Teachers Building Society

Annual Report & Accounts

For the year ended 31 December 2023

Teachers
Building Society

Contents

Directors and Professional Advisors

Directors

Julie Nicholson, Chair

Jon Anderson, Non Executive Director

Simon Beresford, Chief Executive

Jane Dumeresque, Non Executive Director

Ian Grayson, Non Executive Director

Patrick Jarman, Legal Director & Secretary

Kelvin Malayapillay, Non Executive Director

Rajesh Patel, Finance Director

Paul Winter, Non Executive Director

Auditor

BDO LLP, 55 Baker Street, London, W1U 7EU

Bankers

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Allenview House, Hanham Road, Wimborne, Dorset, BH21 1AG

Firm Reference Number

156580

Chair's and Chief Executive's Statement

Dear fellow members,

Welcome to our annual report and accounts for 2023.

Before we dive into an update on your Society's results, we want to touch on what a challenging year 2023 undoubtedly was. Since our last AGM we've seen continuing inflationary pressure and increases in energy bills impacting many of us, plus higher interest rates making mortgages more expensive too. The combination of these factors has been a tough economic climate that's tested our personal finances and created a cost of living challenge for many.

As a result, being able to support members, particularly those experiencing financial difficulties, became a natural priority for your Society in 2023. We met this by increasing our capacity to provide a range of support options we'd already offered informally to members who needed them. We signed up to the Government's voluntary Mortgage Charter for lenders, so that existing Society mortgage borrowers struggling financially in the current climate could access well publicised support measures.

In order to best look after our members, ensuring our team of dedicated colleagues felt supported was also a top Society priority in 2023. Our health and wellbeing committee led the charge in making sure that colleagues working from the office and remotely alike had access to a range of resources to look after their own mental and physical wellbeing and that of their families.

Society performance 2023

Whilst our purpose as a Society has always been to help teachers onto the property ladder, it's our savings members who enable this year after year and we are pleased to report 2023 was no different. We once again performed strongly in pursuit of our objectives, increasing total savings balances by £50.8m, which enabled us to help more teacher first time buyers.

Like all building societies we use the collective value of deposits to fund mortgage lending, meaning saving with us directly supports teachers in buying a first home. We think that's something special, to be proud of, to be celebrated. Whether you save with us or borrow from us, have been a longstanding member or joined us more recently, thank you, you're making a difference.

Despite the ongoing economic challenges mentioned above, we're pleased to report that we delivered robust financial results in 2023. Your Society is both profitable and operationally resilient.

In the following report you'll find a comprehensive update of our performance as a Society. Before you delve in, we'd like to walk you through some key facts and figures.

Lending

During 2023 the Bank of England base rate continued to rise, climbing from 3.5% in January to 5.25% by the end of the year. These increases put continued upward pressure on mortgage rates, impacting not just first time buyers, but borrowers whose significantly lower fixed rate mortgage deals were expiring. To help borrowers, your Society signed up to the Government's Mortgage Charter (as mentioned above), making a package of measures available to those needing help.

Despite these challenges your Society delivered lending growth of 4.9%. Teacher first time buyers with smaller deposits accounted for the majority of our mortgage lending in 2023, reaffirming our core lending purpose. We again complemented this with higher deposit specialist lending. In total, your Society delivered net lending of £10.6m (2022: £29.7m). This equates to an annual increase of 4.9% to our overall balance, and follows a 9.5% increase in 2022.

Savings

Existing members continued to benefit from rising interest rates in 2023. A number of our savings accounts featured in the national media and best buy tables and your Society was highly commended in the Savings Champion awards in the 'best notice cash ISA provider' category. As a result we welcomed many new savings account holders in 2023. The deposits of new and existing members alike through the course of the year meant your Society ended 2023 with an additional £50.8m in savings balances, a 16.8% increase on 2022.

