposits) and loans from credit institutions. All of the Society's financial instruments qualify as basic financial instruments under FRS 102.

Recognition, measurement and derecognition
A basic financial instrument is recognised as a financial asset or financial liability only when the Society becomes a party to the contractual provisions of the instrument, and is measured initially at its transaction price including any transaction costs that are directly attributable to its acquisition or issue. Subsequently, the Society's financial instruments are measured at their amortised cost using the effective interest rate method (see 1.3). Amortised cost 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, in the case of a financial asset, any reduction for impairment.

The Society derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or are settled; 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 consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss. 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.

The Society derecognises a financial liability when its contractual obligations are discharged, cancelled, or expire.

Identification and measurement of impairment
At each reporting date, the Society assesses whether there is objective evidence that its financial assets 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; or
- default or delinquency by a borrower; or
- the restructuring of a loan or advance by the Society on terms that the Society would not consider otherwise; or
- indications that a borrower or issuer will enter bankruptcy; or
- 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 loans and advances are assessed for specific impairment together with any loans or advances where impairment is indicated. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. This includes advances not in arrears but for which the Society has exercised forbearance in the conduct of the account. Loans and advances are collectively assessed for impairment by grouping together loans and advances with similar risk characteristics.

In assessing collective impairment, the Society uses external data to build a model 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 lesser than is suggested by historical trends. These considerations are made to estimate the cash flows for loans which are impaired as at the year-end date, whilst not specifically identified as such, and not for the possible loss events in the future.

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

Impairment losses are recognised in profit or loss 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 profit or loss.

1.7 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 with an insignificant risk of changes in value with original maturities of less than three months. The Cash Flow Statement has been prepared using the indirect method.

1.8 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. The Society assesses at each reporting date whether tangible fixed assets are impaired. Tangible fixed assets are depreciated over their estimated useful lives as follows:

Freehold office premises (excluding land)	-	1% per annum on cost
Improvements to office premises	-	$6^2/_3$% per annum on cost
Office and computer equipment	-	20% per annum on cost
Motor vehicles	-	25% on reducing balance

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since the last annual reporting date in the pattern by which the Society expects to consume an asset's future economic benefits.

1.9 Intangible assets

The Society's intangible assets comprise purchased computer software. Computer software is stated at cost less accumulated amortisation and accumulated impairment losses, and amortised over its estimated useful life at $33^1/_3$% per annum on cost. Useful lives for computer software are determined by an assessment of the period over which the software is expected to continue to be used by the Society before it becomes obsolete or is replaced. 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.

1.10 Pension contributions

The Society's contributions to the defined contribution group personal pension plan are recognised as an expense in the Statement of Income and Retained Earnings in the periods during which services are rendered by employees who are members of the plan. See note 7 for further details of the plan.

1.11 Judgements and key sources of estimation uncertainty

The Society has to make judgements in applying its accounting policies which affect the amounts recognised in the accounts. In addition, estimates and assumptions are made that could affect the reported amounts of assets and liabilities within the following financial year. Judgements and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The most significant areas where judgements and estimates have been made in preparing these accounts are as follows:

Impairment provisions for loans and advances to customers

The determination of impairment provisions for mortgages is inherently uncertain and requires significant judgement and estimation. The Society uses historical trend information and external benchmarks for similar types of loan and customer profiles to indicate the probability of default, timing of recoveries and the amount of loss incurred, but has to judge whether these are reflective of current and future economic conditions and make assumptions about the future developments in, for example, interest rates, house prices and the length of time required to sell a property in possession. These considerations are made to estimate the cash flows for loans which are impaired as at the year-end date, whilst not specifically identified as such, and not for the possible loss events in the future. With consideration to reports and commentaries from external agencies, including the Bank of England, changes have been made to the assumptions which materially affect the level of provision recognised. The most critical of these assumptions are the level of discount applied to the valuation of properties and the probability of borrower default. The Society's assumptions are based upon a deterioration in credit risk outcomes compared with recent historical experience. This is primarily represented by a decrease in expected recoveries on impaired accounts caused by forecast decreases in house prices during 2023/24 due to a decline in the economic environment. The Directors believe these assumptions address the risk of a possible recession and the size of the provision will be affected if these assumptions were changed. By way of illustration, if the discount to house prices were reduced by 10% (2022: 10%) the impairment provision would reduce by £185,000 (2022: £163,000) and if the probability of borrower default percentage was increased by 1% (2022: 1%) the impairment provision would increase by £66,000 (2022: £54,000).

