esbs

as individual as you

ANNUAL REPORT AND ACCOUNTS

YEAR ENDED 31st MARCH 2024

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
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
Helen C STEVENS (Appointed 1st March 2024)
Paul TILLEY JP ACIB CeRGI CeMAP
Stephen T WIGFULL CA MMath MSc

CHIEF EXECUTIVE & SECRETARY

Paul TILLEY JP ACIB CeRGI CeMAP

DEPUTY CHIEF EXECUTIVE & FINANCE DIRECTOR

Stephen T WIGFULL CA MMath MSc

INTERNAL AUDITORS

RSM UK Risk Assurance Services LLP

EXTERNAL AUDITOR

MACINTYRE HUDSON LLP (MHA)
Chartered Accountants and Statutory Auditor

CHAIR’S STATEMENT
for the year ended 31st March 2024

1. Overview of the Society’s results

I am delighted to report that the Society has had another good year, despite the challenging economic climate. Detailed below are the headline numbers. Paul Tilley, our Chief Executive, has provided more detail in the next section:

- Record mortgage advances of over £34 million;
- Continued positive feedback from our members;
- Healthy pre-tax profit of over £690,000;
- Mortgage book growth of over 11%; and
- Total asset growth of over 10%.

Although we delivered a healthy pre-tax profit this year, the Board continued to reward savers ahead of increases in interest rates for our borrowers. This did result in a similar profit to last year, but as part of our commitment to mutuality, and in the interests of our members and our long-term sustainability, we took the decision to reward savers with increased interest rates, but at the same time, be conscious of the impact of increased interest rates on our mortgage borrowers.

2. A review of the year

Overview

Throughout our financial year, the UK housing market has remained subdued, with housing completions down 11% from calendar year 2022 to calendar year 2023. UK Average house prices have tended to drop slightly for most months, although over the year, the Halifax House Price Index is actually up 0.3% from March 2023 to March 2024. Equally, inflation has remained above the Bank of England’s target of 2% but it is falling. In particular, the Consumer Prices Index (CPI) rose by 3.2% in the 12 months to March 2024, down from 3.4% in February 2024. This compares to a level of 10.1% for the year to 31st March 2023 when I wrote my report last year.

The economy is also broadly flatlining with UK GDP at approximately the same level it was a year ago. However, the cost-of-living crisis continues to bite, and the increase in unemployment rate, which averaged 4.2% in the three months to February, up 0.3% compared to the previous three-month period is also not encouraging. Equally, it is unclear how Artificial Intelligence will affect the employment market and the wars in Palestine and the Ukraine could also worsen the economic outlook.

Interestingly, the increases in base interest rate have increased savers interest in interest (!) and the savings market has become more competitive.

Despite all this, our savings and mortgage teams have been busy, with both mortgage and savings balances up over 11%. We continued to remain prudent in our lending policy and, equally, our mortgage team are closely monitoring the market and mortgage arrears. The team are available and welcome contact from any borrowers who may be in difficulty. As part of our approach, we joined the Mortgage Charter, which is designed to help borrowers with financial issues. We have also been busy embedding Consumer Duty, which was introduced by the FCA and is a useful framework to assess our customer-focused approach.

Climate Change

As part of our net zero carbon strategy, we have installed solar panels at our Head Office. We are also assessing our direct and indirect impact on climate and identify the corresponding level of offsetting carbon dioxide emissions – please see the Chief Executive’s Report. We continue to support our borrowers who are interested in improving their home’s energy efficiency or investing in lower carbon footprint technology by considering financing their investments via a home improvement mortgage advance. We also continue to have a watching brief on legislation and technology developments with the aim to support our members as alternatives evolve.

Core IT Systems

The Society continues to invest in developing our IT systems, having migrated to a cloud-based solution and upgraded our mortgage broking system. We are also reviewing our core mortgage and savings technology provider as our current supplier is migrating their core system to a new product in partnership with a third party. This work will require a considerable amount of the Society’s resources, even if we stay with the existing provider, and so we have decided to review the market to assess whether there are more suitable alternatives available.

CHAIR'S STATEMENT

for the year ended 31st March 2024

Board Changes

After successfully running the Society for the past 13 years and having been involved in the Building Society sector for over 40 years, our Chief Executive, Paul Tilley, has decided that he wishes to retire. Paul has made a huge difference to the Society and to our colleagues who work here. Our Board are highly appreciative of Paul's commitment, energy and drive that has made the Society what it is today. On a personal note, he will be missed, and we wish him well.

Paul has not yet left but we thought that we should update you of his news, his plans are to definitely leave before our next year end! It is therefore our challenge to find a worthy successor, who can build on Paul's legacy.

After 9 years of measured and insightful support, Ian Dale, our Senior Independent Director, will be retiring from the Board at the AGM in July 2024. I would like to thank Ian, on behalf of the Board, for his sage advice and support. He will be missed, and we wish him well. I would also like to welcome Helen Stevens to the Board, who is replacing Ian as part of our non-executive director rotation policy. Helen formally joined us on 1st March 2024, and she will be up for election at the AGM this year. Helen has a background in financial services and is familiar with large IT projects, which will come in handy as we migrate our core systems. The appointment of one of the current non-executive directors to Senior Independent Director, once Ian vacates this role, is in progress and an announcement will be made in due course.

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

We continue to plan for our future even in these uncertain times. Our people and our members are paramount to our long-term sustainability. We will recruit additional colleagues to help with the systems migration and also to deliver our bespoke service and build our mortgage book. Costs remain a concern, particularly in relation to IT, where the migration and new systems are likely to increase both one-off and recurring costs. As part of the migration project, we will look to improve our processes to enhance our efficiency, to help off-set cost increases, and to improve our customer experience. We will continue to embed the Consumer Duty philosophy and also look to balance providing fair rates for both mortgages and savers. Finally, to help mitigate costs increases and as part of our sustainability strategy, we will continue to prudently grow the business and optimise profits.

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

20th May 2024

Introduction

The Society has completed another highly successful financial year and continues to grow, develop, and change to meet the current and future needs of members. This is particularly pleasing given several challenging market factors including the continuing cost-of-living crisis, raised inflation levels, rapidly increased interest rates, moribund economic growth, and the wider geopolitical uncertainty, albeit consumer and business resilience has been much stronger than many commentators predicted back in 2023.

The Society achieved record new lending and improved retention of existing mortgage balances at maturity of products. Likewise, our savings accounts proved popular, and balances increased materially over the year.

As a business we continue to balance the competing needs of savers and borrowers in a considered manner, as evidenced by our net interest margin (the difference between average rates paid to savers and charged to borrowers) modestly falling over the last 12 months when compared to the preceding year. This is a clear demonstration of mutuality in action - we have no shareholders to pay dividends to.

The key deliverables of mortgage growth and optimised but not maximised profitability, allied to maintaining high-quality liquidity and robust capital measures continue to provide excellent financial stability for the Society, and confidence to you as a member.

Costs have increased this year on an actual money spent basis mainly due to inflation, which has driven higher IT costs and salary payments, but this was expected and managed within budget. The measure of expenses as a ratio to our size has pleasingly remained static, because of the growth in the Society's size.

I would like to take this opportunity to thank you once again, our members, for your ongoing support and for so readily using our products and services.

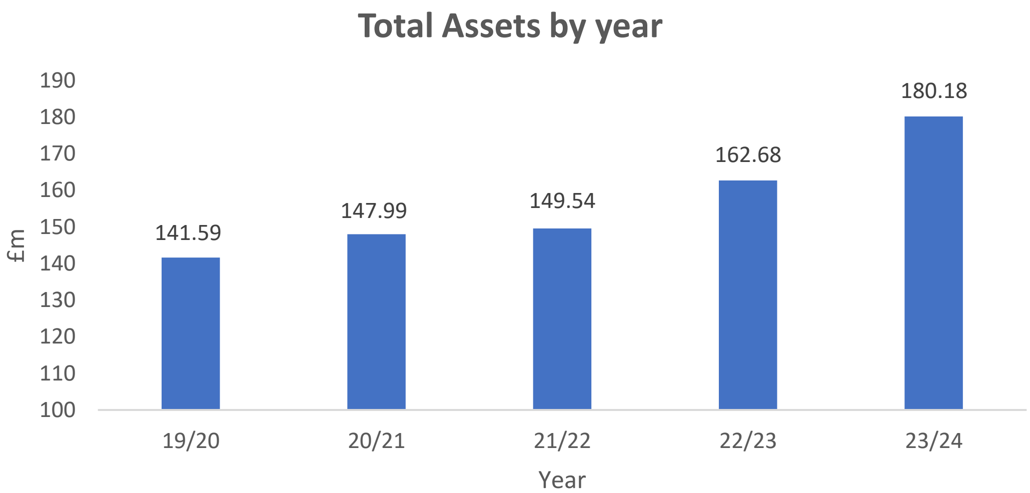
The Society is only as good as the people who work in it, and I continue to be delighted at the focus, commitment, professionalism, and collaborative approach that colleagues demonstrate every day to deliver good customer outcomes, and I would like to record my sincere personal thanks to everyone.

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 highly competitive mortgage and savings markets we operate in. The Society broke through the £180M assets barrier at the very end of the business year. Over the last two years the Society has grown over 20% in size, and continuing to grow remains a key deliverable in the coming years.

Sadly, it was necessary to restrict and suspend new saving 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 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 £140 million and increased by over 11% year-on-year. Record new lending in any one year of nearly £35 million, which was 17% up from the previous year, drove this allied to improved retention of existing balances at product maturity, where the Society continued to offer fixed rate products, and accordingly mortgage redemptions reduced year-on-year. This was despite higher mortgage rates for most as the Bank of England consistently increased its base rate over the year to control higher inflation.