Chair’s and Chief Executive’s Statement
Continued

Overall performance

The Society’s product and operating strategy resulted in an operating profit (profit before taxation) of £1.15m for the year, down from £1.87m reported in 2022, mainly driven by the continued investment in the society’s new technology infrastructure.

Your Society surpassed £400m of assets for the first time during 2023, demonstrating that the Society is growing as planned. At year-end the Society’s had around 11,000 members and total assets were £419.7m. This represents a £44.3m increase on 2022 (£375.4m 2022) equivalent to 11.8% year on year growth.

The Society’s capital and liquidity, which are two key measures of financial resilience, remained strong in 2023. Your Society’s capital, which is predominantly made up of retained earnings, increased to £25.8m (£24.9m: 2022), this level of capital is 34% above the amount the UK financial services regulator requires us to hold. The Society’s holding of high quality liquid assets (HQLA) was £92.6m (£55.6m: 2022). The level of HQLA at the end of 2023 was 232% greater than the amount the UK financial services regulator requires us to hold.

Investing in our future

As a mutual we don’t use our profits to pay dividends to shareholders. Instead, we reinvest profits, ensuring your Society remains ‘fit for purpose’ in the face of the changing needs of our members, and in particular the teachers we were formed to serve. This includes things that are immediately visible, like offering the best mortgage and savings rates we can and being able to support mortgage lending to those with just a 5% deposit. It also includes investment in the longer-term future of the business. We previously announced we were embarking on a multi-year project to change our customer account management systems with the intention of transforming member experiences. In short we want to make it easier and smoother to open and manage mortgage and savings accounts with us. Significant progress was made on this project during 2023, including investment in the skills and technology we need to support the project’s successful launch. This programme continues into 2024.

Clearer communication

2023 was also the year a new piece of industry regulation was launched, called the Consumer Duty. As a Society we already strived to meet the requirements set out by the Duty including offering fair value products, ensuring communications are clear and not confusing. Our teams worked hard to confirm we were meeting all aspects of the Duty during 2023 and will continue to do so throughout 2024.

People & the planet

Overall in 2023 we welcomed 19 new colleagues to our team to support us in serving more new members to the Society in 2024 and beyond. Our teams once again worked with pride and dedication to support new members choosing to save with us or buy their first home by borrowing from us, and helping existing members who needed to renew a mortgage deal or savings account throughout the year. We’re very proud of the family of colleagues we have, and those of you who have interacted with them during the year will no doubt agree that the personal service we’re able to offer is something special. Thanks to the whole team for their hard work and dedication.

Environmental sustainability remained a focus for us in 2023. We continued to do the common sense things like cutting down on paper usage, ensuring we recycle, and using energy as efficiently as possible. We also continued to explore future product and service innovations that could support a more sustainable future for you as members and us as an organisation.

Summary

We ended 2023 in a positive position: financially stable, operationally robust and with a reaffirmed commitment to supporting teachers own their own homes – an achievement we by no means take for granted given the economic challenges being faced by members, colleagues and the wider community.

2023 was an important year for our programme to upgrade our customer account management systems, with strides being made on this project by both your Society and its suppliers. Once completed the experiences of members savings with us and borrowing from us will be significantly improved.

We are hopeful that during 2024 the cost of living crisis will show signs of abating and that the UK will be on a path back to economic stability after the upward economic pressure of recent years.

But, in 2024, as always, we would urge any member feeling overwhelmed by financial pressures (whether a borrower or saver) to access the support of our expert team to understand their options – you are not alone, but part of the Teachers family. Please make contact with us at any time if you would like to understand your options with regards to the products and services you hold with us. We also have information available that you might find useful in the 'tougher times' area of our website.