Effective interest rate applied to loans and advances to customers

Amounts related to the effective interest rate (EIR) included within the Statement of Income and Retained Earnings is £30,000 (2022: £(22,000)) with an EIR asset included in the balance sheet of £44,000 (2022: asset of £13,000). The effective interest rate will affect the carrying values of loans and receivables. A critical aspect of the application of the effective interest rate ("EIR") method to the measurement of mortgages and the recognition of mortgage interest and fees is the determination of the expected life of the Society's mortgages. This determines the period over which customers may be paying various differentiated rates and fee income is spread. Estimates of expected life are based on the Society's past experience of similar products, and are reviewed regularly to ensure that they remain appropriate. Any changes to the average life will create an adjustment to the loan balance in the balance sheet with a corresponding adjustment to interest receivable in the Statement of Income and Retained Earnings. By way of illustration, a 10% increase in the average life profile (2022: 10%) would result in an increase in the value of loans and advances to customers on the balance sheet of approximately £1,000 (2022: decrease of £1,000).

2 INTEREST RECEIVABLE AND SIMILAR INCOME

	2023 £	2022 £
On loans fully secured on residential property	5,199,840	3,880,656
On other loans fully secured on land	26,190	19,683
On debt securities	2,200	1,832
On other liquid assets	681,263	49,572
	5,909,493	3,951,743

The total amount of interest receivable and similar income shown for debt securities relates to income from fixed income securities.

3 INTEREST PAYABLE AND SIMILAR CHARGES

	2023 £	2022 £
On shares held by individuals	2,276,208	731,538
On deposits and other borrowings	84,539	6,750
	2,360,747	738,288

4 ADMINISTRATIVE EXPENSES

	2023 £	2022 £
Staff costs:		
Wages and salaries	1,087,890	1,005,894
Social security costs	118,358	104,891
Other pension costs relating to a defined contribution scheme (see note 7)	98,370	96,704
	1,304,618	1,207,489
Auditor's remuneration (excluding VAT)		
- audit of financial statements	93,000	65,000
Other recurring expenses	1,333,779	1,091,096
	2,731,397	2,363,585

5 EMPLOYEES

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

	Full-Time		Part-Time	
	2023	2022	2023	2022
- Head office	19	18	7	8
- Barwell	1	1	8	8
	20	19	15	16

6 DIRECTORS' EMOLUMENTS

Emoluments of the Directors of the Society are detailed below:-

2023				Pension scheme	
Non-Executive Directors	Fees £	Salary £	Benefits £	contributions £	Total £
A C Robinson (Board Chair from 13th July 2022)	25,663	-	-	-	25,663
I M Dale	20,139	-	-	-	20,139
C R Greenwell	19,506	-	-	-	19,506
D J Hickman	23,906	-	-	-	23,906
L J Mackie	20,139	-	-	-	20,139
M J Rice (Board Chair to 13th July 2022)	9,436	-	-	-	9,436
J Stables	23,906	-	-	-	23,906
Executive Directors					
P Tilley (Chief Executive & Secretary)*	-	119,704	17,598	11,700	149,002
S T Wigfull (Finance Director)	-	79,280	11,344	7,881	98,505
	142,695	198,984	28,942	19,581	390,202

2022				Pension scheme	
Non-Executive Directors	Fees £	Salary £	Benefits £	contributions £	Total £
M J Rice (Board Chair)	26,960	-	-	-	26,960
I M Dale	19,180	-	-	-	19,180
C R Greenwell	9,288	-	-	-	9,288
D J Hickman	22,768	-	-	-	22,768
L J Mackie	19,180	-	-	-	19,180
A C Robinson	18,577	-	-	-	18,577
J Stables	22,768	-	-	-	22,768
Executive Directors					
P Tilley (Chief Executive & Secretary)*	-	115,081	17,072	11,009	143,162
S T Wigfull (Finance Director)	-	76,542	11,089	7,431	95,062
	138,721	191,623	28,161	18,440	376,945

*P Tilley sold part of both his 2022/23 and 2021/22 annual leave entitlement and payment for this is included in the salary figures.

Included in the salary of Executive Directors are incentive payments amounting in 2023 to 1.00% of base salary plus £850 (2022: 3.00%). The benefits shown above relate to car and health care.

The Society's Directors are considered to be its key management personnel as defined by FRS 102, as they have authority and responsibility for planning, directing and controlling the activities of the Society, directly or indirectly. The total compensation of key management personnel in the year was £427,937 (2022: £412,159), comprising emoluments as shown above and employer's National Insurance contributions.