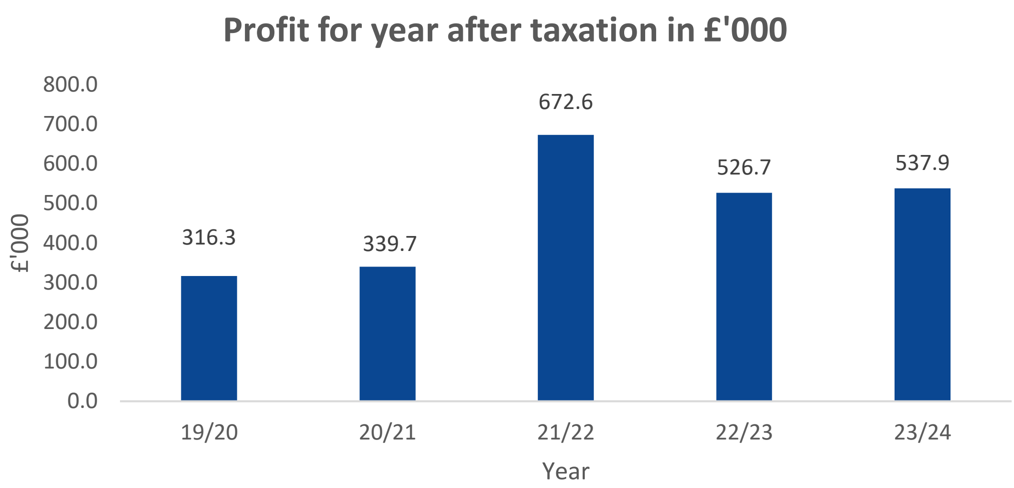
On the savings side whilst increasing interest rates on existing products was prevalent and the Select 120 Account gained traction, several new products were launched and proved popular including the 180 Day Notice ISA Account, several two year fixed rate bonds and the Bonus One Account where limited easy access to funds was permitted. Over the 12 month period overall balances pleasingly increased over £15 million.

Profit / capital

The level of operating profit reported this year shows a modest increase over last year, but the net (or final) profit is similar to the prior year following an increase in the Corporation Tax rate and an increase to collective loss provisions given the economic instability.

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.

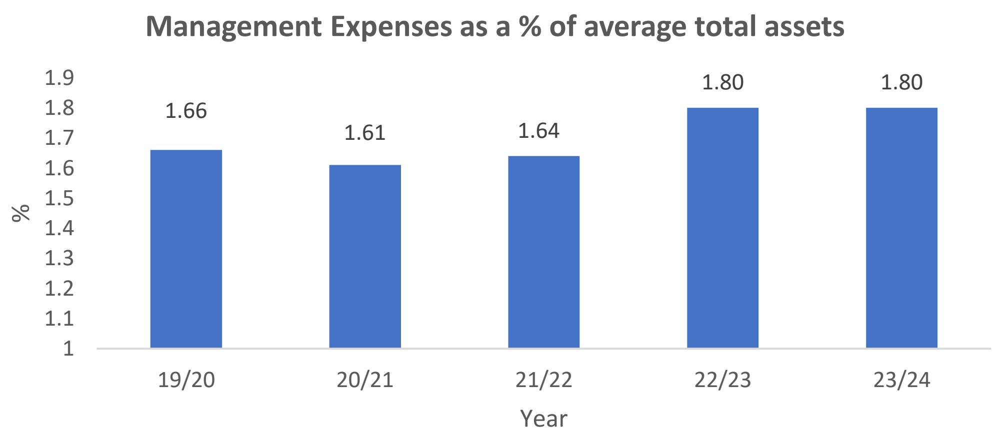
Capital, which is the accumulation of profit over the years, continues to increase as an absolute number and the various associated metrics remain robust, significantly greater than both regulatory and internal requirements. The Society remains in a very sound and stable financial position.



Management expenses

As identified in the introduction, expenses in monetary terms have increased due to inflationary pressure but as a percentage of assets have remained stable due to growth. Cost increases have been particularly high within IT expenditure, and this is expected to continue in the medium term as investment continues.

Likewise, investment in people will always be a core strategy to ensure that the level of service we provide is what our members should expect from us. Having colleagues with relevant skills and experience through development techniques is an ongoing process. Budgetary discipline remains a key focus but some of our costs are relatively fixed and upon which control is limited to some degree.



Members

The cost of living remains 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 modestly moved up, but less than expected, during the year reflecting the impact of higher interest rates, but they remain within risk tolerance, and an effective and supportive collections process delivered by compassionate colleagues provides support to those in need. No property was repossessed during the year. During 2023 we joined the Government's newly launched Mortgage Charter to offer even further assistance and a small number of borrowers took up the forbearance options available and many have now exited these arrangements.

The number of customers with the Society remained broadly static during the last calendar year, which was pleasing given that for a period the Society had to suspend new savings account opening to control funds inflow. Furthermore, 97% of new members, when asked during the last business year, stated they would recommend the Society to others – a very pleasing result. As part of the Society's ongoing commitment to members a new customer journey survey has been recently deployed to widen feedback opportunities and I encourage members to use this facility – visit our website or contact us for more information.

Work remains ongoing to simplify the processes we use to further enhance the proposition to members and to build efficiencies.

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 culture, where everyone can be heard and listened to.

In terms of awards, we have recently won for the fourth 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 support.

At the Annual General Meeting we say a goodbye to Ian Dale, one of the Society's Non-Executive Directors, as he retires after 9 years' service as per the recommendation of the UK's Corporate Governance Code. Ian has provided valuable support and challenge to the business and his wise counsel delivered in a measured style will be sorely missed.

Finally, we wish Denise Warrington, a key member of our savings team, a well-earned retirement and hope she enjoys the rest after over 30 years of exemplary service. Many thanks Denise.

Looking forward

The economic path forward remains uncertain due to cost of living challenges, higher interest rates, geopolitical factors, likely modest economic growth, and with the UK General Election due by the latest in very early 2025. However, I remain confident that business and consumer resilience will continue but the Society does plan several different stressed economic scenarios when forecasting, and the business is well positioned to remain financially stable. The Society can 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 mortgage 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 is aware that borrowers may need ongoing support and it will be on offer. We will continue to provide a safe and secure home for savers' deposits and our objective is to continue to offer a consistent rate of interest across the product suite. Work will be undertaken to build relationships, primarily locally, to develop funding streams.

Our core system technology partner has notified us of their intention to retire its existing platform and they have partnered with another supplier to offer a replacement product. The Society is therefore commencing a transformation project to review the supplier market for value, functionality, and service to future proof the business for the benefit of members. This project will also encompass digital products such as savings account onboarding, the mortgage intermediary portal and ancillary but complementary integrated systems. Security remains uppermost in our minds to continue to protect members' personal data.

The above will not be without substantial cost and will likely take several years to complete. As such, whilst we are planning for steady operating profitability moving forward there will be exceptional costs to pay for this project which will impact overall profitability and / or capital. However, the Society is financially able to subsume the costs and remain sustainable into the future.

Continued development and reward of colleagues will remain a key focus as people are the key asset of the business.

Providing customer contact choice remains important – 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. For the first time the Society is reporting in the Annual Report and Accounts on how it calculates and manages its direct and indirect impact on climate and identify the level of offsetting carbon dioxide emissions.

As I conclude, it is worth reflecting we remain here to serve you to the best of our abilities and to thank you for being a member. There will be, as ever, demanding times ahead and I am confident colleagues will continue to rise to the challenge and succeed. I look forward to seeing you at the Annual General Meeting (AGM) in July. This will be my last attendance at the AGM as Chief Executive, as I have decided after a 40 year career to retire later this year. It has been an honour and a privilege to lead the Society over the last 13 years. There are so many people who I need to thank for what has been a fantastic and most enjoyable journey and I will do so over the coming months. I am looking forward to pursuing new paths with a different lifestyle balance.

P Tilley Chief Executive

20th May 2024

The Directors have pleasure in presenting the One Hundred and Sixty Seventh Annual Report, Accounts and Business Statement of the Society for the year ended 31st March 2024.

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 2024 ("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 the Code, or explain why the Society is not applying the Code, appears in the Corporate Governance Report at page 19.

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.

Item	2024 (£)	2023 (£)
Financial Ombudsman Service	1,779	2,081
Financial Conduct Authority and Prudential Regulation Authority	12,437	12,630
Financial Services Compensation Scheme	419	1,437
Total	14,635	16,148

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.

CONDUCT RISK AND THE CONSUMER DUTY

The Directors expect the Society to treat its customers fairly at all times and consistently strive to achieve good outcomes. 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 Retail Conduct Risk Exposure and Consumer 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 also used to review culture.

The Consumer Duty regulation has been implemented at the Society which builds upon the service and protection of retail customers requiring firms to act to deliver good outcomes for retail customers. The Directors are satisfied that the desired culture has been embedded at the Society through processes, training and making expectations clear in job descriptions.

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.

The Consumer Duty regulation requires the Society to communicate in a way that is clear, fair, not misleading and which is likely to be understood by customers. These financial statements aim to achieve this requirement by laying out the Society's results and other information in a straightforward manner while taking into account legal requirements. Members are encouraged to provide feedback by contacting the Society's Secretary so that this document can be further adapted to customer needs.

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.