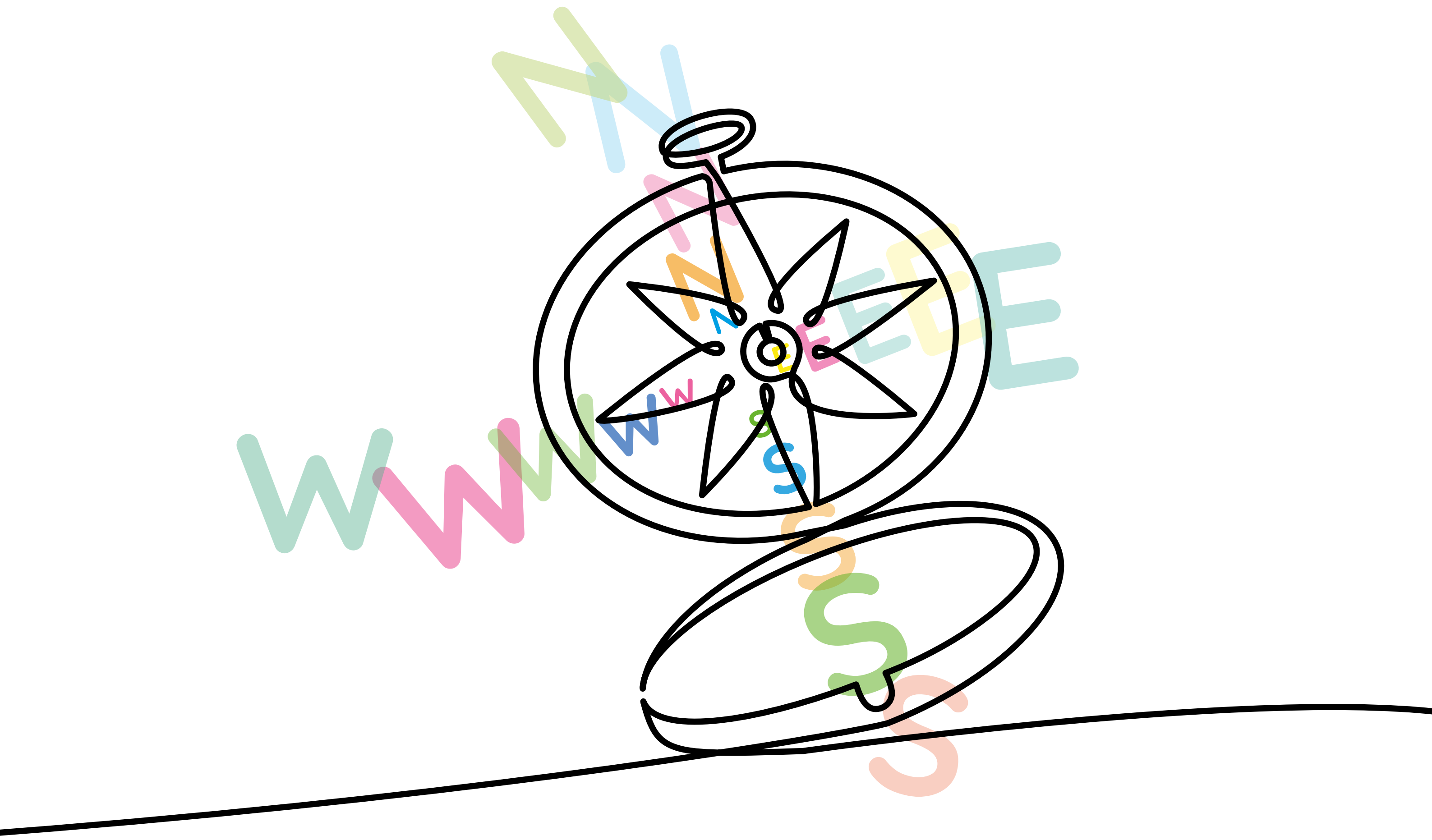
As a final point, during 2023 we welcomed two new members to our Board, Jonathan Anderson and Kelvin Malayapillay, who were formally elected at our last AGM. This year there is an additional change to our Board. Ian Grayson, who offered a unique perspective to the Board and leadership team as a former teacher, is stepping down as Non Executive Director after 9 years. We thank Ian for his significant contribution to the Society and wish him all the best for the future. Recruitment for a replacement to Ian who can offer the same first hand insight into the profession is underway.