DIRECTORS' LOANS AND TRANSACTIONS

The aggregate amount outstanding on loans to Directors and connected persons as described in Section 65 of the Building Societies Act 1986 was £nil (2021: £nil). The aggregate amount outstanding on deposits and shares held by Directors and connected persons was £53,270 for eight Directors and connected persons (2022: £68,706, nine Directors and connected persons). A register is maintained at the Society's head office under Section 68 of the Building Societies Act 1986, containing details of loans and transactions with Directors and connected persons. This register is available for inspection by members at the Society's Head Office up to 19th July 2023 and at the AGM. The Society has not entered into transactions with related parties except for those noted above.

7 PENSION SCHEME

The Society operates a defined contribution scheme for staff which is self-administered, with the assets being held separately from those of the Society in a group personal pension plan. Contributions shown represent the sum payable in respect of the accounting period. No extra contributions were provided by the Society during the year. The group personal pension plan is currently provided by ReAssure Limited. There were no outstanding contributions at the end of the year (2022: none).

8 TAX EXPENSE

	2023 £	2022 £
The tax expense for the year comprises:-		
Profit per accounts	656,927	843,757
Expected UK Corporation tax at 19% (2022: 19%)	124,816	160,314
The impact of fixed asset treatment	2,618	11,136
The impact of provisions	(9,240)	(9,240)
Other impacts	161	0
UK Corporation tax current charge	118,355	162,210
Adjustments in respect of prior periods	(268)	(7)
Total current tax expense	118,087	162,203
Origination and reversal of timing differences	8,959	2,371
Adjustment in respect of previous periods	353	-
Effect of tax rate change on opening balance	2,828	6,558
Total deferred tax expense (note 15)	12,140	8,929
Total tax expense	130,227	171,132
Factors affecting the tax expense for the year:		
Profit for the year before taxation	656,927	843,757
Profit on ordinary activities multiplied by standard rate of UK tax of 19% (2022: 19%)	124,816	160,314
Effects of:		
Fixed asset differences	2,497	3,694
Adjustments to tax expense in respect of previous periods	85	(7)
Effect of rate changes on deferred tax	2,829	7,131
Total tax expense	130,227	171,132

The impact of fixed asset treatment includes depreciation and capital allowances adjustments. The impact of provisions is mainly due to a change in the tax treatment of the collective impairment provision in 2016. This is adjusted for over 10 years, hence it is expected to reduce the tax charge until the year ended 31st March 2025.

9 LOANS AND ADVANCES TO CREDIT INSTITUTIONS

Loans and advances to credit institutions have remaining maturities as follows :-

	2023 £	2022 £
Accrued interest	31,498	7,295
Repayable on demand	27,434,226	25,131,592
In more than 3 months but not more than 1 year	1,500,000	250,000
	28,965,724	25,388,887
Total included within cash and cash equivalents	27,465,724	25,138,887

10 DEBT SECURITIES AND TREASURY BILLS

	2023 £	2022 £
Debt securities	1,020,553	1,001,350
Treasury bills	4,957,744	1,999,348
	5,978,297	3,000,698

Debt securities and treasury bills have remaining maturities as follows:-

	2023 £	2022 £
Accrued interest	63,842	1,843
In not more than 3 months	2,953,753	999,651
In more than 3 months but not more than 1 year	2,960,702	1,999,204
	5,978,297	3,000,698

	2023 £	2022 £
Transferable debt securities comprise:-		
Unlisted	1,020,553	1,001,350
	1,020,553	1,001,350

Movements during the year of debt securities and treasury bills are as follows:-

	£
At the beginning of the year	3,000,698
Additions	7,898,876
Disposals and maturities	(4,983,276)
Movement in amortisation and accrued interest	61,999
At the end of the year	5,978,297

11 LOANS AND ADVANCES TO CUSTOMERS

The remaining contractual maturity of loans and advances to customers from the date of the balance sheet is as follows:-

	2023 £	2022 £
Repayable on demand	5,963	8,685
In not more than 3 months	863,997	1,007,834
In more than 3 months but not more than 1 year	3,990,888	3,805,716
In more than 1 year but not more than 5 years	22,773,196	24,512,630
In more than 5 years	99,347,366	91,090,928
	126,981,410	120,425,793
Less total impairment provision (note 12)	(398,017)	(322,100)
	126,583,393	120,103,693

Balances include accrued interest.
This may not reflect the actual pattern of repayments since many loans and advances are repaid early.
The sensitivity of this balance to a change in the average life profile is shown in note 1.11.