COLLEAGUES

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 colleagues are the "front line" in dealing with our members and wish to thank all the team for their continued dedication and hard work.

The Society is committed to investing in and rewarding our workforce. There are schemes in place to promote and reward positive behaviours i.e. colleagues suggestion scheme, colleague recognition scheme. We are continually training and developing our teams and encourage promotions from within.

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 (excluding external audit fees) were 7 at 31st March 2024 (2023: 9 days).

AUDITORS

During 2023 a tender exercise was completed for the provision of external audit services. Following this exercise, MHA were appointed and the Society's previous auditors BDO LLP resigned. BDO LLP confirmed that there were no circumstances connected with their ceasing to hold office that they considered should be brought to the attention of the Society's members or creditors. MHA 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 two years are shown below:

	2024	2023
Gross capital	£14.02m	£13.48m
Operating profit before impairment and provisions	£763,748	£732,844
Profit for the year after taxation	£537,925	£526,700
Total assets	£180.18m	£162.68m
Mortgage balances	£140.80m	£126.58m
Share balances	£158.69m	£140.76m
Liquidity ratio as a percentage of shares & borrowings	23.09%	23.55%
Management expenses as a percentage of average total assets	1.80%	1.80%

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.

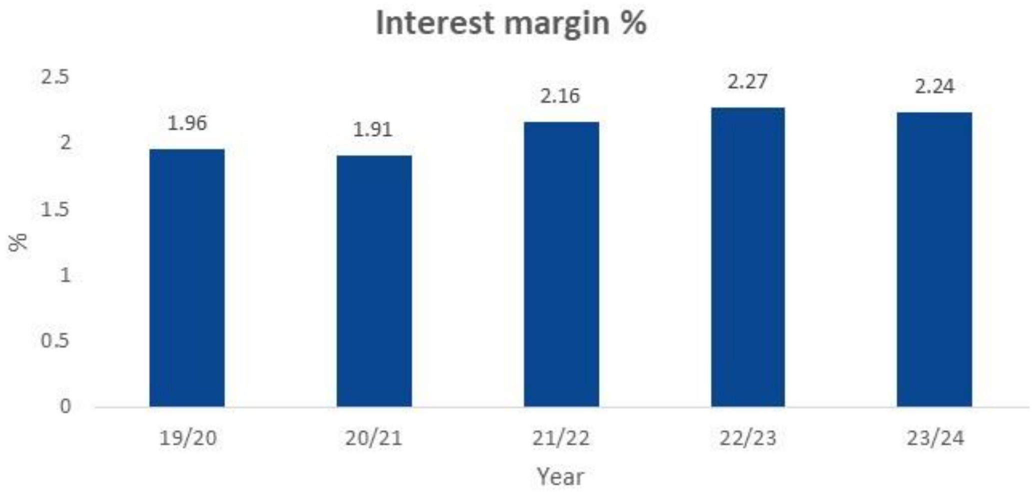
	2024	2023
Gross capital total	£14.02m	£13.48m
Gross capital as a % of total assets	7.78%	8.29%
Operating profit before impairment and provisions total	£763,748	£732,844
Operating profit before impairment and provisions as a % of average total assets	0.45%	0.47%
Free capital total (note a)	£13.85m	£13.29m
Free capital as a % of shares and borrowings (note a)	8.36%	8.93%
Tier 1 capital as a % of shares and borrowings	8.46%	9.05%
Risk-weighted Common Equity Tier 1 ratio	23.11%	24.71%
Leverage ratio (note b)	9.17%	9.61%

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. Note that the prior year's figure has been restated due to a calculation methodology change.

The risk-weighted Common Equity Tier 1 (CET1) 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. 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 CET1 ratio fell by 1.6% during the year principally due to mortgage balances increasing by a larger percentage than tier 1 capital. The Society's Gross capital as a percentage of shares and borrowings is shown in the annual business statement on page 59.

Interest margin

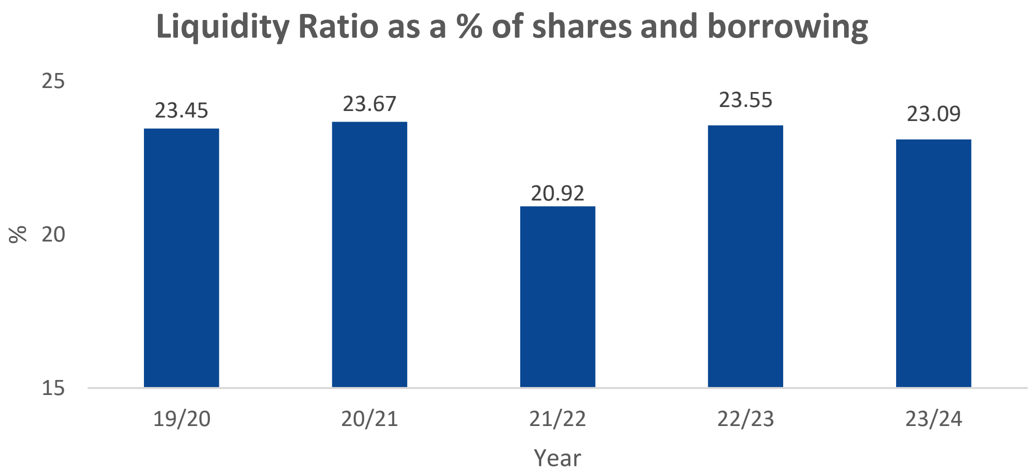
The net interest margin represents net interest receivable as a percentage of average total assets. This year, that has decreased to 2.24% (2023: 2.27%).



Total assets

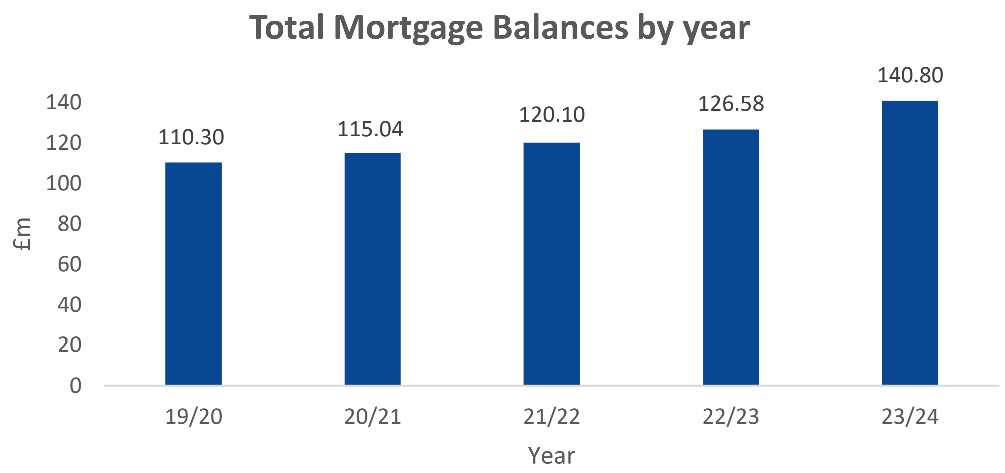
Total assets increased to £180.18m (2023: £162.68m), an increase of 10.76% (2023: 8.79%).

Liquid assets, as at 31st March 2024 were £38.26m (2023: £35.04m) which is 23.09% (2023: 23.55%) of shares and borrowings. These liquid assets, which are not lent to mortgage borrowers, have decreased slightly 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.



Mortgage lending

During the year £34.74m (2023: £29.67m) was advanced to borrowers to buy, refinance or improve their properties. Total mortgage balances at the end of the year amounted to £140.80m (2023: £126.58m). Mortgage balances increased in the year by £14.22m (2023: £6.48m), an increase of 11.23% (2023: 5.40%).



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 five (2023: two) mortgage accounts with forbearance measures at the end of the year. Provisions for impairment were £466,230 at the year-end (2023: £398,017). At 31st March 2024 there was one (2023: zero) mortgage account which was twelve or more months in arrears; more details on mortgage balances in arrears are given in note 22 on page 56. There were no properties in possession (2023: 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 £16.86m (2023: increased by £12.65m) and amounted to £165.69m (2023: £148.84m), an increase of 11.33% (2023: increase of 9.30%). The retail savings market continues to account for substantially all of the Society's funding, although at 31st March 2024 the Society also held £0.50m of short-term wholesale borrowing from other financial institutions (2023: £0.51m).

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 or organisations, including treasury counterparties, failing to meet their obligations to repay their loans.

The UK has experienced a sharp rise in inflation attributed to rising energy costs following the conflict between Ukraine and Russia. CPI inflation peaked at 11.1% for the year to 31st October 2022 which has fallen to 3.2% for the year to 31st March 2024. It is currently expected that inflation will continue to fall and this will allow the Bank of England to reduce the UK bank base interest rate from 5.25% the highest level since February 2008. With rising living and debt servicing costs, there is a 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 wars in Ukraine and Gaza which have added to inflation pressures and economic uncertainty. The Society holds no assets in these countries, hence has no direct exposure to these conflicts and is not directly impacted any economic sanctions imposed.

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.

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 risk 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. This also includes the risk of the Society being exploited to facilitate financial crime including, but not limited to, money laundering, terrorist financing and both internal and external fraud.

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. The Society's Internal Liquidity Adequacy Assessment Process further mitigates this risk through setting liquidity limits, daily monitoring of liquidity levels and regular stress testing.

- ### Interest Rate Risk

Interest rate risk is the risk that a change in generally available interest rates will adversely impact the Society's business model. 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 2024 is detailed in note 22 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. Further details can be found in the ESG Report on page 15 of the accounts.

