Teachers Building Society

Pillar 3 Disclosure

For the year ended 31 December 2023

Contents

1. Introduction

a. Background

This document sets out the Pillar 3 Disclosures for Teachers Building Society ('the Society') for the year ended 31 December 2023. The purpose of these disclosures is to provide information on the Society's capital adequacy and on the management of risks faced by the Society.

The Capital Requirements Regulation (CRR) and Capital Requirements Directive (together referred to as CRD IV) which came into force on 1 January 2014 and is enforced in the UK, together with local implementing rules and guidance, by the Prudential Regulation Authority (PRA). The rules include disclosure requirements known as 'Pillar 3' which apply to banks and building societies. These are designed to promote market discipline through the disclosure of key information about risk exposures and risk management processes.

The CRD sets out three main areas, known as "Pillars", each deal with a different aspect of the rules. An explanation of the three pillars is set out below:

Pillar 1 - sets out the minimum levels of capital that have to be maintained. The calculation of Pillar 1 is based on the size of an institution and its risk characteristics. Larger firms calculate their Pillar 1 requirements using an internal ratings based (IRB) model which allows an internal assessment of risk weightings to be applied to assets. As a small firm the Society operates under the Standardised approach which uses prescribed risk weightings as set out in the CRD for credit risk. The Society uses the Basic Indicator Approach (BIA) for the calculation of its operational risk capital requirement.

Pillar 2 - is focused on an internal assessment of risks that are not fully covered by Pillar 1 or are not within the scope of Pillar 1. The review of Pillar 2 is documented in the Society's Internal Capital Adequacy Assessment Process (ICAAP) which is approved annually by the Board. Pillar 2 also includes the Capital Conservation Buffer, which is prescribed in the CRD, and the Countercyclical Capital Buffer (CCyB) which is set in the UK by the Financial Policy Committee (FPC). These buffers are required to ensure the Society will meet its capital adequacy requirements even under periods of economic stress.

Pillar 3 - covers the disclosure requirements of the CRD and is satisfied by the publication of this document. This document provides details of the principal business risks faced by the Society, the Society's approach to management of these risks and gives a breakdown of the capital amounts calculated under the Pillar 1 provisions. This document is also required to provide details concerning the remuneration of certain staff that have been assessed as being subject to the requirements of the Remuneration Code.

b. Basis and frequency of disclosure

This Pillar 3 disclosure document has been prepared in accordance with the Disclosure Part of the PRA Rulebook which includes revised disclosure requirements applicable from 1 January 2022 following the UK implementation of the remaining provisions from Capital Requirements Regulation II (CRR II) and covers the Society on a non-consolidated basis as there are no subsidiaries or associated entities.

These disclosures may differ from but are consistent with the Annual Report and Accounts prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and with the requirements of the Building Societies Act 1986.

Unless otherwise stated, all figures are as at 31 December 2023, the Society's financial year end. Pillar 3 disclosures are published annually.

c. Location and verification

These disclosures have been reviewed and approved by the Executive Committee and Board Risk Committee and the Board and are published on the Society's website (www.teachersbuildingsociety.co.uk).

All figures disclosed within this document have been subject to internal verification. These disclosures have not been externally audited and do not constitute any part of the Society's financial statements.

The Capital Requirements Directive (CRD) governs the amount and quality of capital to be held by financial institutions in order to protect their members, depositors and shareholders. In the UK the PRA is responsible for ensuring that the banks and building societies that it regulates have implemented the CRD.

1.1 Attestation

The Board confirms that to the best of their knowledge that, the disclosures provided according to Disclosure Part of the PRA Rulebook (CRR) Instrument 2021 have been prepared in accordance with the internal control processes agreed upon at the management body level.

Rajesh Patel

Finance

Director

1.2 Tables

1.3 Summary of key disclosures

Table 1: UK KM1 - Key Metrics	December 2023 £000	December 2022 £000
Available Capital		
Common Equity Tier 1 (CET 1)	25,349	24,470
Tier 1	25,349	24,470
Total capital	25,758	24,852
Risk weighted exposure amounts		
Total risk weighted assets (RWA)	139,053	132,870
Capital ratios (As a percentage of RWA)	**%**	**%**
Common Equity Tier 1 ratio	18.2	18.4
Total capital ratio	18.5	18.7
Additional own funds requirement based on SREP (% of RWA)		
Additional CET1 SREP requirements	0	0
Additional AT1 SREP requirements	0	0
Additional T2 SREP requirements	0	0
Total SREP own funds requirement	8.0	8.0
Combined buffer requirements (% of RWA)		
Capital conservation buffer	2.5	2.5
Institution specific counter cyclical buffer	2.0	1.0
Combined buffer requirement	4.5	3.5
Overall Capital requirement	12.5	11.5
CET1 available after meeting the total SREP own funds requirement	10.2	10.4
Leverage ratio		
Leverage ratio exposure measure	419,732	390,806
Leverage ratio	6.0%	6.3%
Liquidity coverage ratio		
Total high-quality liquid assets (HQLA)	91,764	55,020
Cash outflows – Total weighted value	34,423	30,531
Cash inflows – Total weighted value	6,807	10,231
Total net cash outflows (weighted value)	27,617	20,300
Liquidity Coverage ratio	332%	271%
Net stable funding ratio		
Total available stable funding	387,388	327,326
Total required stable funding	254,499	239,951
Net stable funding ratio	152%	136%