Julie Nicholson Chair

11 March 2024

Simon Beresford Chief Executive Officer

11 March 2024



Strategic Report

The Directors have pleasure in presenting the Strategic Report for the year ended 31 December 2023.

Business Objectives

The Society's core purpose is to provide residential mortgages that meet the needs of teachers and other education professionals in England and Wales. To achieve this, the Society provides investing members with secure and competitive savings products nationally.

The Society operates through a centralised operating model based in Wimborne which provides an efficient, convenient and personal service to customers via the internet, telephone and post. Mortgages are originated through both the advised direct and the intermediary-introduced routes.

The Society intends to remain an independent, mutual building society generating sustainable value for its members.

Review of the Business

The Society grew its total assets by £44.3m to end the year at £419.7m (2022:

£375.4m) and generated a profit for the year of £869k (2022: £1,505k). The reduction in profit was primarily the result of increased administrative expenses as the Society continues its implementation of a new customer account management system. The result for the year was in line with our forecast expectations.

This year's profit has contributed to maintaining a stable capital position with a core equity tier 1 capital ratio of 18.6% (2022: 18.4%). The movement being due to the increased capital resource from retained earnings growing at a greater rate than capital requirement from the mortgage book. The majority of the Society's capital resources are represented by core equity tier 1 capital in the form of retained earnings.

We have continued to invest in technology and in supporting colleagues through increased training to provide members with a more efficient and enhanced service.

Mortgage Lending

The Society was founded to help teachers own their own homes and we have continued to help more teachers to get onto the housing ladder in 2023 with around 42% (2022: 47%) of new lending being to first-time buyers including through schemes such as Help to Buy.

New mortgage lending for the year was £72.4m (2022: £97.1m) with net lending of £10.6m (2022: £29.7m).

Our approach of manually underwriting and individually assessing all mortgage applications for credit quality and affordability combined with our ongoing focus on teacher lending has continued to ensure that our mortgage arrears remain low compared to the building society sector and the industry as a whole. The level of impairment provisions set aside for potential loan losses increased slightly by £36k to £432k as a result of growth in the mortgage book, representing 0.1% of the mortgage book balance (2022: £396k – 0.1%).

Savings and Funding

The overall funding balance increased to £390.6m (2022: £348.6m). The shares and other customer deposits balance increased to £354.1m (2022: £303.3m) reflecting the strength of our savings proposition. This also supported the increased level of both lending in 2023 and level of liquid assets. We have been able to maintain competitive savings rates throughout the year.

The Society repaid £5m Term Funding Scheme with additional incentives for Small and Medium sized Enterprises (TFSME) in 2023, this was ahead of contractual repayments starting in 2024 and concluding in 2025. The total drawings as at 31 December 2023 under the Bank of England's Term Funding Scheme with additional incentives for Small and Medium sized Enterprises TFSME was £35m (2022: £40m).

We are committed to providing competitive rates to our members while seeking to balance the amount of savings balances against the amount of mortgage lending.

The total liquidity ratio was 24.9% (2022: 18.6%), the increase being the result of additional funding inflows in excess of the mortgage book growth.

Supporting colleagues

In these unprecedented times, we continue to prioritise colleagues' wellbeing, looking out for and supporting one another. We're proud to have continued to protect jobs in 2023, with recruitment levels increasing in line with growth in the Society. Colleagues throughout the UK work either permanently from home, in our Wimborne office or on a hybrid basis. We seek every opportunity to bring the whole team together and did this both virtually and in person throughout 2023.

Future Development

Our strategy is to continue to support teachers 'under-served' by the wider mortgage market, such as early career teachers, by offering them tailored products and an individual, personal service.