- **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 and conduct risk are 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.

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 principal risks and uncertainties detailed above and have included increased investment in IT systems.

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, Alex C Robinson, John Stables, Helen Stevens, 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.

Darren J Hickman and Alex C Robinson retire by rotation and, being eligible, offer themselves for re-election. In accordance with Rule 26(1), Helen Stevens also offers herself for election by the members. In the Notice of Annual General Meeting you will find brief biographical notes on the Directors standing for re-election.

At 31st March 2024 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

20th May 2024

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 2024 is included in the AGM pack.

INTRODUCTION

The Society takes its ESG responsibilities very seriously and as a mutual organisation, it endeavours to play a key role within our local communities. This includes ensuring the Society's activities are sustainable in the long term. Over the last 12 months the Society's ESG strategy has been refined and ways to reduce its carbon footprint have been considered. As part of this ambition in May 2023, photovoltaic panels were installed on the roofs of the Society's Head Office which generate as significant percentage of the Society's annual electricity use.

ENVIRONMENTAL

As well as managing the financial risks from climate risk as described in the Directors' Report on pages 13 and 14, the Society has put into place a framework to monitor its carbon footprint from both business operations (scope 1 & 2) and its mortgage lending (scope 3). The Greenhouse gas protocol defines these scopes as follows: Scope 1 emissions as the direct emissions from owned or controlled sources; Scope 2 emissions as the indirect emissions from the generation of purchased energy; Scope 3 emissions as all indirect emissions, not included in Scope 2, that occur in the value chain of the entity. Note the Society currently only includes mortgage lending in its scope 3 emissions which is expected to be the vast majority of these emissions.

The below tables show emissions in tonnes of carbon dioxide equivalent (tCO2e). Where energy use has been estimated in other units, a conversion factor published by the Carbon Trust in 2022 has been used. For scope 3 emissions the financed emissions are calculated by multiplying the property emissions by the ratio of loan to value. The property emissions are estimated from the figure on the Energy Performance Certificate (EPC) if available. Where no EPC was available, the average emissions figure of 6 tCO2e for every household was used, this is the UK governments assumption stated on the EPC template. This is the Society's first year of reporting this data hence no comparatives are available. It is the intention that prior year comparatives will be added in future years.

Emission type	23/24 Emissions (tCO2e)
Scope 1 - Gas Use at Society Offices	14.9
Scope 2 - Electricity use at Society Offices	7.4
Scope 2 - Benefit from Solar Panels	-1.9
Scope 1 & 2 Sub Total	**20.4**
Scope 3 - Financed Emissions from the Society's Mortgage Book	2,174.40
Total	**2,194.80**

SOCIAL

One of the Society's founding principles was to support our members in their journey to home ownership and as homelessness increases nationally, we have made the decision to partner with the Leicester-based charity, Action Homeless. The Society makes a donation to Action Homeless for each new member that it provides mortgage advice for.

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 (2023: nil) and listed below are organisations that the Society has helped during the year to 31st March 2024. In total the Society made contributions of support amounting to £4,921 (2023: £3,600), including charitable donations of £3,146 (2023: £2,600).

Action Homeless; Samaritans of Leicester; Prostaid; WizeUp Financial Education; East Midlands Dog Rescue; MND Association; Bumblebee Conservation Trust; The Shuttlewood Clarke Foundation; Toys on the Table.

These donations include our token collector scheme where members decide on a quarterly basis how a fund is split between two worthwhile charities. The Society also makes one off donations to causes nominated by the public and on an annual basis make a charitable donation for each vote received at its Annual General Meeting.

In addition, the Society and colleagues supported Macmillan Cancer Support, which was the Society's nominated charity for the year.

The Society allows staff an amount of additional fully paid leave to partake in volunteering opportunities. This has been used in the last 12 months to benefit Leicestershire Search & Rescue and a local school.

Another important part of the Society's social purpose is its Policy on Equality, Diversity and Inclusion to provide opportunity for all colleagues 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	2	9	78%	22%
Senior Team	3	4	7	43%	57%
Staff	6	24	30	20%	80%
Total	**16**	**30**	**46**	**35%**	**65%**

GOVERNANCE

The Board is committed to best practice in Corporate Governance as described in the Corporate Governance Report on page 19. The Board oversees the Society's environmental and social strategy, and considers this in detail at least once a year. In addition the RCC approves on an annual basis a policy regarding the financial risks from climate change.

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 PRA's and FCA's Remuneration Codes.

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 20 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 2024, 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 3.00% of basic salary was paid (2023: 1.00% plus £850). The Society does not currently operate any incentive schemes linked to performance and hence has no malus or clawback provisions that would enable it to recover such sums.

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 Deputy Chief Executive & Finance Director.

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.

MATERIAL RISK TAKERS

In accordance with the Remuneration Codes, the Board has identified those staff whose professional activities have a material impact on the Society's risk profile. These are the Non-Executive Directors, the Executive Directors and other senior management who engage in control functions. Aggregate information on the remuneration of these staff for the period 1st April 2023 to 31st March 2024 is given below.

Category	Number	Fixed Remuneration	Variable Remuneration	Total Remuneration
Non-executive Directors	7	£145,781	-	£145,781
Executive Directors	2	£259,483	£6,465	£265,948
Other Remuneration Code staff	7	£367,496	£9,281	£376,777
Total	**16**	**£772,760**	**£15,746**	**£788,506**

FURTHER INFORMATION

Further details of remuneration paid to all Directors are contained in note 6 on page 46 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

L J MACKIE
Chair of the Remuneration Committee

20th May 2024

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 2024 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 two formal reviews of strategy a year. 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 six Executives with three Non-Executive Directors usually attending meetings as observers. The following Executives served during the year: the Deputy CEO & Finance Director, the Chief Executive, the Business Development & Marketing Manager, the Risk & Compliance Manager, the Customer Services Manager and the Financial Controller. The Deputy CEO & Finance Director acted as chair of the Committee throughout the year and was formally appointed to this position on 19th June 2023. The composition of the Committee changed during the year as follows: the Customer Services Manager joined the Committee on 19th June 2023. In addition, in July 2023 the Committee became an Executive Committee and hence I M Dale, L J Mackie and D J Hickman left the Committee.

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 and L J Mackie. 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. There were no changes to the composition of the Committee during the year.

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 28 and 29.

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 and A C Robinson. In addition, the Executive Directors, the other Non-Executive Directors, the Risk & Compliance Manager and the Information Systems & Estates Manager attend by invitation. There were no changes to the composition of the Committee during the year.

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 and J Stables. There were no changes to the composition of the Committee during the year.

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 and A C Robinson. There were no changes to the composition of the Committee during the year. 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	BOARD (including Strategy Meetings)		ALCO		RCC		AC (including Accounts Meeting)		NC		REMCO	
I M Dale	11	(11)	2	(2)	-	-	5	(5)	-	-	-	-
C R Greenwell	11	(11)	-	-	4	(4)	-	-	1	(1)	3	(3)
D J Hickman	9	(11)	2	(2)	4*	(4)	-	-	-	-	-	-
L J Mackie	11	(11)	2	(2)	-	-	5	(5)	-	-	3*	(3)
J Stables	10	(11)	-	-	-	-	5*	(5)	1	(1)	-	-
H C Stevens	1	(1)	-	-	-	-	-	-	-	-	-	-
A C Robinson	11*	(11)	-	-	4	(4)	-	-	1*	(1)	3	(3)
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 appointment of one of the current non-executive directors to Senior Independent Director, once Ian vacates this role, is in progress and an announcement will be made in due course.

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 2024, 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 Alex C Robinson and Darren J Hickman who are standing for re-election this year and Helen C Stevens who is standing for election, 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. Only premium-listed companies are required to disclose how they have applied the Principles of the Code hence the Board undertake this voluntarily.

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. The board should ensure that the necessary resources, policies and practices are in place for the company to meet its objectives and measure performance against them.'*

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 and has established a Mission Statement which aligns with both this Act and its culture. 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. *Governance reporting should focus on board decisions and their outcomes in the context of the company's strategy and objectives. Where the board reports on departures from the Code's provisions, it should provide a clear explanation.*'

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 the Society's risk and control framework in the context of a formal Strategy & Corporate Plan document. This Corporate and Governance Report gives clear explanation where the Society has departed from the Code's provisions.

'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, 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.

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 Deputy Chief Executive & Finance Director who is a direct report to the Chief Executive, who is responsible to conduct their performance review.

The Board Chair has regular meetings with the Chief Executive and if necessary, communicates timely information to all Directors. The Board Chair facilitates an annual self-evaluation of the Board including feedback on information received.

'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 normally 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 Chief Executive & 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 for the board and senior management should be maintained. Both appointments and succession plans should be based on merit and objective criteria. They should promote diversity, inclusion and equal opportunity.*'

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, 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, 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. The Board Chair is subject to a similar annual appraisal by the Senior Independent Director. 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 performance, 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. The Board Chair acts on the results of the Board performance review by recognising the strengths and if necessary addressing any weaknesses.

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 which assesses the effectiveness of both the external audit and the internal audit function. That Committee reports to the Board.

The Society has a Non-Audit Services Policy which helps mitigate any risks threatening, or appearing to threaten, the external audit firm’s independence and objectivity arising through the provision of non-audit services.

‘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. In addition, the Board’s Audit Committee has a separate Accounts meeting to review in detail the Society’s annual financial statements. This ensures that feedback is given to help these documents be fair, balanced and understandable. The Audit Committee then recommends these documents to the Board for approval.