12 IMPAIRMENT PROVISIONS FOR LOANS AND ADVANCES TO CUSTOMERS

	Loans fully secured on residential property £	Loans fully secured on land £	Total £
At 31st March 2022			
Collective provision	320,525	-	320,525
Individual provision	1,575	-	1,575
	322,100	-	322,100
Charge / (Credit) for the year			
Collective provision	74,374	-	74,374
Individual provision	1,543	-	1,543
	75,917	-	75,917
At 31st March 2023			
Collective provision	394,899	-	394,899
Individual provision	3,118	-	3,118
	398,017	-	398,017

	Loans fully secured on residential property £	Loans fully secured on land £	Total £
At 31st March 2021			
Collective provision	310,157	303	310,460
Individual provision	84,694	-	84,694
	394,851	303	395,154
Charge / (Credit) for the year			
Collective provision	10,368	(303)	10,065
Individual provision	(83,119)	-	(83,119)
	(72,751)	(303)	(73,054)
At 31st March 2022			
Collective provision	320,525	-	320,525
Individual provision	1,575	-	1,575
	322,100	-	322,100

The sensitivity of this balance to a change in the discount or default percentage is shown in note 1.11.

13 TANGIBLE FIXED ASSETS

	Freehold office premises	Improvements to office premises	Office and computer equipment	Motor Vehicles	Total
	£	£	£	£	£
Cost					
At 1st April 2022	228,427	554,967	271,705	116,394	1,171,493
Additions	-	62,493	25,065	-	87,558
Disposals	-	-	(37,723)	-	(37,723)
At 31st March 2023	228,427	617,460	259,047	116,394	1,221,328
Depreciation					
At 1st April 2022	(59,179)	(259,083)	(208,352)	(68,491)	(595,105)
Charged in year	(2,088)	(40,320)	(26,008)	(11,976)	(80,392)
On disposals in year	-	-	37,606	-	37,606
At 31st March 2023	(61,267)	(299,403)	(196,754)	(80,467)	(637,891)
Net book value					
31st March 2023	167,160	318,057	62,293	35,927	583,437
31st March 2022	169,248	295,884	63,353	47,903	576,388

The net book value of land and buildings occupied for the Society's own use is £167,160 (2022: £169,248) comprising freehold office premises as shown above.

14 INTANGIBLE ASSETS

	Computer software
	£
Cost	
At 1st April 2022	58,648
Additions	13,200
Disposals	-
At 31st March 2023	71,848
Amortisation	
At 1st April 2022	(57,857)
Charged in year	(3,744)
On disposals in year	-
At 31st March 2023	(61,601)
Net book value	
31st March 2023	10,247
31st March 2022	791

No individual intangible asset is considered to be material to the Society's accounts.

15 DEFERRED TAX LIABILITY

	2023	2022
	£	£
Deferred tax liability arising from:		
- accelerated capital allowances	66,152	66,169
- short-term timing differences	(24,314)	(36,471)
	41,838	29,698
Deferred tax liability movements in the year:		
At 1st April 2022	29,698	20,769
Deferred tax expense for the year	12,140	8,929
At 31st March 2023	41,838	29,698

Deferred tax is recognised at 25% (2022: 25%).

An increase to the corporation tax rate to 25% from 1st April 2023 was enacted on 24th May 2021. The deferred tax liability at 31st March 2023 has been calculated based on the rate substantively enacted at the Balance Sheet date at which the balances are expected to reverse, being 25%.

The Society's capital assets are depreciated over their estimated useful lives, whereas capital allowances are set rules in tax law applied to different types of asset. Any differences between depreciation and capital allowances are expected to be timing differences as they both are based on the value of the asset. Accelerated capital allowances occur when tax relief claimed through capital allowances temporarily exceeds depreciation charged in the accounts. This liability is expected to unwind over the useful economic life of the assets.

Short term timing differences are mainly due to a change in the tax treatment of the collective impairment provision in 2016 and this is expected to reverse by 2025. A deferred tax asset has been recognised because tax relief for the impairment provision is being received incrementally, over ten years, while the 2016 provision cost was recognised in full for accounting purposes.