1.4 Overview of Risk Weighted Exposure Amounts (RWEAs)

Table 2: UK OV1 - Overview of risk weighted exposure amounts		Risk weighted exposure amounts (RWEAs)		Total own funds requirements
		2023	2022	2023
		£000	£000	£000
1	Credit risk (excluding CCR)	120,808	116,383	9,665
2	Of which the standardised approach	120,808	116,383	9,665
6	Counterparty credit risk - CCR	1,678	3,034	134
7	Of which the standardised approach	1,678	3,034	134
UK 8b	Of which credit valuation adjustment - CVA	-	-	-
9	Of which other CCR	-	-	-
15	Settlement risk	-	-	-
UK 22a	Large exposures	-	-	-
23	Operational risk	16,567	13,453	1,325
UK 23a	Of which basic indicator approach	16,567	13,453	1,325
UK 23b	Of which standardised approach	-	-	-
UK 23c	Of which advanced measurement approach	-	-	-
24	Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)	-	-	-
29	**Total**	**139,053**	**132,870**	**11,124**

2. Risk Management Framework

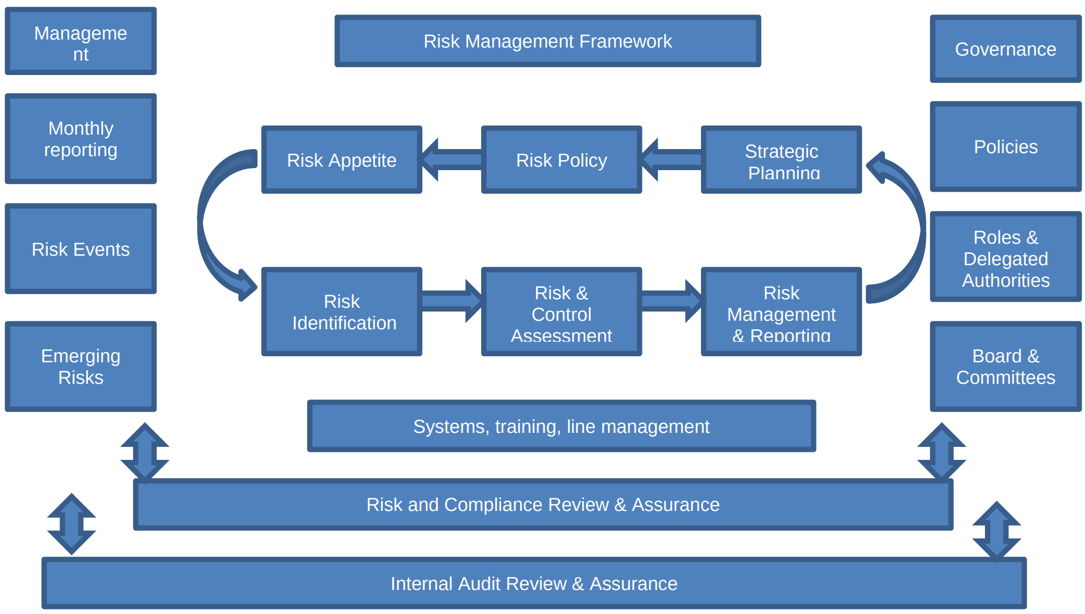
2.1 Managing risk

Teachers Building Society is primarily a producer and retailer of financial products, mainly in the form of residential mortgages and customer deposits or savings. These products give rise to a financial asset or liability and are termed financial instruments. As well as mortgages and savings, the Society also uses the financial markets to invest its reserves and surplus funds, to raise wholesale funding, and to manage the interest rate risks arising from its operations. The management of risk arising out of these activities is central to the culture and continuing success of the Society.

To ensure that the Society's risks are effectively managed and controlled, the Board has established a Risk Management Framework (RMF). Key features of the Society's RMF include the following:

- The Board defines, articulates and documents its risk appetite and mandates management to operate within that risk appetite. The Board risk appetite is supported by a suite of metrics, limits and triggers designed to cover the principal risks.
- The Society regularly carries out robust assessments of the principal risks facing it, including those that would threaten its business model, future performance, solvency or liquidity.
- The Society manages those risks, within the Board's risk appetite, by means of policies, procedures, plans and systems. The key policies relate to various operational risks, retail and wholesale lending, treasury, funding and financial risk management. Financial risks are also managed by the use of forecasting and stress testing models to help guide business strategies.
- Key risk information and indicators are produced to manage and monitor performance.
- Management and Board committees monitor and control specific risks using the information provided.
- The "three lines of defence" model is utilised to provide assurance that risks are being effectively managed.
- The above components form part of an iterative process whereby monitoring and assessment inform planning, policy and risk appetite development which, in turn, determines subsequent monitoring and assessment.

The following diagram summarises the Society's RMF:



2.2 Risk governance structure

The Board is responsible for determining the Society's risk management framework and for ensuring the Society operates a robust system of internal control to support its strategy and objectives. The Board sets high-level risk appetites to define the level and type of risk the Society is willing to accept and key risk metrics. It monitors the risk profile of the Society by receiving reports, either directly or indirectly, from the following committees engaged in the management or monitoring of risk.

The **Board Risk Committee** is a sub-committee of the Board and comprises only Non-Executive Directors. It reviews the Society's system of internal controls, monitors the Society's risk appetite measures and receives regular reports from the Society's Risk Manager and Compliance Function. It reports its findings and makes recommendations to the Board.