‘O. *The board should establish and maintain an effective risk management and 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.

A description of how the Board has monitored and reviewed the effectiveness of the framework is included in the Audit Committee report on page 29. The Board is not making a declaration of the effectiveness of the Society’s material controls at this time but intends to do so by 31st March 2026, when this is required by the code.

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, subject to Board oversight.

The Society rewards its Chief Executive 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 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'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 17 and 18 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

20th May 2024

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 and L J Mackie. 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 in the Directors' Report on page 14. 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:

- Mortgage Underwriting
- Cyber Risk
- Regulatory Reporting
- HR Practices
- Implementation of Consumer Duty

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 2023/24, 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 along with the RCC is responsible for reviewing the effectiveness and appropriateness of these processes. The Committee and the RCC 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 and RCC 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 MHA was independent, objective and effective.

MHA were appointed as the Society's auditors by the Board on 7th September 2023. BDO LLP who were the Society's previous auditors resigned during the year and in doing so confirmed that there were no circumstances connected with their ceasing to hold office that they considered should be brought to the attention of the Society's members or creditors. BDO LLP co-operated with MHA to handover the external audit including allowing a review of the previous year's audit documents.

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

20th May 2024

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 2024

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

20th May 2024

For the purpose of this report, the terms "we" and "our" denote MHA in relation to UK legal, professional and regulatory responsibilities and reporting obligations to the members of Earl Shilton Building Society. For the purposes of the table on pages 32 to 34 that sets out the key audit matters and how our audit addressed the key audit matters, the terms "we" and "our" refer to MHA. The "Society" is defined as Earl Shilton Building Society. The relevant legislation governing the Society is the Building Societies Act 1986 ("the Act").

Opinion

We have audited the financial statements of Earl Shilton Building Society for the year ended 31 March 2024. The financial statements that we have audited comprise:

- the Statement of Income and Retained Earnings;
- the Balance Sheet;
- the Cash Flow Statement; and
- Notes 1 to 23 of the financial statements, including significant accounting policies.

The financial reporting framework that has been applied in the preparation of the Society's financial statements 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).

In our opinion the financial statements:

- give a true and fair view of the state of the Soceity's affairs as at 31 March 2024 and of the Soceity's profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986.

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

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 are 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 ethical responsibilities in accordance with those requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going basis of accounting in the preparation of the financial statements is appropriate.

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

- The consideration of inherent risks to the Soceity's operations and specifically its business model.
- The evaluation of how those risks might impact on the Society's available financial resources.
- Where additional resources may be required, the reasonableness and practicality of the assumptions made by the Directors when assessing the probability and likelihood of those resources becoming available.
- Liquidity considerations including examination of the Soceity's cash flow projections.
- The evaluation of the base case scenario and stress scenario and the respective sensitivities and rationale including the review of the Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP).

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 Soceity'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.

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

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

Overview of our audit approach

Scope	Our audit was scoped by obtaining an understanding of the Society and its environment, including the Society's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the directors that may have represented a risk of material misstatement.
First year transition	This is the first year we have been appointed as auditors to the Society. We undertook the following transitional procedures: • Held meetings with senior management to gain an understanding of the Society's operations and strategic objectives. • We held meetings with the predecessor auditors, including reviewing their audit working papers for the prior financial period to gain an understanding of the Society's processes, their audit risk assessment, and their audit approach for the year ended 31 March 2023. The results of these procedures were used to inform our audit planning and risk assessment for our audit for the year ended 31 March 2024
Materiality	£140,000 (2023: £134,000) Based on 1% of net assets (2023: 1% of net assets)
Key audit matters	• Impairment loss on loans and advances • Risk of fraud in revenue recognition

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. These matters included those matters 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.

Impairment on loans and advances	
Key audit matter description	At 31 March 2024 the Society reported total gross loans of £140 million (2023: £126.6 million) and £461k of loan loss provision (2023: £398k). The determination of credit impairment losses involves significant management judgements and complex estimates which have a significant impact on the financial statements of the Society. The Society uses an incurred loss model to calculate the impairment on loans and advances with two types of provision: • A specific provision for loans where a loss event has occurred; and • A collective provision recognised for loans based on experience of the portfolio, which are impaired but not yet identified as such. Both the collective and specific provisions are calculated within a model that segments the loans and uses a combination of historical loan data and externally sourced variables to calculate impairment. Management also apply a management overlay to account for UK specific economic conditions such as the cost of living crisis and UK house prices. The valuation of the provision is sensitive to key inputs and judgements and due to the high degree of estimation uncertainty there is a wide range of possibilities for the calculation of impairment and errors within the provision or inappropriate assumptions or judgements could result in material misstatement of the impairment provision.
How the scope of our audit responded to the key audit matter	Controls testing - We evaluated the design and implementation of key controls across the processes relevant to impairment, including the judgments and estimates noted. Where we planned to rely on them, we tested their operating effectiveness and concluded that we could place reliance on the controls for the purposes of our audit. These controls, among others, included those over: • the governance and approval of key assumptions and judgements included in the impairment calculation • the calculation of the impairment provision including review of the output • data accuracy and completeness; • production of journal entries and disclosures.

How the scope of our audit responded to the key audit matter (continued)	We tested the completeness and accuracy of data and key assumptions that feed the model by reconciling the inputs to underlying records. We ensured that the assumptions and judgements approved through the Society's internal governance process were consistently applied to the model and associated calculations. We tested the segmentation of the loan portfolio and selected a sample of loans across certain key characteristics such as arrears, type of mortgage, loan balance, repayment amounts and interest rate to ensure they were appropriately reflected in the impairment calculation. We assessed management's valuation of collaterals by challenging key assumptions applied to discount collateral values such as house price discounts, costs to sell, illiquid property adjustments, house price index (HPI) and management overlays to account for uncertainty in the UK economy. For external variables used by management in the model and calculation we independently sourced these to gain comfort over the accuracy of the variables used by management. On key assumptions such as house price discounts, probability of default, economic outlook and other sales costs we challenged management on the assumptions used and their consideration of possible alternatives. We performed sensitivity analysis on the key assumptions that impact the collective and specific impairment provisions to identify areas that require additional focus such as the house price discount and illiquid property adjustment. We reperformed management's indexed valuation on collateral to ensure the valuation of collateral was appropriate. We recalculated the collective and specific provisions for loan loss provision to ensure mathematical accuracy of management's model and calculations. We assessed management's collective and specific impairment methodology against the requirements of the applicable financial reporting standards to ensure they were compliant. We assessed the adequacy of the Society's disclosures in relation to loan loss provisioning and associated accounting estimates in the financial statements.
Key observations communicated to the Society's Audit Committee	We are satisfied that the level of loan loss provision is reasonable and recognised in accordance with FRS 102 and have not identified anything to suggest that the valuation of the provision or disclosures related to the provision are not appropriate.

Risk of fraud in revenue recognition	
Key audit matter description	At 31 March 2024 the Society reported interest receivable and similar income of £9.6m (2023: £5.9m). We have considered the revenue streams of the society and identified a risk that interest income may not be recognised appropriately and accurately in the correct period and using the appropriate effective interest rate (EIR) method. The EIR method requires fee and interest income to be adjusted over the behavioural life of the loan and the model used to achieve this is complex and reliant on complete and accurate data feeding it. The Society uses a combination of automated calculations and manual models and calculations to ensure fee income and interest income are adjusted to comply with the EIR method. We have therefore considered revenue recognition a significant risk and a key audit matter.
How the scope of our audit responded to the key audit matter	Controls testing - We evaluated the design and implementation of key controls across the processes relevant to EIR, including the judgments and estimates noted. Where we planned to rely on them, we tested their operating effectiveness and concluded that we could place reliance on the controls for the purposes of our audit. These controls, among others, included those over: • the governance and approval of key assumptions and judgements included in the EIR process • the calculation of the EIR adjustment including review of the output • Automated calculations over the EIR process • data accuracy and completeness • production of journal entries and disclosures.

How the scope of our audit responded to the key audit matter (continued)	We assessed the methodology and application of the EIR model used by management to evaluate if it complies with the requirements of the applicable reporting standard, FRS 102. We assessed management's rationale for fees to be deferred under the EIR method and ensured fees had been appropriately included or excluded from the model. We utilised our IT specialists to perform testing over IT general controls and IT application controls relevant to the EIR process and calculation. We tested on a sample basis the accuracy of key inputs into the model such as fees, contractual life and interest rates by agreeing to supporting information. We tested the completeness of the data used in the EIR model by reconciling key data sets to underlying accounting records. We tested the completeness and accuracy of data and key assumptions that feed the model by reconciling the inputs to underlying records. We ensured that the assumptions and judgement approved through the Society's internal governance process were consistently applied to the model and associated calculation. On a sample basis we tested the behavioural life of mortgage products by agreeing loan opening and closing dates to supporting information. We recalculated the EIR adjustment to ensure the accuracy of management's model and agreed the output to the general ledger and financial statements. We assessed the adequacy of the Society's disclosures in relation to interest income and EIR and associated accounting estimates in the financial statements.
Key observations communicated to the Society's Audit Committee	We are satisfied that the management have appropriately applied the EIR method in their accounting of interest income and have not identified any material issues in relation to the Society's recognition of interest income or the accuracy of the balance.

Our application of materiality

Our definition of materiality considers the value of error or omission on the financial statements that, individually or in aggregate, would change or influence the economic decision of a reasonably knowledgeable user of those financial statements. 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. Materiality is used in planning the scope of our work, executing that work and evaluating the results.