We plan to continue our investment programme to further improve our digital capability, products and service.

The UK still faces economic uncertainty as the 'Cost of Living' crisis continues, however your Society is well capitalised, with strong liquid resources.

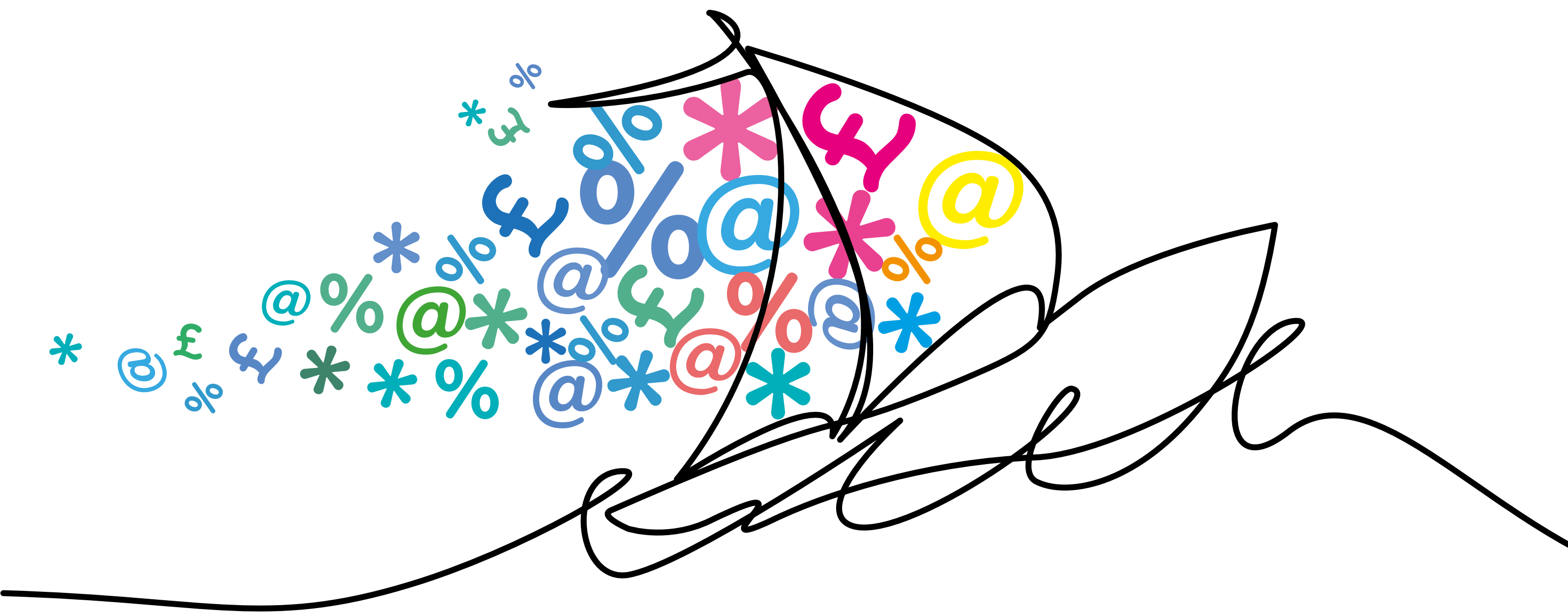
Core to the Society's ethos, we aspire to continue providing all our members and customers with not only an efficient service, but one that is distinctly personal, friendly and professional.

The Board continues to be focused on the long-term success of the Society. Its strategy is based on enhancing a sustainable business model that will deliver tangible benefits to the Society's members and the wider education community. As part of this strategy your Society is part way through a multi-year investment project to change our customer account management systems which is intended to modernise member experiences. Profit was lower in 2023 compared to 2022 primarily due to investment in the project. This expenditure will continue in 2024 and it is expected profit will further reduce. However, after the project is complete, profit is expected to return towards more normal levels. Profitability in 2024 will also be impacted by rising cost of funds as the retail savings balance is increased to support the Society's TFSME repayment programme.