The **Audit committee** is a sub-committee of the Board responsible for monitoring the integrity of the Society's financial statements; overseeing the external audit relationship; providing oversight of internal controls; monitoring the effectiveness of internal audit and providing oversight of whistleblowing. The outsourced internal audit function reports to the Committee. The Committee oversees the terms of appointment of the internal and external audit processes.

The **Assets and Liabilities Committee** comprises the executive management team. It determines treasury and statement of financial position risk management strategies, capital and funding requirements, and proposes changes to the content of the Society's Financial Risk Policy. The principal objective of the Committee is to identify, control and manage the operational, structural, funding and settlement risks inherent in the Society's statement of financial position with particular regard to the impact on the Society's capital position. The Committee is responsible for reviewing the Society's treasury activity and the current and proposed strategy and limits for liquidity, wholesale funding and hedging activities. It is also responsible for product pricing models and for setting the Society's interest rates. In addition, the Committee is responsible for ensuring that the Society complies with its financial risk management, treasury and funding policies and associated risk limits. It provides reports and makes recommendations to the Risk Committee.

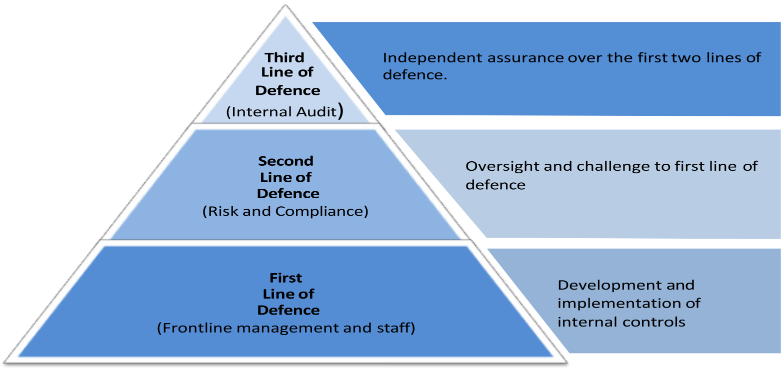
The **Conduct & Operational Risk Committee** comprises the executive management team and is responsible for overseeing the management of the principal operational and conduct risks of the Society. It receives and considers detailed management information and other reports on matters affecting operational risk and customer outcomes and reports its conclusions to the Board and Audit & Risk Committee. It provides reports to the Audit & Risk Committee and the Board.

The **Credit Committee** is a committee comprising the executive management team and is responsible for overseeing credit risk management. Its responsibilities include ensuring compliance with, and proposing amendments to, the Society's Lending Policy and Arrears Management Policy. It also monitors external risks to the Society's lending and considers mortgage applications which fall outside the limits of the normal mortgage underwriting function. It provides reports to the Audit & Risk Committee.

The **Product Governance Committee** comprises the executive management team and is responsible for approval of new products and changes to existing products. In so doing, it considers conduct and other risks that might be relevant to the product in question and ensures that such risks are appropriately managed and controlled.

2.3 Three Lines of Defence

In order to maintain a strong risk culture, the Society has adopted and continues to develop a 'Three Lines of Defence' approach to its operational implementation of the RMF:



The Three Lines of Defence approach simplifies and clarifies the varying roles and responsibilities of staff on the following basis:

1 First line of defence	2 Second line of defence	3 Third line of defence
Operational Management	**Risk and Compliance**	**Internal Audit**
Operational Management is in the best position to assess risk exposures and is fully responsible for the risks its operations create. Ongoing oversight is provided through management review and oversight. Management run the business and own the risks that arise through these operations.	The second line of defence, which is independent of operations, is responsible for the quantification, analysis and reporting of all risks. These functions create and uphold principles, policies and frameworks for risk management and facilitate risk assessment. The second line's role is the "four-eyes" oversight of the first line of defence to confirm adherence to Policies and the Board's risk appetite.	The Internal Audit function is performed by an independent firm of accountants (not the Society's Auditors) on behalf of the Society who report directly to the Chief Executive and are accountable to the Chair of the Audit Committee. The role of Internal Audit is to provide independent assurance to the Board and Senior Management that the organisation's risk management, governance and systems of internal control are operating effectively. The Audit Committee provides oversight of the third line of defence.

3. Risk management policies and objectives

3.1 Strategies and processes to manage risks

The Society seeks to manage all risks that arise from its business operations with the goal of protecting members' and depositors' funds, safeguarding the assets of the Society while delivering long-term sustainable growth for its members. The principal risks and the policies and other mitigation put in place to manage them are summarised in the table below.