Materiality in respect of the Society was set at £140,000 (2023: £134,000) which was determined on the basis of 1% of the Society's net assets (2023: 1% of net assets). This was deemed to be the appropriate benchmark for the calculation of materiality as this is a key area of the financial statements with which the users of the financial statements are principally concerned.

Performance materiality is the application of materiality at the individual account or balance level, set at an amount to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

Performance materiality for the Society was set at £84,000 (2023; £101,000) which represents 60% (2023: 75%) of the above materiality levels.

The determination of performance materiality reflects our assessment of the risk of undetected errors existing, the nature of the systems and controls and the level of misstatements arising in previous audits.

We agreed to report any corrected or uncorrected adjustments exceeding £7,000 (2023: £5,000) to the Audit Committee as well as differences below this threshold that in our view warranted reporting on qualitative grounds.

The control environment

We evaluated the design and implementation of those internal controls of the Society which are relevant to our audit, such as those relating to the financial reporting cycle, lending and customer deposits transactions. We also tested operating effectiveness and placed reliance on certain controls. We deployed our internal IT audit specialists to get an understanding of the general IT environment.

Climate-related risks

In planning our audit and gaining an understanding of the Society, we considered the potential impact of climate-related risks on the business and its financial statements. We obtained management's climate-related risk assessment, along with relevant documentation relating to management's assessment and held discussions with management to understand their process for identifying and assessing those risks. We have agreed with managements' assessment that climate-related risks are not material to these financial statements.

Reporting on other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in 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 this other information, we are required to report that fact.

We have nothing to report in this regard.

Directors' remuneration report

Those aspects of the director's remuneration report which are required to be audited have been prepared in accordance with applicable legal requirements.

Corporate governance statement

We have reviewed the directors' statement in relation to going concern and the part of the Corporate Governance Statement relating to the entity's voluntary compliance with the provisions of the UK Corporate Governance Code.

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

- Directors' statement with regards the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 14;
- Director's statement on whether it has a reasonable expectation that the group will be able to continue in operation and meets its liabilities set out on page 14;
- Directors' statement on fair, balanced and understandable set out on page 26;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 12;
- Section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 29; and
- Section describing the work of the audit committee set out on pages 19 & 20.

Opinions on other matters prescribed by the Building Societies Act 1986

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 material misstatements in the Directors' report.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the Society; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations and access to documents which 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 59 for the financial year ended 31 March 2024 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 directors' responsibilities statement, 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 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

Identifying and assessing potential risks arising from irregularities, including fraud
The extent of the procedures undertaken to identify and assess the risks of material misstatement in respect of irregularities, including fraud, included the following:

- We considered the nature of the industry and sector the control environment, business performance including remuneration policies and the Society's own risk assessment that irregularities might occur as a result of fraud or error. From our sector experience and through discussion with the directors, we obtained an understanding of the legal and regulatory frameworks applicable to the Society focusing on laws and regulations that could reasonably be expected to have a direct material effect on the financial statements, such as provisions of the Building Societies Act 1986, UK tax legislation or those that had a fundamental effect on the operations of the Society including the regulatory and supervisory requirements of the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA).
- We enquired of the directors and management compliance, risk and internal audit and the audit committee concerning the Society's policies and procedures relating to:
    - identifying, evaluating and complying with the laws and regulations and whether they were aware of any instances of non-compliance;
    - detecting and responding to the risks of fraud and whether they had any knowledge of actual or suspected fraud; and
    - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations.

- We assessed the susceptibility of the Society's financial statements to material misstatement, including how fraud might occur by evaluating management's incentives and opportunities for manipulation of the financial statements. This included utilising the spectrum of inherent risk and an evaluation of the risk of management override of controls. We determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce costs, creating fictitious transactions to hide losses or to improve financial performance, and management bias in accounting estimates particularly in determining provisioning levels.

Audit response to risks identified
In respect of the above procedures:

- we corroborated the results of our enquiries through our review of the minutes of the Society's Board, Audit Committee meetings, inspection of the complaints register, inspection of legal and regulatory correspondence and correspondences from the regulators PRA and the FCA;
- audit procedures performed by the engagement team in connection with the risks identified included:
  - reviewing financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations expected to have a direct impact on the financial statements.
  - testing journal entries, including those processed late for financial statements preparation, those posted by infrequent or unexpected users, those posted to unusual account combinations;
  - evaluating the business rationale of significant transactions outside the normal course of business, and reviewing accounting estimates for bias;
  - enquiry of management around actual and potential litigation and claims.
  - challenging the assumptions and judgements made by management in its significant accounting estimates, in particular those relating to the determination of the loan loss provisioning and revenue recognition as reported in the key audit matter section of our report; and
  - obtaining confirmations from third parties to confirm existence of a sample of transactions and balances.
- the Society operates in a highly regulated banking industry. As such, the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities; and
- we communicated relevant laws and regulations and potential fraud risks to all engagement team members, including experts, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Other requirements

We were appointed by the Directors on 7 September 2023 to audit the financial statements for the year ended 31 March 2024 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 1 year.

We did not provide any non-audit services which are prohibited by the FRC's Ethical Standard to the Society, and we remain independent of the Society in conducting our audit.

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.

RShaunak

Rakesh Shaunak (Senior Statutory Auditor)
for and on behalf of MHA, Statutory Auditor
London, United Kingdom
20th May 2024

MHA is the trading name of MacIntyre Hudson LLP, a limited liability partnership in England and Wales (registered number OC312313)

STATEMENT OF INCOME AND RETAINED EARNINGS
for the year ended 31st March 2024

	Notes	2024	2023
		£	£
Interest receivable and similar income	2	9,575,582	5,909,493
Interest payable and similar charges	3	(5,740,940)	(2,360,747)
Net interest income		3,834,642	3,548,746
Fees and commissions receivable		28,496	33,129
Fees and commissions payable		(39,608)	(33,481)
Total net income		3,823,530	3,548,394
Administrative expenses	4	(2,991,803)	(2,731,397)
Depreciation and amortisation	13, 14	(101,487)	(84,136)
Gain / (Loss) on disposal of tangible fixed assets		33,508	(17)
Operating profit before impairment and provisions		763,748	732,844
Impairment (debit) / credit on loans and advances	12	(68,213)	(75,917)
Profit before tax		695,535	656,927
Tax expense	8	(157,610)	(130,227)
Profit for the financial year		537,925	526,700
Reconciliation of movement in retained reserves attributable to members:			
General reserves at the beginning of the year		13,484,571	12,957,871
General reserves at the end of the year		14,022,496	13,484,571

The notes on pages 41 to 58 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 2024

	Notes	2024 £	2023 £
ASSETS			
Liquid assets			
Cash in hand		123,940	100,535
Treasury bills	10	2,971,676	4,957,744
Loans and advances to credit institutions	9	34,146,200	28,965,724
Debt securities	10	1,021,576	1,020,553
Total liquid assets		38,263,392	35,044,556
Loans and advances to customers			
Loans fully secured on residential property		140,320,533	126,053,857
Loans fully secured on land		477,632	529,536
Total loans and advances to customers	11	140,798,165	126,583,393
Tangible fixed assets	13	621,617	583,437
Intangible assets	14	11,264	10,247
Prepayments and accrued income	21	484,299	455,256
Total assets		180,178,737	162,676,889
LIABILITIES			
Shares	16	158,688,868	140,760,939
Amounts owed to credit institutions	17	501,366	505,973
Amounts owed to other customers	18	6,503,031	7,571,181
Total shares and borrowings		165,693,265	148,838,093
Corporation tax payable	19	156,052	118,355
Accruals and deferred income	20	256,791	194,032
Deferred Tax liability	15	50,133	41,838
Total liabilities		166,156,241	149,192,318
RESERVES ATTRIBUTABLE TO MEMBERS			
General reserves		14,022,496	13,484,571
Total liabilities and reserves		180,178,737	162,676,889

The notes on pages 41 to 58 form part of these accounts.
Approved by the Board of Directors on 20th May 2024, and signed on its behalf by:

A C Robinson
Board Chair

P Tilley
Chief Executive

S T Wigfull
Deputy Chief Executive & Finance Director

CASH FLOW STATEMENT
for the year ended 31st March 2024

	Notes	2024 £	2023 £
Cash flows from operating activities			
Profit before tax		695,535	656,927
Adjustments for			
Depreciation and amortisation	13, 14	101,487	84,136
(Gain) / Loss on disposal of tangible fixed assets		(33,508)	17
Increase in impairment of loans and advances	12	68,213	75,917
Total		831,727	816,997
Changes in operating assets and liabilities			
Increase in prepayments and accrued income		(35,219)	(153,638)
Increase / (decrease) in accruals and deferred income		62,760	(7,890)
Net increase in loans and advances to customers		(14,282,987)	(6,555,618)
Net increase in shares		17,927,928	8,997,976
Net (decrease) / Increase in deposits and other borrowings		(1,072,756)	3,656,305
Net increase in loans and advances to credit institutions		-	(1,250,000)
Taxation paid		(111,617)	(161,942)
Net cash generated by operating activities		3,319,836	5,342,190
Cash flows from investing activities			
Purchase of debt securities	10	(1,000,284)	(1,000,195)
Sale of debt securities	10	1,000,195	1,000,200
Purchase of treasury bills	10	(6,823,726)	(6,898,681)
Sale of treasury bills	10	8,815,036	3,983,076
Purchase of tangible fixed assets	13	(163,471)	(87,558)
Proceeds from disposal of tangible fixed assets		62,235	100
Purchase of intangible assets	14	(5,940)	(13,200)
Net cash inflow / (outflow) from investing activities		1,884,045	(3,016,258)
Net increase in cash and cash equivalents		5,203,881	2,325,932
Cash and cash equivalents at the beginning of the year		27,566,259	25,240,327
Cash and cash equivalents at the end of the year		32,770,140	27,566,259
Analysis of the balances of cash and cash equivalents shown in the balance sheet			
Cash in hand		123,940	100,535
Loans and advances to credit institutions repayable within 3 months	9	32,646,200	27,465,724
		32,770,140	27,566,259

Total cash interest received during the year totalled £9,445k (2023: £5,647k) and total cash interest paid during the year, and not capitalised to a savings account, totalled £311k (2023: £64k).