Key Performance and Other Indicators

The Society monitors its performance and development by reference to a range of Key Performance Indicators ('KPIs'). For 2023, the results for the primary KPIs used by the Board were:

Key Performance Indicators	2023	2022
Total profit for the year	£869k	£1,505k
Net interest margin	2.64%	2.62%
Growth in mortgage balances	4.9%	9.5%
Common equity tier 1 ratio	18.6%	18.4%
Cost to income ratio	88.0%	78.0%
Total liquid asset ratio	24.9%	18.6%
Mortgages > 3 months in arrears	0.10%	0.04%



Total Profit for the Year

The Society aims to generate a sufficient level of profit that balances the interests of both savings members and mortgage members and ensures capital strength is preserved to protect the Society against the risk of losses and to support business growth.

Profit after tax for the year of £869k (2022: £1,505k) has been transferred to the Society's general reserve.

Net Interest Margin

This is the difference between the average rate the Society receives on its lending and the average rate it pays on its shares and deposits. This needs to be sufficient to generate enough income

to cover the operating costs of the Society and to make an appropriate profit to support capital strength and expected business growth.

The net interest margin increased to 2.64% from 2.62% in 2023. This is the result of careful management of the rates offered on both the assets and liabilities of the Society. The Society's net interest margin was broadly in line with the plan for the year through tightly managing liquidity and interest rates.

Growth in Mortgage Balances

The change in mortgage lending is significantly affected by economic and market conditions and the level of repayments of existing loans. The Society's long-term goal is to grow steadily by

providing attractive residential mortgage products to teachers and other education professionals.

Overall, total mortgage balances including fair value adjustments and loan loss provisions increased by 4.9% (2022: 9.5%) from £303.3m to £318.2m.

Core Equity Tier 1 Capital Ratio

This is one of the primary metrics used by regulators to measure the capital strength of a bank or building society.

Core tier 1 equity ('CET1') capital is composed of the highest quality capital of an institution and in the case of the Society this represents the majority of its available capital resources. CET1 capital is expressed as a percentage of the regulatory risk-weighted assets ('RWAs') of the Society. RWAs are calculated by applying a standardised regulatory risk factor or weighting to its assets for credit risks as well as including an add-on for operational risk.

The CET1 ratio in 2023 was 18.6% (2022: 18.4%), continuing to provide a significant level of security to the Society's members.

Cost to Income Ratio

This ratio is a broad indicator of the efficiency of the Society; it is calculated by expressing operating expenditure as a percentage of net operating income. It shows how much of the income generated is consumed by the cost base.

For 2023 this was 88.0% (2022: 78.0%). This increase is predominantly the result of continued investment in a new customer account management system.

Total Liquid Asset Ratio

This ratio measures the level of liquidity resources that the Society has available to draw upon and is expressed as a percentage relative to total shares, deposits and loans (SDL). The Society holds liquid assets to ensure it has sufficient access to funds to meet its obligations as they fall due under normal operating conditions as well as during periods of stress.

The Society's level of liquid assets was 24.9% (2022: 18.6%). The increase results from planned actions to increase the funding balance both as a precautionary measure as well as preparation for TFSME repayment.

Arrears and Forbearance

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

As at 31 December 2023, the value of mortgage accounts three months or more in arrears, expressed as a percentage of total mortgage balances outstanding at the period-end, remains low by historic standards at 0.10% (2022: 0.04%).

UK Finance publishes data based on the numbers of cases where the arrears balance represents 2.5% or more of the mortgage debt. The Society had 0.37% cases in this category (0.20% in 2022) compared to a UK Finance average of 1.00% (0.74% in 2022) for homeowners.

The Society had two properties in possession as at 31 December 2023 (2022: nil).