16 SHARES

	2023	2022
	£	£
Held by individuals	140,760,939	131,762,961
Shares are repayable from the date of the balance sheet in the ordinary course of business as follows:-		
Accrued interest	1,017,774	313,731
On demand	136,930,908	130,738,663
In not more than 3 months	152,802	360,668
In more than 3 months but not more than 1 year	819,130	135,961
In more than 1 year but not more than 5 years	1,840,325	213,938
	140,760,939	131,762,961

17 AMOUNTS OWED TO CREDIT INSTITUTIONS

	2023	2022
	£	£
Accrued interest	5,973	438
Repayable with agreed maturity dates or periods of notice:		
- In not more than 3 months	500,000	500,000
	505,973	500,438

18 AMOUNTS OWED TO OTHER CUSTOMERS

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

	2023 £	2022 £
Accrued interest	15,595	538
On demand	7,555,586	3,919,874
	7,571,181	3,920,412

19 CORPORATION TAX PAYABLE

	2023 £	2022 £
Corporation tax falling due within one year	118,355	162,210

20 ACCRUALS AND DEFERRED INCOME

	2023 £	2022 £
Amounts falling due within one year:		
Accruals	194,032	201,923

21 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

A financial instrument is a contract which gives rise to a financial asset of one entity and a financial liability of another entity. The Society is a retailer of financial instruments, mainly in the form of mortgage and savings products, and also invests liquid asset balances in wholesale financial instruments. As a result of these operations, the Society is exposed to a variety of risks, the most significant being liquidity risk, credit risk and market risk which are described later in this note.

The Society has a formal structure for managing risk, including established risk limits, reporting lines and other control procedures. This structure is reviewed regularly by the Board's Assets and Liabilities Committee, which is responsible for managing and controlling the balance sheet exposures.

Categories of financial assets and liabilities

Financial assets and liabilities are measured on an on-going basis at amortised cost. The tables below analyse the Society's assets and liabilities by financial classification:

Carrying values by category Year ended 31st March 2023	Financial assets measured at amortised cost	Financial liabilities measured at amortised cost	Other financial instruments	Total
	£	£	£	£
Financial assets				
Cash in hand	-	-	100,535	100,535
Debt securities and treasury bills	5,978,297	-	-	5,978,297
Loans and advances to credit institutions	28,965,724	-	-	28,965,724
Loans and advances to customers	126,583,393	-	-	126,583,393
Total financial assets	161,527,414	-	100,535	161,627,949
Non-financial assets				1,048,940
Total assets				162,676,889
Financial liabilities				
Shares	-	140,760,939	-	140,760,939
Amounts owed to credit institutions	-	505,973	-	505,973
Amounts owed to other customers	-	7,571,181	-	7,571,181
Other liabilities	-	194,032	-	194,032
Total financial liabilities	-	149,032,125	-	149,032,125
Non-financial liabilities and reserves				13,644,764
Total liabilities and reserves				162,676,889

Year ended 31st March 2022				
	£	£	£	£
Financial assets				
Cash in hand	-	-	101,440	101,440
Debt securities and treasury bills	3,000,698	-	-	3,000,698
Loans and advances to credit institutions	25,388,886	-	-	25,388,886
Loans and advances to customers	120,103,693	-	-	120,103,693
Total financial assets	148,493,277	-	101,440	148,594,717
Non-financial assets				940,796
Total assets				149,535,513
Financial liabilities				
Shares	-	131,762,961	-	131,762,961
Amounts owed to credit institutions	-	500,438	-	500,438
Amounts owed to other customers	-	3,920,412	-	3,920,412
Other liabilities	-	201,923	-	201,923
Total financial liabilities	-	136,385,734	-	136,385,734
Non-financial liabilities and reserves				13,149,779
Total liabilities and reserves				149,535,513

Liquidity Risk

The Society's liquidity policy is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations in funding, to maintain full public confidence in the solvency of the Society and to meet its financial obligations. This is achieved through maintaining a prudent level of liquid assets and through management control of the growth of the business. A significant proportion of the Society's liquidity is held in call accounts or in the form of debt securities and treasury bills, which are capable of being sold at short notice to meet unexpected adverse cash flows. The Society's ability to meet such adverse cash flows is measured by stress testing, the results being reviewed by the Board's Assets and Liabilities Committee.

Maturity analysis for financial assets and financial liabilities
The tables below set out the remaining contractual maturities of the Society's financial assets and financial liabilities. 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.