Risk	Description (and sub categories)	Key mitigating actions
Credit	The risk that mortgage customers or treasury counterparties are unable to meet their obligations as they become due. Concentration risk is an aspect of credit risk (as well as of funding risk - see below) and arises from exposure to groups of connected counterparties, or from counterparties in the same economic sector, geographic region or from the same activity or commodity. The Society, as a specialist mortgage lender in the education sector, is exposed to concentration risk in relation to UK property lending and to lending to education professionals. In light of rising interest rates and the 'cost of living crisis', credit risk has a particular focus currently.	• Lending Policy: sets limits on categories of lending, the amount and quality of collateral required, and defines clear underwriting criteria. • Bespoke individual underwriting on a case-by-case basis. • Mortgage Indemnity Guarantee (MIG) insurance where the LTV (loan to property value ratio) exceeds 80%. • Financial Risk Policy sets treasury limits on credit exposures to countries, groups and individual counterparties. • Lending Policy and Financial Risk Policy sets limits to mitigate concentration risk. • Oversight by Executive Credit Committee and Board Risk Committee.
Financial	**Market and Interest Rate risk** The risk that the net value of, or net income arising from, the Society's assets and liabilities is impacted as a result of market price or rate changes. The market risk to which the Society is exposed is interest rate risk (re-pricing risk). The use of swaps to hedge interest rate risk may create basis risk which, for the Society, is the risk that changes in interest rates will re- price interest earning assets differently from interest bearing liabilities, thus creating an asset liability mismatch and a potential monetary loss.	• Close oversight by the Executive Assets and Liabilities Committee and Board Risk Committee. • Financial Risk Policy (sets requirements for use of financial instruments, mainly interest rate swaps, to hedge interest rate risk). • Basis risk exposure managed within risk limits set in Financial Risk Policy. • Stress testing.
Financial	**Capital or Solvency risk** The risk that the Society maintains insufficient capital resources to protect its depositors, support business growth, meet regulatory requirements and ensure that its liabilities can be met as they fall due.	• Capital planning as part of the Society's Internal • Capital Adequacy Assessment Process ('ICAAP') and corporate plan. • Stress testing and monitoring of key ratios by the Executive Assets and Liabilities Committee and Board Risk Committee.
Financial	**Liquidity and Funding risk** Liquidity risk is the risk that the Society is unable to settle obligations with immediacy and maintain public and stakeholder confidence. Funding risk is the risk that the Society is unable to realise assets or otherwise raise funds on economic terms, and/or within reasonable timescales. Concentration risk is an aspect of funding risk (as well as of credit risk - see above). Traditional building societies, such as Teachers Building Society, have an inherent funding concentration risk arising from reliance on the UK retail savings market.	• Financial Risk Policy sets risk limits. • Maintaining appropriate levels of High Quality Liquid Assets. • The Society's Individual Liquidity Adequacy Assessment Process ('ILAAP') and Contingency Funding Plan. • Stress testing. • Oversight by Executive Asset and Liability Committee and Board Risk Committee.

Risk	Description (and sub categories)	Key mitigating actions
Operational	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including cyber security risk and a risk of a failure by third party suppliers but excluding strategic risk. Currently, this includes the risks associated with the project to upgrade our customer account management system (see page 16 for further information).	• Investment in people, systems and processes. • Effective policies and procedures supporting operational performance • A Board-approved Operational Resilience Framework aimed at ensuring the resilience of important business services including a testing program that draws out 'lessons learned' • Training and competence scheme for key colleagues detailing proficiency and supervision requirements. • Insurance. • Executive Conduct and Operational Risk Committee and Board Risk Committee oversight. • Cyber risk management framework. • Contingency plans are in place which have been tested • Specialist resource recruited and Transformation Project Committee established to manage customer account management system project
Strategic	The risk that the Society's business model and corporate plan fail to adapt, or respond quickly to, external developments or that the adaptation or response is flawed.	• Annual Corporate Planning process including sensitivity testing. • Ongoing Executive Committee and Board monitoring of Key Performance and Risk Indicators.
Reputational	The risk that arises from a negative perception by members, regulators, counterparties, potential customers or other stakeholders, which damages the Society's brand and reputation and adversely affects its business, earnings, capital or access to funding.	• Board expectation that the Society's business be conducted in a fair and ethical way consistent with the Society's values and beliefs embedded in Society policies. • Robust culture of compliance with legal and regulatory requirements. • Oversight by the Executive Conduct and Operational Risk Committee and the Board and its Risk Committee.
Conduct	The risk arising from the Society's conduct in its direct relationship with retail customers, or where the Society has a direct duty to retail customers.	• Oversight and monitoring by Executive Conduct and Operational Risk Committee and the Board and its Risk Committee. • Training and awareness for key colleagues • Culture of putting members first and ensuring compliance with the Consumer Duty.
Climate change	The risk that the Society's business and asset values are adversely impacted by the consequences of climate change, whether physical (floods, sea level rise etc) or transitional (e.g., changes in government policy, regulation or market sentiment arising out of the move to a greener economy)	• Monitoring and assessment of the financial impact of climate change risks relevant to the mortgage book, other assets and the business generally. • Each year the Society commissions a report to assess the risks to the mortgage portfolio from climate change. To date this has not highlight any concerning areas of risk within the portfolio. • Oversight by Executive Credit and Conduct & Operational Risk Committees and Board Risk Committee. • Board approved climate change risk management framework. This policy explains the key climate change risks and provides a summary of the Society's proposed approach to managing them. It also sets the governance, risk appetite and monitoring framework.

3.2 Risk management function

The risk management function forms part of the second line of defence and is led by the Legal Director, supported by a Head of Risk. Both attend all executive committee meetings as well as meetings of the Board Risk Committee. The Legal Director is also a Board member.

3.3 Risk measurement and reporting

The objective of risk measurement and reporting is to escalate relevant risk information that enables the Board, risk committees and management to monitor and manage the Society's risks. Risk measurement is focused on a suite of risk metrics set against the Board's risk appetite. Metrics relevant to a particular committee are reported to that committee each month. In the case of the Board and the Board Risk Committee, all metrics are reported to both at each of their respective meetings.