The Board understands that the personal and financial circumstances of our borrowers can change over time. When this happens, our borrowers benefit from our policy to exercise as much forbearance as reasonably possible and to ensure their fair treatment at all times. As at 31 December 2023, the Society had offered forbearance measures to 5 customers (2022: 7).

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

Loan impairment provisions increased in 2023 (see note 9) and represents 0.14% percent of the mortgage book (2022: 0.13%). The percentage of provision to the overall mortgage book remains low compared to our peers and the industry average.

Principal Risks and Uncertainties

Risk management framework

Building societies operate in a competitive environment and are subject to economic uncertainties. The management of risk is therefore central to the continuing success of the Society.

The Board is responsible for determining the Society's risk management framework and system of internal control, which is designed to enable the Society to achieve its objectives within a managed risk profile, not to eliminate all risk. To do this, the Society bases its risk management framework on the 'three lines of defence' model. The first line of defence is the checks and controls utilised

by operational staff directly engaged in the management of the risks in their area of activity. The 'second line' is the assurance provided by the independent review processes deployed by the Society's Compliance and Risk Management functions. The 'third line' is the independent internal audit reports regularly provided to management and the Audit Committee by our outsourced internal audit partner. Issues arising from these reports are also considered by the Board's

Risk Committee.

The table on the following page summarises the principal risks relevant to the Society and the strategies put in place to manage them.

Strategic Report
Continued

Risk	Description (and sub category)	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. **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.	• 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. • 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.

Risk	Description (and sub category)	Key mitigating actions
Financial (continued)	**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.
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 15 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.

Risk	Description (and sub category)	Key mitigating actions
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 highlighted 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.

Further information is provided below on two of these risk areas: those relating to the customer account management system project and climate change risk. In the case of the customer account management systems project this is because it is, in the Board's view, the Society's most significant risk. The reason for the additional information on climate change is because the Society operates in a highly regulated sector which continues to focus on this issue.

Customer account management system project

We are in the process of upgrading our customer account management systems, as referred to earlier. Once completed, the services provided to members will be greatly enhanced. A project such as this has a number of inherent risks, including the possibility that it will exceed budgeted costs and planned timescales. Key mitigations in this respect include having appropriate contingency arrangements, recruitment of additional and specialist resource, commissioning expert 3rd party assessments at key stages and a rigorous governance structure in place, including oversight by an executive Transformation Project Committee responsible for project delivery. The Board also maintains strong oversight over the project.

Climate change

The Board is very aware of the threat climate change poses not only to the natural environment but also to financial stability. For this reason, climate change has been integrated into the Society's risk management framework.

Strategy

Climate change risks can constitute physical risks, for example the impact of increased flooding or subsidence, or transitional risks, meaning the effect of the adjustment towards a low-carbon economy. The manifestation of climate change risks is inherently uncertain with variations in both timing and the nature of the impact. While the exact outcome is uncertain, it is highly likely that some combination of physical and transitional risks will occur. In response, the Board has agreed a Climate Change Risk Management Framework which identifies how these risks might impact the Society and the approach to be taken in managing those risks. The most significant element relates to credit risk. Mortgage asset values could be adversely affected by increased physical risks or the costs of, for example, complying with stricter energy efficiency policies or increased insurance premia. Our initial response is to monitor those risks by commissioning an external assessment of our mortgage book on an annual basis. (See Metrics and Targets on the next page for further detail) Consideration will be given to the adoption of relevant risk limits in our lending policy in due course.