Year ended 31st March 2023	On demand	Not more than 3 months	More than 3 months but not more than 1 year	More than 1 year but not more than 5 years	More than 5 years	Total
	£	£	£	£	£	£
Financial assets						
Cash in hand	100,535	-	-	-	-	100,535
Debt securities and treasury bills	-	3,969,213	2,009,084	-	-	5,978,297
Loans and advances to credit institutions	27,461,163	-	1,504,561	-	-	28,965,724
Loans and advances to customers	5,944	861,290	3,978,380	22,701,814	99,035,965	126,583,393
Total financial assets	27,567,642	4,830,503	7,492,025	22,701,814	99,035,965	161,627,949
Financial liabilities						
Shares	137,928,200	153,915	825,095	1,853,729	-	140,760,939
Amounts owed to credit institutions	-	505,973	-	-	-	505,973
Amounts owed to other customers	7,571,181	-	-	-	-	7,571,181
Other liabilities	54,548	139,484	-	-	-	194,032
Total financial liabilities	145,553,929	799,372	825,095	1,853,729	-	149,032,125
Year ended 31st March 2022						
Financial assets						
Cash in hand	101,440	-	-	-	-	101,440
Debt securities and treasury bills	-	999,900	2,000,798	-	-	3,000,698
Loans and advances to credit institutions	25,138,805	-	250,082	-	-	25,388,887
Loans and advances to customers	8,662	1,005,139	3,795,537	24,447,067	90,847,288	120,103,693
Total financial assets	25,248,907	2,005,039	6,046,417	24,447,067	90,847,288	148,594,718
Financial liabilities						
Shares	131,050,698	361,528	136,286	214,449	-	131,762,961
Amounts owed to credit institutions	-	500,438	-	-	-	500,438
Amounts owed to other customers	3,920,412	-	-	-	-	3,920,412
Other liabilities	68,028	127,667	6,228	-	-	201,923
Total financial liabilities	135,039,138	989,633	142,514	214,449	-	136,385,734

The tables below set out a 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 balance sheet date.

Year ended 31st March 2023	On demand	Not more than 3 months	More than 3 months but not more than 1 year	More than 1 year but not more than 5 years	Total
	£	£	£	£	£
Financial liabilities					
Shares	137,928,200	154,623	840,497	1,966,859	140,890,179
Amounts owed to credit institutions	-	505,973	-	-	505,973
Amounts owed to other customers	7,571,181	-	-	-	7,571,181
Other liabilities	54,548	139,486	-	-	194,034
Total financial liabilities	145,553,929	800,082	840,497	1,966,859	149,161,367

Year ended 31st March 2022					
	£	£	£	£	£
Financial liabilities					
Shares	131,050,698	362,588	137,037	217,823	131,768,146
Amounts owed to credit institutions	-	500,438	-	-	500,438
Amounts owed to other customers	3,920,412	-	-	-	3,920,412
Other liabilities	68,028	127,667	6,228	-	201,923
Total financial liabilities	135,039,138	990,693	143,265	217,823	136,390,919

Credit Risk

The Society's credit risk arises from its portfolio of loans and advances to customers and from potential losses on loans and advances to credit institutions that could result from the failure of loan and treasury counterparties to observe the terms of the contract entered into.

All loan applications are assessed with reference to the Society's Lending Policy. Changes to policy are approved by the Board and the approval of loan applications is mandated. Appropriate credit limits have been established by the Board for individual counterparties and sectors and the Assets and Liabilities Committee ensures that these limits are adhered to.

Credit risk in respect of treasury counterparties is assessed using credit ratings provided by a recognised credit rating agency. Regular monitoring of all treasury counterparties may result in their removal from the list of approved counterparties if credit ratings do not reflect the Board's view of credit risk.

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

	2023	2022
	£	£
Cash in hand	100,535	101,440
Debt securities and treasury bills	5,978,297	3,000,698
Loans and advances to credit institutions	28,965,724	25,388,887
Loans and advances to customers	126,583,393	120,103,693
Total balance sheet exposure	161,627,949	148,594,718
Off balance sheet exposure – loan commitments	7,897,789	8,395,123
	169,525,738	156,989,841

Credit quality analysis of counterparties
The table below sets out information about the exposure the Society has to counterparties for debt securities, treasury bills and loans and advances to credit institutions. Amounts held with financial institutions are analysed by their Fitch credit rating where appropriate.

	2023 £	2022 £
Bank of England	24,453,245	22,258,968
UK Government securities	4,957,744	1,999,347
Financial institutions by credit rating:		
- A+ to A-	4,028,470	3,881,186
- Unrated building societies	1,504,562	250,082
	34,944,021	28,389,583

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 £	Total £	Loans fully secured on residential property £	Loans fully secured on land £	Total £
Neither past due nor impaired	123,247,855	529,536	123,777,391	118,389,151	579,566	118,968,717
Past due but not impaired						
- Past due up to 3 months	1,578,588	-	1,578,588	514,434	-	514,434
- Past due 3 to 6 months	535,782	-	535,782	231,082	-	231,082
- Past due 6 to 12 months	300,097	-	300,097	-	-	-
	2,414,467	-	2,414,467	745,516	-	745,516
Impaired	789,552	-	789,552	711,560	-	711,560
	126,451,874	529,536	126,981,410	119,846,227	579,566	120,425,793
Allowance for impairment						
- Individual	(3,118)	-	(3,118)	(1,575)	-	(1,575)
- Collective	(394,899)	-	(394,899)	(320,525)	-	(320,525)
Total allowance for impairment	(398,017)	-	(398,017)	(322,100)	-	(322,100)

Individual assessments are made of all mortgage loans where objective evidence indicates that losses are likely (for example when loans are past due), or the property is in possession, or the borrower has significant financial difficulties, or where fraud or negligence has been identified. Further information is given in note 1.6 to the accounts.