In addition, significant current and emerging risks are reported to the relevant committee or the Board (as may be appropriate) as and when they arise.

3.4 Adequacy of risk management arrangements

In the Board's opinion, the risk management arrangements in place with regard to the Society's profile and strategy are adequate.

4. Capital Resources

4.1 Capital composition (own funds)

The Capital Resources of the Society are calculated under Pillar 1 of CRD IV.

Common Equity Tier 1 and Tier 1 Capital
These are the cumulative general reserves of the Society, externally verified, and represent an accumulation of post-tax-profits and the revaluation reserve for the own-use land and buildings owned by the Society.

Tier 2 Capital
This is the collective impairment provision of the Society which represents expected losses arising from the Society's portfolio of secured advances. Individual impairment provisions (£23k at 31 December 2023) are not allowable as Tier 2 Capital. The Society does not hold any alternative Tier 1 instruments nor have any Tier 3 capital resources.
The Society's total capital resources at 31 December 2023, including the audited profits of 2023, stood at

£25,758k and are broken down in the table below

Table 3: UK CC1 - Composition of regulatory own funds

		(a) Amounts
Common Equity Tier 1 (CET1) capital: instruments and reserves		
2	Retained earnings	24,621
3	Accumulated other comprehensive income (and other reserves)	735
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**25,356**
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
8	Intangible assets (net of related tax liability) (negative amount)	(7)
27a	Other regulatory adjustments to CET1 capital *(including IFRS 9 transitional adjustments when relevant)*	-
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	(7)
29	**Common Equity Tier 1 (CET1) capital**	**25,349**
44	**Additional Tier 1 (AT1) capital**	**-**
45	**Tier 1 capital (T1 = CET1 + AT1)**	**25,349**
Tier 2 (T2) capital: instruments		
50	Credit risk adjustments	409
58	**Tier 2 (T2) capital**	**409**
59	**Total capital (TC = T1 + T2)**	**25,758**
60	**Total Risk exposure amount**	**139,053**
Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	18.2%
62	Tier 1 (as a percentage of total risk exposure amount)	18.2%
63	Total capital (as a percentage of total risk exposure amount)	18.5%
64	Institution CET1 overall capital requirement (CET1 requirement in accordance with Article 92 (1) CRR, plus additional CET1 requirement which the institution is required to hold in accordance with point (a) of Article 104(1) CRD, plus combined buffer requirement in accordance with Article 128(6) CRD) expressed as a percentage of risk exposure amount)	12.5%
65	of which: capital conservation buffer requirement	2.5%
66	of which: countercyclical buffer requirement	2.0%
68	**Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)**	**10.2%**

4.2 Reconciliation of regulatory own funds to statement of financial position in the audited financial statements

The reconciliation of own funds and credit risk exposures to the Society's Annual Report and Accounts is below (references to the Annual Report and Accounts are shown in brackets). There are no differences between the scope of regulatory and accounting consolidation as there are no subsidiaries or associated entities.

Table 4: UK CC2 – Reconciliation of regulatory own funds and credit risk exposures to statement of financial position in the audited financial statements	**2023 £000's**
Reserves per Statement of Financial Position	25,356
Less Intangible assets	(7)
Less Other regulatory adjustments to CET1 capital	-
CET1 capital	**25,349**
Collective impairment provision	409
Tier 2 capital	**409**
Regulatory capital	**25,758**

	2023 £000's
Total assets per Statement of Financial Position	419,732
Add: collective impairment provision (Note 13)	409
Add: off balance sheet items	11,345
Less: intangible assets	(7)
Less: other regulatory adjustments	(1,665)
Total credit risk exposures	**429,814**

5. Capital adequacy assessment

5.1 Overview

The Society considers its strategic priorities regularly and produces a five-year strategic plan; the Society's Board reviews this at least annually. The Strategic plan includes the financial plan for the forthcoming year's business activities, which takes account of the Board's risk appetite and current and changing economic conditions. The plan considers the impact of the planned activities on the Society's capital resource. The plan also considers various adverse business and economic scenarios (stress tests). Capital resource is measured against these various stress scenarios.

Capital is required primarily to protect the Society from losses. Losses could mainly result if, following repossession, the property does not realise sufficient funds to cover the loan balance from mortgage customers that have been in arrears. However, other risks can result in losses such as a treasury counterparty default, changes in interest rates that may result in a reduction in net interest margin to a point where overheads are not covered.
The Society aims to maintain its capital strength above the Board agreed requirement, which is higher than the minimum required by the PRA. In order to do this, the Society needs to generate, and retain, profits that will add to the general reserves, the Society's main source of capital. The generation of capital is targeted to exceed an agreed return.
A strong capital position also provides confidence to our members and to our regulators and supports the Society's long term objectives of sustainable growth, targeting optimum profitability generating sufficient earnings to invest in the services our customers' require.

5.2 Capital adequacy assessment process

The Society prepares an Internal Capital Adequacy Assessment Process (ICAAP), which focuses on ensuring the capital resources of the Society are sufficient to support its plan both in normal and stressed conditions. The ICAAP is aligned to the strategic plan and the combination of both ICAAP and strategic plan ensure that the Society maintains sufficient capital to support its planned business objectives.
The ICAAP process involves reviewing risks relating to the Society's assets and operations and assessing capital required to mitigate any material financial impact of those risks. A detailed assessment of the results of the Society's stress tests based on a number of economic scenarios is included in the process. Scenarios include (but are not limited to) reduced business volumes, adverse interest rate margin, negative house price inflation (HPI), and increased default rates.