The notes on pages 41 to 58 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 January 2022.

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 and are reported as Interest receivable and similar income on the Statement of Income and Retained Earnings.

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). This is reported as either Fees and commissions receivable or Fees and commissions payable on the Statement of Income and Retained Earnings.

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. The Society applies Sections 11 and 12 of FRS 102 in full.

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 2024/25 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% (ie. a less aggressive stress) (2023: 10%) the impairment provision would reduce by £222,000 (2023: £185,000) and if the probability of borrower default percentage was increased by 1% (2023: 1%) the impairment provision would increase by £76,000 (2023: £66,000). In making this calculation, the Society assumes no benefit from the Mortgage Indemnity Guarantee (MIG) insurance it holds against a proportion of its mortgages. This is as MIG insurance is not integral to the lending arrangement and there can be no guarantee that the insurance would reimburse the Society. If the maximum potential benefit of MIG insurance was included in the calculation, this would decrease the impairment provision by £178,000 (2023: £151,000).

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 £58,000(2023: £30,000) with an EIR adjustment included in the balance sheet of £102,000 (2023: adjustment of £44,000). 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 (2023: 10%) would result in an increase in the value of loans and advances to customers on the balance sheet of approximately £4,000 (2023: increase of £1,000).

2 INTEREST RECEIVABLE AND SIMILAR INCOME

	2024 £	2023 £
On loans fully secured on residential property	8,043,715	5,199,840
On other loans fully secured on land	67,579	26,190
On debt securities	30,372	2,200
On other liquid assets	1,433,916	681,263
	9,575,582	5,909,493

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

	2024 £	2023 £
On shares held by individuals	5,461,907	2,276,208
On deposits and other borrowings	279,033	84,539
	5,740,940	2,360,747

4 ADMINISTRATIVE EXPENSES

	2024	2023
	£	£
Staff costs:		
Wages and salaries	1,181,977	1,087,890
Social security costs	122,723	118,358
Other pension costs relating to a defined contribution scheme (see note 7)	112,504	98,370
	1,417,204	1,304,618
Auditor’s remuneration (excluding VAT)		
- audit of financial statements	100,000	93,000
Other recurring expenses	1,474,599	1,333,779
	2,991,803	2,731,397

5 EMPLOYEES

The average number of persons employed by the Society (including Executive Directors) during the year was:-	Full-Time		Part-Time	
	2024	2023	2024	2023
- Head office	22	19	4	7
- Barwell	1	1	9	8
	23	20	13	15

6 DIRECTORS' EMOLUMENTS

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

2024	Fees	Salary	Benefits	Pension scheme contributions	Total
Non-Executive Directors	£	£	£	£	£
A C Robinson (Board Chair)	30,006	-	-	-	30,006
I M Dale	21,348	-	-	-	21,348
C R Greenwell	20,676	-	-	-	20,676
D J Hickman	25,340	-	-	-	25,340
L J Mackie	21,348	-	-	-	21,348
J Stables	25,340	-	-	-	25,340
H C Stevens	1,723	-	-	-	1,723
Executive Directors					
P Tilley (Chief Executive & Secretary)*	-	130,351	6,670	12,537	149,558
S T Wigfull (Deputy Chief Executive & Finance Director)**	-	102,430	4,600	9,360	116,390
	145,781	232,781	11,270	21,897	411,729

2023	Fees	Salary	Benefits	Pension scheme contributions	Total
Non-Executive Directors	£	£	£	£	£
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

*P Tilley sold part of both his 2023/24 and 2022/23 annual leave entitlement and payment for this is included in the salary figures. In 2023/24 P Tilley switched his car to a hybrid model decreasing the benefit calculated.
**S T Wigfull elected to take a cash allowance in lieu of a company car benefit from August 2023 and payment for this is included in the salary figures.

Included in the salary of Executive Directors are incentive payments amounting in 2024 to 3.00% of base salary (2023: 1.00% plus £850). 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 £454,133 (2023: £427,937), 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 (2023: £nil). The aggregate amount outstanding on deposits and shares held by Directors and connected persons was £56,184 for nine Directors and connected persons (2023: £53,270, eight 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 17th July 2024 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 (2023: none).

8 TAX EXPENSE

	2024 £	2023 £
The tax expense for the year comprises:-		
Profit per accounts	695,535	656,927
Expected UK Corporation tax at 25% (2023: 19%)	173,884	124,816
The impact of fixed asset treatment	(6,109)	2,618
The impact of provisions	(12,158)	(9,240)
Other impacts	405	161
UK Corporation tax current charge	156,022	118,355
Adjustments in respect of prior periods	(6,707)	(268)
Total current tax expense	149,315	118,087
Origination and reversal of timing differences	18,267	8,959
Adjustment in respect of previous periods	(9,971)	353
Effect of tax rate change on opening balance	(1)	2,828
Total deferred tax expense (note 15)	8,295	12,140
Total tax expense	157,610	130,227
Factors affecting the tax expense for the year:		
Profit for the year before taxation	695,535	656,927
Profit on ordinary activities multiplied by standard rate of UK tax of 25% (2023: 19%)	173,884	124,816
Effects of:		
Fixed asset differences	-	2,497
Adjustments to tax expense in respect of previous periods	(16,678)	85
Other impacts	404	-
Effect of rate changes on deferred tax	-	2,829
Total tax expense	157,610	130,227

An increase in the standard rate of corporation tax to 25% from 1 April 2023 was substantively enacted on 24 May 2021. 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 :-

	2024 £	2023 £
Accrued interest	53,835	31,498
Repayable on demand	32,592,365	27,434,226
In more than 3 months but not more than 1 year	1,500,000	1,500,000
	34,146,200	28,965,724
Total included within cash and cash equivalents	32,646,200	27,465,724

10 DEBT SECURITIES AND TREASURY BILLS

	2024 £	2023 £
Debt securities	1,021,576	1,020,553
Treasury bills	2,971,676	4,957,744
	3,993,252	5,978,297

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

	2024	2023
Accrued interest	70,018	63,842
In not more than 3 months	1,948,175	2,953,753
In more than 3 months but not more than 1 year	1,975,059	2,960,702
	3,993,252	5,978,297

	2024	2023
Transferable debt securities comprise:-		
Unlisted	1,021,576	1,020,553
	1,021,576	1,020,553

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

	£
At the beginning of the year	5,978,297
Additions	7,824,010
Disposals and maturities	(9,815,231)
Movement in amortisation and accrued interest	6,176
At the end of the year	3,993,252

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:-

	2024 £	2023 £
Repayable on demand	5,914	5,963
In not more than 3 months	845,212	863,997
In more than 3 months but not more than 1 year	3,926,470	3,990,888
In more than 1 year but not more than 5 years	23,204,276	22,773,196
In more than 5 years	113,282,523	99,347,366
	141,264,395	126,981,410
Less total impairment provision (note 12)	(466,230)	(398,017)
	140,798,165	126,583,393

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 2023			
Collective provision	394,899	-	394,899
Individual provision	3,118	-	3,118
	398,017	-	398,017
Charge / (Credit) for the year			
Collective provision	66,429	-	66,429
Individual provision	1,784	-	1,784
	68,213	-	68,213
At 31st March 2024			
Collective provision	461,328	-	461,328
Individual provision	4,902	-	4,902
	466,230	-	466,230
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

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 2023	228,427	617,460	259,047	116,394	1,221,328
Additions	-	39,226	31,325	92,920	163,471
Disposals	-	-	(18,043)	(100,444)	(118,487)
At 31st March 2024	228,427	656,686	272,329	108,870	1,266,312
Depreciation					
At 1st April 2023	(61,267)	(299,403)	(196,754)	(80,467)	(637,891)
Charged in year	(2,088)	(44,185)	(27,872)	(22,419)	(96,564)
On disposals in year	-	-	17,737	72,023	89,760
At 31st March 2024	(63,355)	(343,588)	(206,889)	(30,863)	(644,695)
Net book value					
31st March 2024	165,072	313,098	65,440	78,007	621,617
31st March 2023	167,160	318,057	62,293	35,927	583,437

The net book value of land and buildings occupied for the Society's own use is £165,072 (2023: £167,160) comprising freehold office premises as shown above.