Collateral held as security
The Society's loans are fully secured by collateral in the form of a charge on the residential property or land against which the loan is made. Collateral values are updated quarterly by reference to the Nationwide house price index. Based on these indexed valuations, the total collateral held against loans and advances to customers is estimated to be £383m (2022: £386m).

The table below analyses exposures from loans and advances to customers by ranges of indexed loan-to-value ("LTV"). LTV is the ratio of the gross amount of the loan or advance to the value of the collateral. The gross amounts exclude any impairment allowance and adjustments to measure the balances using the effective interest rate method. Indexed LTV is based on the collateral value at the date the loan or advance was originated updated for subsequent changes in house price indices.

	2023 £	2022 £
Indexed LTV ratio		
Less than or equal to 50%	78,232,595	81,850,537
Greater than 50% but less than or equal to 75%	40,239,597	31,456,830
Greater than 75% but less than or equal to 85%	5,173,137	5,914,385
Greater than 85%	3,292,391	1,190,651
	126,937,720	120,412,403

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. Of these, only interest rate risk is significant for the Society. The Society is not directly exposed to currency risk as it deals only with products in sterling, and its products are only interest orientated so are not exposed to other pricing risks.

The Society is exposed to movements in interest rates reflecting the mismatch between the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates or if earlier, the dates on which the instruments mature. The Society manages this exposure on a regular basis, within the limits set by the Board.

The Society also monitors the sensitivity of its 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 100 basis point (bp) parallel fall or rise in the yield curve. If there were a 100bp parallel rise in the yield curve (2022: 100bps), the impact would be a decrease of approximately £15,000 in net interest income and hence profit at 31st March 2023 (2022: approximately £18,000 decrease).

Capital

The Society's policy is to maintain sufficient capital resources in order to support its growth and to be able to continue its lending programme, as well as to exceed the minimum capital requirements set by the Prudential Regulatory Authority ("PRA") in the form of Internal Capital Guidance ("ICG"). The Society's formal Internal Capital Adequacy Assessment Process ("ICAAP") sets out the governance processes that are followed in order to ensure these requirements are met. There were no reported breaches of capital requirements during the year, and there have been no material changes to the way in which the Society manages capital compared to the prior year. The following table sets out the balances that the Society manages as capital in accordance with the PRA's requirements.

	Note	2023 £	2022 £
General reserves		13,484,571	12,957,871
Deductions for intangible assets	14	(10,247)	(791)
Total Tier 1 Capital		13,474,324	12,957,080
Collective impairment provision	12	394,899	320,525
Total Tier 2 Capital		394,899	320,525
Total Capital		13,869,223	13,277,605

22 GUARANTEES AND OTHER FINANCIAL COMMITMENTS

Capital Commitments
Contracted capital commitments at 31st March 2023, for which no provision has been made, were £45,473 for tangible fixed assets (2022: £32,473).

Loan Commitments
At the year end, the Society has loan commitments of £7,897,789 in the form of the mortgage approved pipeline (2022: £8,395,123).

23 COUNTRY-BY-COUNTRY REPORTING

The following disclosures have been prepared in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013, which are set out in Article 89 of the Capital Requirements Directive 4 ("CRD IV"). The objective of the country-by-country reporting ("CBCR") requirements is to provide greater transparency and expanded disclosure in financial statements for the benefit of investors. The CBCR disclosures inform the reader of the source of a firm's income and the location of its operations. The Society's CBCR disclosures for the year ended 31st March 2023 are as follows:

Country-by-country reporting

Name	Earl Shilton Building Society	
Type of entity	Credit institution	
Nature of activity	Financial services	
Location	United Kingdom	
Turnover (i.e. Net interest income)	£3,548,746	(2022: £3,213,455)
Number of employees	35	(2022: 35)
Profit before tax	£656,927	(2022: £843,757)
Tax expense for the year	£130,227	(2022: £171,132)

Statutory Percentages	Ratio 31st March 2023 %	Statutory Limit %
Proportion of business assets other than in the form of loans fully secured on residential property (the "lending limit")	0.77%	25.00
Proportion of shares and borrowings other than in the form of shares held by individuals (the "funding limit")	5.43%	50.00

The percentages are calculated in accordance with, and the statutory limits are those prescribed by, the Building Societies Act 1986 (as amended by the Building Societies Act 1997) and are based on the Society's balance sheet.