Finally, the Board approves the capital assessment taking into account any areas where they may feel the regulatory calculations do not adequately capture the full risk exposure and then use internal models to determine if any extra capital is required.

5.3 Capital resources

The Society calculates its Pillar 1 capital requirement under the "Standardised Approach" for credit risk. Standardised risk weightings are applied to each asset class resulting in a risk-weighted asset (RWA), the minimum capital requirement is 8% of RWA.

In addition, an evaluation of capital required to cover Operational Risk is calculated under the "Basic Indicator Approach" and determined by reference to the net income of the Society averaged over the previous 3 years, the minimum capital requirement under Pillar 1 being 15% of the average net income calculation.

As the Society uses derivatives to hedge its exposure to interest rate risk, the CRR requires additional capital to be held to cover the Society's exposure to credit valuation adjustments risk.

As at 31 December 2023 the Society held capital resources in excess of the regulatory requirements as set out below. The Society's TCR set by the PRA did not include an add-on for Pillar 2A capital.

	2023 £000's
Amount of regulatory capital resources	**25,758**
Capital requirements:	
- Pillar 1 capital requirement	11,124
- Pillar 2A capital requirements	-
Total Capital Requirement (TCR)	
- Capital Conservation buffer	3,476
- Countercyclical buffer	2,781
Overall Capital Requirement (OCR)	**17,381**
Excess capital resources	**8,377**

5.4 Capital buffers

The Society is required under CRR to hold additional capital for the following capital buffers:-

- Capital conservation buffer – this is an additional amount of capital required above the Pillar 1 capital requirement to be built up outside any periods of stress and is designed to avoid breaches of minimum capital requirements. This buffer can then be drawn upon in times when losses are incurred. As at 31 December 2023 institutions in the UK are required to hold 2.5% of risk weighted assets in this buffer.
- Countercyclical capital buffer (CCyB) – is an additional amount of capital required above the Pillar 1 capital requirement to absorb potential losses, to enhance resilience and contribute to a stable financial system. For credit exposures in the UK, the Bank of England's Financial Policy Committee (FPC) sets the rate for the CCyB within the range of 1.00% to 2.50%. As at 31 December 2023, this rate was 2.00%. The Society does not hold any non-UK credit exposures, so does not hold any other CCyB amounts.
- Other buffers – the Society is not classed as having a globally systemic importance and therefore, does not meet the criteria for these buffers. Nor does the Society meet the criteria for the Systemic Risk Buffer. The Society's Minimum Requirement for own Funds and Eligible Liabilities (MREL) is set to be equal to regulatory capital requirements, no additional capital is required for this purpose.

6. Standardised approach

6.1 Credit risk exposure and CRM effects

Credit risk is the risk of losses arising because of the Society's borrowers failing to meet their obligations to repay. At an operational level, mortgage credit risk is managed through a combination of adherence to the Society's Lending Policy, overseen by the Legal Director and approved by the Board, and strict underwriting procedures. Underwriting mandates are strictly controlled to ensure that only those with suitable expertise are able to commit the Society to lend. The Society only lends in England and Wales, however has a small back book exposure to properties in Scotland.
In the event that the personal circumstances of borrowers change, the Society applies an Arrears and Forbearance Policy to work proactively with borrowers to seek arrangements designed to enable them to resolve their difficulties.

Standardised exposures in the table below are stated on two different bases (pre-CCF (credit conversion factor) and CRM (credit risk mitigation) and post-CCF and CRM). Note, the exposures are also net of credit risk adjustment exposures.

Table 5 UK CR4 – Standardised approach – Credit risk exposure and CRM effects 2023

Table 5: UK CR4 – Standardised approach – Credit risk exposure and CRM effects	Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWAs and RWAs density	
	On-balance-sheet exposures	Off-balance-sheet exposures	On-balance-sheet exposures	Off-balance-sheet amount	RWAs	RWAs density (%)
	£000	£000	£000	£000	£000	£000
Central governments or central banks	92,350	-	92,350	-	-	-
Regional government or local authorities	-	-	-	-	-	-
Public sector entities	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-
International organisations	-	-	-	-	-	-
Institutions	4,688	-	4,688	-	938	20.0%
Corporates						
Retail	9,461	-	9,461	-	7,096	75.0%
Secured by mortgages on immovable property	308,912	11,345	308,912	7,988	109,716	34.6%
Exposures in default	298	-	298	-	298	100.0%
Exposures associated with particularly high risk	-	-	-	-	-	-
Covered bonds	-	-	-	-	-	-
Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
Collective investment undertakings	-	-	-	-	-	-
Equity	-	-	-	-	-	-
Other items	2,760	-	2,760	-	2,760	100.0%
TOTAL	**418,469**	**11,345**	**418,469**	**7,988**	**120,808**	

6.2 Exposures by asset class

Exposures in the table below are presented on a post CRM (Credit Risk Mitigation) and post CCF (Credit Conversion Factor) basis applied in accordance with Part Three, Title II, Chapter 4 of the CRR.
The Group makes limited use of External Credit Assessment Institutions (ECAIs) assessments for its Standardised exposures. Where a credit assessment is used this must be provided by an eligible ECAI from the PRA's approved list. The appropriate risk weight to apply to the credit risk exposure is determined by assigning the exposure to the relevant credit quality step under CRD V, based on the PRA's mapping of credit assessments to credit quality steps.