14 INTANGIBLE ASSETS

	Computer software
	£
Cost	
At 1st April 2023	71,848
Additions	5,940
Disposals	-
At 31st March 2024	77,788
Amortisation	
At 1st April 2023	(61,601)
Charged in year	(4,923)
On disposals in year	-
At 31st March 2024	(66,524)
Net book value	
31st March 2024	11,264
31st March 2023	10,247

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

15 DEFERRED TAX LIABILITY

	2024	2023
	£	£
Deferred tax liability arising from:		
- accelerated capital allowances	62,290	66,152
- short-term timing differences	(12,157)	(24,314)
	50,133	41,838
Deferred tax liability movements in the year:		
At 1st April 2023	41,838	29,698
Deferred tax expense for the year	8,295	12,140
At 31st March 2024	50,133	41,838

Deferred tax is recognised at 25% (2023: 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

	2024	2023
	£	£
Held by individuals	158,688,868	140,760,939
Shares are repayable from the date of the balance sheet in the ordinary course of business as follows:-		
Accrued interest	2,069,507	1,017,774
On demand	151,236,749	136,930,908
In not more than 3 months	303,195	152,802
In more than 3 months but not more than 1 year	2,552,654	819,130
In more than 1 year but not more than 5 years	2,526,763	1,840,325
	158,688,868	140,760,939

17 AMOUNTS OWED TO CREDIT INSTITUTIONS

	2024	2023
	£	£
Accrued interest	1,366	5,973
Repayable with agreed maturity dates or periods of notice:		
- In not more than 3 months	500,000	500,000
	501,366	505,973

	2024 £	2023 £
18 AMOUNTS OWED TO OTHER CUSTOMERS		
Amounts owed to other customers relate to savings accounts held by business entities, are repayable from the balance sheet date in the ordinary course of business as follows:-		
Accrued interest	20,427	15,595
On demand	6,482,604	7,555,586
	6,503,031	7,571,181

19 CORPORATION TAX PAYABLE	2024 £	2023 £
Corporation tax falling due within one year	156,022	118,355

20 ACCRUALS AND DEFERRED INCOME	2024 £	2023 £
Amounts falling due within one year:		
Accruals	256,791	194,032

	2024 £	2023 £
21 PREPAYMENTS AND ACCRUED INCOME		
Amounts falling due within one year:		
Prepayments	484,299	455,256

22 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 2024	Financial assets measured at amortised cost	Financial liabilities measured at amortised cost	Other financial instruments	Total
	£	£	£	£
Financial assets				
Cash in hand	-	-	123,940	123,940
Debt securities and treasury bills	3,993,252	-	-	3,993,252
Loans and advances to credit institutions	34,146,200	-	-	34,146,200
Loans and advances to customers	140,798,165	-	-	140,798,165
Total financial assets	178,937,617	-	123,940	179,061,557
Non-financial assets				1,117,180
Total assets				180,178,737
Financial liabilities				
Shares	-	158,688,868	-	158,688,868
Amounts owed to credit institutions	-	501,366	-	501,366
Amounts owed to other customers	-	6,503,031	-	6,503,031
Other liabilities	-	256,791	-	256,791
Total financial liabilities	-	165,950,056	-	165,950,056
Non-financial liabilities and reserves				14,228,681
Total liabilities and reserves				180,178,737

Year ended 31st March 2023				
	£	£	£	£
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

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 2024	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	123,940	-	-	-	-	123,940
Debt securities and treasury bills	-	1,991,081	2,002,171	-	-	3,993,252
Loans and advances to credit institutions	32,641,150	-	1,505,050	-	-	34,146,200
Loans and advances to customers	5,895	842,423	3,913,511	23,127,692	112,908,644	140,798,165
Total financial assets	32,770,985	2,833,504	7,420,732	23,127,692	112,908,644	179,061,557
Financial liabilities						
Shares	153,235,128	307,202	2,586,385	2,560,153	-	158,688,868
Amounts owed to credit institutions	-	501,366	-	-	-	501,366
Amounts owed to other customers	6,503,031	-	-	-	-	6,503,031
Other liabilities	54,066	202,725	-	-	-	256,791
Total financial liabilities	159,792,225	1,011,293	2,586,385	2,560,153	-	165,950,056
Year ended 31st March 2023						
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

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 2024	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	153,235,128	309,671	2,662,482	2,771,075	158,978,356
Amounts owed to credit institutions	-	501,366	-	-	501,366
Amounts owed to other customers	6,503,031	-	-	-	6,503,031
Other liabilities	54,066	202,725	-	-	256,791
Total financial liabilities	159,792,225	1,013,762	2,662,482	2,771,075	166,239,544

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

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:

	2024	2023
	£	£
Cash in hand	123,940	100,535
Debt securities and treasury bills	3,993,252	5,978,297
Loans and advances to credit institutions	34,146,200	28,965,724
Loans and advances to customers	140,798,165	126,583,393
Total balance sheet exposure	179,061,557	161,627,949
Off balance sheet exposure – loan commitments	7,497,977	7,897,789
	186,559,534	169,525,738

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.

	2024 £	2023 £
Bank of England	29,354,719	24,453,245
UK Government securities	2,971,676	4,957,744
Financial institutions by credit rating:		
- A+ to A-	4,308,007	4,028,470
- Unrated building societies	1,505,050	1,504,562
	38,139,452	34,944,021

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.

	2024			2023		
	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	137,325,319	477,632	137,802,951	123,247,855	529,536	123,777,391
Past due but not impaired						
- Past due up to 3 months	1,506,798	-	1,506,798	1,578,588	-	1,578,588
- Past due 3 to 6 months	383,447	-	383,447	535,782	-	535,782
- Past due 6 to 12 months	40,503	-	40,503	300,097	-	300,097
- Past due over 12 months	87,130	-	87,130	-	-	-
	2,017,878	-	2,017,878	2,414,467	-	2,414,467
Impaired	1,443,566	-	1,443,566	789,552	-	789,552
	140,786,763	477,632	141,264,395	126,451,874	529,536	126,981,410
Allowance for impairment						
- Individual	(4,902)	-	(4,902)	(3,118)	-	(3,118)
- Collective	(461,328)	-	(461,328)	(394,899)	-	(394,899)
Total allowance for impairment	(466,230)	-	(466,230)	(398,017)	-	(398,017)

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 £403m (2023: £383m).

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.

	2024	2023
	£	£
Indexed LTV ratio		
Less than or equal to 50%	75,554,613	78,232,595
Greater than 50% but less than or equal to 75%	43,974,992	40,239,597
Greater than 75% but less than or equal to 85%	13,644,865	5,173,137
Greater than 85%	7,987,858	3,292,391
	141,162,378	126,937,720

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 (2023: 100bps), the impact would be a decrease of approximately £25,000 in net interest income and hence profit at 31st March 2024 (2023: approximately £15,000 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 Total Capital Requirement ("TCR"). 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	2024	2023
		£	£
General reserves		14,022,496	13,484,571
Deductions for intangible assets	14	(11,264)	(10,247)
Total Tier 1 Capital		14,011,232	13,474,324
Collective impairment provision	12	461,328	394,899
Total Tier 2 Capital		461,328	394,899
Total Capital		14,472,560	13,869,223

23 GUARANTEES AND OTHER FINANCIAL COMMITMENTS

Capital Commitments
Contracted capital commitments at 31st March 2024, for which no provision has been made, were zero for tangible fixed assets (2023: £45,473).

Loan Commitments
At the year end, the Society has loan commitments of £7,497,977 in the form of the mortgage approved pipeline (2023: £7,897,789).

24 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 2024 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)	£3,834,642	(2023: £3,548,746)
Number of employees	36	(2023: 35)
Profit before tax	£695,535	(2023: £656,927)
Tax expense for the year	£157,610	(2023: £130,227)

Statutory Percentages	**Ratio 31st March 2024 %**	**Statutory Limit %**
Proportion of business assets other than in the form of loans fully secured on residential property (the "lending limit")	0.68%	25.00
Proportion of shares and borrowings other than in the form of shares held by individuals (the "funding limit")	4.23%	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 2024 %**	**Ratio 31st March 2023 %**
Gross capital as a percentage of shares and borrowings	8.46	9.06
Free capital as a percentage of shares and borrowings	8.36	8.93
Liquid assets as a percentage of shares and borrowings	23.09	23.55
Profit after taxation as a percentage of mean total assets	0.31	0.34
Management expenses as a percentage of mean total assets	1.80	1.80

Notes

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

b) **Shares and borrowings** represent the total of shares, amounts owed to credit institutions 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; Cross Keys Housing Association (from 1st January 2024).	19.05.2015
C R Greenwell 1960	Non-Executive Director Leicestershire & Rutland Organisation for the Relief of Suffering Limited (left on 20th November 2023); Chris Greenwell Consulting Limited; Dove Cottage Day Hospice (from 1st March 2024).	01.10.2021
D J Hickman 1963	Non-Executive Director Northampton Children Service Trust (left December 2023); D&JH Services Ltd; Leicester, Leicestershire & Rutland Integrated Care Board.	24.11.2020
L J Mackie 1976	Non-Executive Director SIBA; SIBA Commercial Services Limited.	01.11.2017
A C Robinson 1969	Non-Executive Director Alegra Strategic; Childcare Acquisition Company; Titan Asset Management; Titan Investment Solutions Ltd (from 26th September 2023).	19.11.2020
J Stables 1957	Chartered Accountant Lawson West Solicitors	01.11.2017
H Stevens 1974	Non-Executive Director Epic Partners; Handmade Theatre Company	01.03.2024
P Tilley 1966	Chief Executive MHBS Pension & Life Assurance Scheme	01.01.2012
S T Wigfull 1981	Deputy Chief Executive & Finance Director None	01.08.2019

Officers

N Balderson	Transformation Change Manager
P Barton	HR Manager
R H Carson	Business Development & Marketing Manager
M R Jones	Information Systems & Estates Manager
S P Phillips	Financial Controller
D Truman	Customer Services Manager
E L York	Risk & Compliance Manager

None of the Officers noted above have any directorships. 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.