Business assets are the total assets of the Society as shown in the balance sheet plus collective impairment provisions for loans and advances to customers, less tangible fixed assets, intangible assets and liquid assets.

Loans fully secured on residential property are the amount of principal owing by borrowers, interest accrued not yet payable and effective interest rate adjustment. This is the amount shown in the balance sheet plus collective impairment provisions for loans and advances to customers.

Shares and borrowings represent the total of shares, amounts owed to credit institutions and amounts owed to other customers as shown in the Society's balance sheet.

The amount of shares held by individuals is shown in note 16 of the notes to the accounts.

Other percentages	Ratio 31st March 2023 %	Ratio 31st March 2022 %
Gross capital as a percentage of shares and borrowings	9.06	9.51
Free capital as a percentage of shares and borrowings	8.93	9.33
Liquid assets as a percentage of shares and borrowings	23.55	20.92
Profit after taxation as a percentage of mean total assets	0.34	0.46
Management expenses as a percentage of mean total assets	1.80	1.64

Notes

a) The above percentages have been prepared from the Society's balance sheet.

b) **Shares and borrowings** represent the total of shares and amounts owed to other customers.

c) **Gross capital** represents the total reserves and is shown as "General reserves" in the balance sheet.

d) **Free capital** represents the total reserves plus collective impairment provisions for loans and advances to customers less tangible fixed assets and intangible assets.

e) **Liquid assets** represent the total of cash in hand, loans and advances to credit institutions, debt securities and treasury bills.

f) **Mean total assets** represent the average of the total assets as shown in the accounts at the beginning and end of the year.

g) **Management expenses** represent the total of administrative expenses and depreciation and amortisation.

INFORMATION RELATING TO DIRECTORS AND OTHER OFFICERS

Directors Name and Year of Birth	Business Occupation & Other Directorships	Date of Appointment
I M Dale 1957	Chartered Accountant Britannia Pension Trustees Ltd;	19.05.2015
C R Greenwell 1960	Non-Executive Director Leicestershire & Rutland Organisation for the Relief of Suffering Limited, Chris Greenwell Consulting Limited	01.10.2021
D J Hickman 1963	Non-Executive Director Northampton Children Service Trust; Leicestershire Partnership NHS Trust; D&JH Services Ltd	24.11.2020
L J Mackie 1976	Non-Executive Director SIBA*, SIBA Commercial Services Limited* (* from 8th June 2022)	01.11.2017
A C Robinson 1969	Non-Executive Director Alegra Strategic; Pharmacy Acquisition Company; Titan Asset Management (from 1st September 2022)	19.11.2020
J Stables 1957	Chartered Accountant Lawson West Solicitors	01.11.2017
P Tilley 1966	Chief Executive MHBS Pension & Life Assurance Scheme (from 20th January 2023)	01.01.2012
S T Wigfull 1981	Finance Director None	01.08.2019
Officers		
P Barton	HR Manager None	
R H Carson	Business Development & Marketing Manager None	
M R Jones	Information Systems & Estates Manager None	
S P Phillips	Financial Controller None	
D Truman	Customer Services Manager None	
E L York	Risk & Compliance Manager None	

Documents may be served on any of the Directors or Officers at the offices of Messrs Thomas Flavell & Sons, Church Walk, Hinckley, Leicestershire LE10 1DN.

Service contracts

The Executive Directors have service contracts with the Society. Paul Tilley's service contract was entered into on the 1st January 2012 and amended on the 1st April 2014. Stephen T Wigfull's service contract was entered into on the 2nd July 2019. Both of these service contracts have notice periods of 6 months by the individual and by the Society. None of the Non-Executive Directors has a service contract with the Society.

Arrangements with Directors

There were no transactions other than those stated in note 6 of the Annual Accounts in which any Director or any person connected with a Director acquired, or arranged to acquire, any non-cash assets from the Society, nor did the Society acquire, or arrange to acquire, any non-cash assets from any Director or any person connected with a Director.

Savings and Mortgages as individual as you

esbs

22 THE HOLLOW, EARL SHILTON, LEICESTER LE9 7NB

t 01455 844422 w www.esbs.co.uk e enquire@esbs.co.uk

Branch office: Malt Mill Bank, Barwell, Leicester

05/23-477432