For the below disclosure, exposures are classed as 'rated' only where an ECAI rating has been used to derive the risk weight. Where a rating is unavailable, or where the risk weight has been determined by application of specific CRR provisions, exposures have been classed as 'unrated'. This also applies to central governments or central banks exposures within the UK and EEA that receive a zero per cent risk weight in line with regulatory permission.

Table 6 CR5 - Standardised approach - exposure by asset class 2023

Table 6 UK CR5 Standardised approach - exposure by asset class	Risk weight							Total	Of which unrated
	0%	20%	35%	50%	75%	100%	150%		
Central governments or central banks	92,350	-	-	-	-	-	-	92,350	-
Regional government or local authorities	-	-	-	-	-	-	-	-	-
Public sector entities	-	-	-	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-	-	-	-
International organisations	-	-	-	-	-	-	-	-	-
Institutions	-	4,688	-	-	-	-	-	4,688	-
Corporates	-	-	-	-	-	-	-	-	-
Retail exposures	-	-	-	-	9,461	-	-	9,461	9,461
Exposures secured by mortgages on immovable property	-	-	315,860	-	-	1,040	-	316,900	316,900
Exposures in default	-	-	-	-	-	298	-	298	298
Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-
Covered bonds	-	-	-	-	-	-	-	-	-
Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-
Units or shares in collective investment undertakings	-	-	-	-	-	-	-	-	-
Equity exposures	-	-	-	-	-	-	-	-	-
Other items	-	-	-	-	-	2,760	-	2,760	2,760
TOTAL	**92,350**	**4,688**	**315,860**	**-**	**9,461**	**4,098**	**-**	**426,457**	**329,419**

The table below sets out the maturity and credit profile of treasury investments (excluding interest rate derivatives) at 31 December 2023.

Ratings	Credit quality step	< 3 months £000	3 months to 1 year £000	>1 year £000	Total £000	Risk weighted assets £000
AAA to AA-	1	92,588	-	-	92,588	-
A+ to A-	2	4,691	-	-	4,691	938
BBB+ to BBB-	3	-	-	-	-	-
Unrated institutions	-	-	-	-	-	-
Total exposure		97,279	-	-	97,279	938

7. Liquidity Risk

7.1 Liquidity Coverage Ratio (LCR)

The Society's business model is based on long-term mortgage lending which is financed mainly by retail funding that is contractually short term. This therefore requires the Society to maintain sufficient quantity and quality of liquid assets with appropriate access characteristics. The ILAAP ensures that the Society always holds a highly prudent level of liquid assets so that it can meet these obligations. As well as holding relatively high levels of liquid assets, the Society also has contingency funding plans in place to cope with any sudden or extreme outflows, and carries out regular stress tests to ensure the robustness of these plans.
The assessment of the appropriate balance of liquid assets, which is documented in the ILAAP, is informed by both the LCR, considered as the Pillar 1 requirement, and an internal analysis considered as the Pillar 2 requirement. In combination both the Pillar 1 and 2 assessments satisfy the overall liquidity adequacy rule that states the Society must at all times maintain liquidity resources which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due.
The LCR is calculated by dividing the value of high-quality liquid assets, held as a liquidity buffer, by the forecast net cash outflows under stress over 30 calendar days. From January 2018, the minimum requirement for the LCR ratio is 100%. The Society's LCR has been significantly above this level since inception and is expected to continue at this higher level.
The table below shows the Society's liquidity coverage ratio based on end-of-the-month observations over the preceding 12 months for each quarter of the year ended 31 December 2023. The LCR as at 31 December 2023 was 298%. As demonstrated, the Society's LCR is well above the regulatory minimum of 100%.

Table 7: LIQ1 Quantitative information of LCR	Quarter ended Total weighted value (average)			
£000	March 2023	June 2023	September 2023	December 2023
Number of data points used in the calculation of averages	12	12	12	12
Total high-quality liquid assets	53,873	55,262	56,621	62,669
Total cash outflows	32,032	31,902	30,755	30,096
Total cash inflows	8,327	8,739	9,215	9,048
Total net cash outflows	26,003	25,240	24,142	21,048
Liquidity coverage ratio	207%	219%	235%	298%

7.2 Net Stable Funding Ratio

The Society calculates its NSFR on a quarterly basis. The NSFR is expressed as a ratio that must equal or exceed 100%. The ratio is calculated as the bank's available stable funding as a proportion of its required stable funding. The table below shows the Society's net stable funding requirement, based on end-of-the-quarter observations over the preceding four quarters, for each quarter of the year ended 31 December 2023. The Society's NSFR are all above the regulatory limit of 100%.

Table 8: LIQ2 net Stable funding ratio	Quarter ended Total weighted value (average)			
£000	March 2023	June 2023	September 2023	December 2023
Number of data points used in the calculation of averages	4	4	4	4
Total available stable funding (ASF)	315,561	341,102	354,063	369,078

Total required stable funding (RSF)	230,512	234,102	237,254	240,891
Net Stable Funding Ratio (%)	137%	145%	149%	153%

8 Remuneration policies and practice

8.1 Approach to remuneration decision-making

The Society may be subject to excessive risk if remuneration policies and practices result in staff being rewarded for decisions inconsistent with the Board's risk appetite. It is therefore the Society's policy to ensure that its remuneration decisions are in line with effective risk management. Full details of the Society's remuneration policy and details of Executive Directors' emoluments for the year ending 31 December 2023, with prior year comparative, are in the Directors' Remuneration Report in the Annual Report and Accounts.

Remuneration policy is approved by Board and implemented by the Remuneration Committee on behalf of the Board. The committee is comprised of five Non-Executive Directors and met five times during 2023.

The Society seeks to ensure that its remuneration decisions are in line with its business strategy and long term objectives, and consistent with its current financial condition and future prospects. The remuneration policy also ensures that the Society's remuneration policies comply with both the PRA/FCA Remuneration Code and the UK Corporate Governance Code. It also seeks to establish an appropriate balance between the fixed and variable elements of remuneration, although this balance will vary depending on the seniority and nature of an individual's employment.

Performance measures used to calculate variable remuneration are therefore adjusted to take into account, current or potential risks to the business and are consistent with the need to retain a strong capital base. Variable remuneration is not paid unless it is sustainable within the Society's situation as a whole.

8.2 Setting executive remuneration

Remuneration of executive directors, other senior executive management and others having a material impact on risk is reviewed annually by the Remuneration Committee. Remuneration is assessed by reference to roles carrying similar responsibilities in comparable organisations, and other criteria such as expertise, experience and contribution to the Society's performance. All comparative data is used with caution by the Committee in order to ensure that the level of remuneration is appropriate. In addition to salary, benefits may comprise a contributory pension scheme, death-in-service benefits and, for new appointees, relocation allowance.

Members of the executive team, including Executive Directors, are eligible to participate in a short and medium-term performance bonus. This bonus is earned as agreed core objectives are achieved and is capped at 24% of an individual's salary. Objectives comprise a broad range of financial and non-financial measures including objectives measured over a three-year period. No bonus is payable unless the Remuneration Committee is satisfied that the Society has been managed within risk appetite, that regulatory and customer outcomes expectations have been met and that the size of bonus is commensurate with the level of profitability achieved. The Remuneration Committee also has the facility to provide discretionary payments in exceptional circumstances.

Guaranteed incentive payments do not form part of any remuneration package and all incentive schemes are non-contractual. Whilst the Remuneration Committee has the absolute discretion under the scheme rules to withhold any payment under it where it feels it is appropriate in all the circumstances to do so, the rules do not include the ability to recover sums already paid. Under the Remuneration Code issued by the Prudential Regulation Authority and the Financial Conduct Authority and the related guidance on proportionality, the Society's regulators have stated that it will normally be appropriate for firms of the size of the Society not to follow such guidance. The Board has adopted this position.

8.3 Setting non-executive remuneration

The remuneration of Non-executive Directors (other than the Chair of the Board) is reviewed each year by the Executive Directors and the Chair of the Board, and a recommendation is made to the Board. The Chair's remuneration is reviewed each year by the Remuneration Committee without the Chair being present. The Committee compares the level of fees to those paid in similar financial services organisations, and considers the responsibilities of each Director and the amount available to be paid, as determined by the Society's rules. There are no bonus schemes or other benefits for Non-executive Directors, and they are not entitled to any pension from the Society. Non-executive Directors do not have service contracts.

A detailed breakdown of the remuneration of executive and non-executive directors (11 individuals) can be found in the Remuneration Report included in the Annual report and Accounts for the year ended 31 December 2023. No individuals were remunerated £1 million or more.

Information on remuneration of Material Risk Takers for the year ending 31 December 2023 are shown in tables below.

		Management body		Business areas	
Table 9: UK REM1 – Remuneration awarded in the 2023 financial year		Supervisory function	Management function	Other senior management	Other identified staff
Fixed remuneration (£000)	Number of identified staff	7	3	3	17
	Total fixed remuneration	197	543	304	1,016
	Of which: cash-based	197	539	301	1,012
	Of which: other forms	-	4	3	4
Variable remuneration (£000)	Number of identified staff	7	3	3	17
	Total variable remuneration	-	84	50	60
	Of which: cash-based	-	84	50	60
	Of which: other forms	-	-	-	-
Total remuneration		197	627	354	1,076

Fixed remuneration for all categories apart from Non-Executive Directors includes basic salary, benefits, pension contributions paid by the Society and payment in lieu of pensions (PILOP). Variable remuneration is any bonus earned in 2023. Non-Executive Directors receive fees from the Society only and this is shown as fixed remuneration in the table above.

Table 11: UK REM5 – Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff) awarded in the 2023 financial year	**Management Body remuneration**		**Business areas**	
	Supervisory function	**Management function**	**Corporate function**	**Total**
Total number of identified staff	7	3	20	30
Of which: members of the MB	7	3		10
Of which: other senior management	-	-	3	3
Of which: other identified staff	-	-	17	17
Total remuneration of identified staff (£000)	197	627	1,430	2,254
Of which: variable remuneration	-	84	110	194
Of which: fixed remuneration	197	543	1,320	2,060

9 Conclusion

This disclosure document has been prepared in accordance with regulatory requirements as interpreted by the Society based on its size and complexity, and is updated on an annual basis following the publication of the Annual Report and Accounts.

In the event that a user of this disclosure document requires further explanation on the disclosures given, they should write to the Society Secretary at teachers Building Society, Allenview House, Hanham Road, Wimborne, Dorset, Bh21 1AG.

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