Metrics and Targets

The Society is working to quantify its exposure to climate change risks and, in due course, set targets and risk limits to aid the management of such risks. Each of the executive committees and the Board Risk Committee receive quarterly reports on a wide variety of metrics related to climate change riskWith regard to credit risk, the Society has for the third year commissioned a climate change risk analysis of the mortgage book by a specialist third party. The standard metric for considering climate change is the global greenhouse gas concentration as measured by Representative Concentration Pathway (RCP) levels. Four climate change scenarios are used in the analysis and are the scenarios published by the Met Office as part of UK Climate Projections '09 and UK Climate Projections '18.The analysis is carried out at 5 year intervals to 2080. This assessment has been used as part of the Society's Internal Capital Adequacy Assessment Process (ICAAP) to determine whether capital should be held against climate change risk. Based on this assessment the Society has not yet deemed it necessary to do so. The Society's simple business model of savings deposits funding residential lending is, in the Board's current view, relatively resilient to the financial risk from climate change. This will be kept under review.

Governance

The Board Risk Committee has responsibility for the oversight and monitoring of climate change risk. The Board has also designated the Legal Director as the senior manager responsible for managing the financial risk of climate change. Each of the executive committees monitors the impact of climate change risk to the extent relevant to each committee's remit.

On behalf of the Board

Julie Nicholson

Chair of the Board 11 March 2024

Directors report

The Directors have pleasure in presenting the Annual Report and Accounts for the year ended 31 December 2023. Having taken into account all the matters considered by the Board and brought to the attention of the Board during the year, we are satisfied that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable.

Business Review and Objectives

A review of the Society's business, its objectives, activities and future plans is contained in the accompanying Chair's and Chief Executive's Statement and the Strategic Report. The Strategic Report also contains the Society's key performance indicators for the year and other important information relating to its business. The Society's gross capital and free capital as percentages of shares and borrowing can be found in the Annual Business Statement.

Principal Risks and Uncertainties

The Strategic Report identifies the Society's principal risks and uncertainties and the key actions taken to mitigate them. In addition to the description in the Strategic Report, note 24 to the Accounts contains information relevant to the Society's financial risk management policies and objectives.

Creditors' Payment Policy

It is the Society's policy to pay suppliers within the agreed terms providing the supplier performs according to the terms of the contract. In 2023, the average number of days which the Society took to settle amounts owing to trade creditors was 16 (2022: 16).

Pillar 3 and Country-by-Country Reporting

The disclosures required under EU Directives for Pillar 3 risk disclosure reporting are published on the Society's website. The requirements of Country-by-Country Reporting are disclosed in note 27 to the Accounts.

Donations

The Society gave £657 (2022: £25,744) in charitable donations during the year. 2022 donations included £25,000 to Education Support.

It is the Society's policy not to make political donations; none were made in the year (2022: nil).

Land and Buildings

The Directors consider that the overall market value of the Society's Principal Office excluding the proportion held as investment property is in excess of the book value. Investment property is held at fair value in the financial statements.

Mortgage Arrears and Forbearance

At 31 December 2023, there was 1 mortgage account more than 12 months in arrears (2022: 1). For details of accounts where the Society has offered forbearance, please refer to the Strategic Report.

Auditor

BDO LLP has expressed its willingness to continue in office, and, in accordance with Section 77 of the Building Societies Act 1986, a resolution for its re-appointment will be proposed at the Annual General Meeting.

Going Concern

The Directors are required to consider whether the Society will continue as a going concern for a period of twelve months from the date of signing of the accounts.

In making the assessment the Directors have reviewed the Society's corporate plan and considered risks that could impact on the Society's capital, financial and liquidity positions over that period.

The Directors have also reviewed forecasts prepared using stressed but plausible operating conditions for a period in excess of 12 months from the date of approval of these financial statements. A range of sensitivities has also been applied to these forecasts, including unplanned expenditure, stress scenarios and reverse stress testing relating to economic uncertainty caused by the direct or indirect consequences of high inflation and rising interest rates, focused on the Society's capital and liquidity position and operational resilience.

After considering this information, together with available market information as well as the Directors' knowledge and experience of the Society and markets in which it operates, after making the necessary enquiries the Directors are satisfied that the Society has adequate resources

to continue in business for at least the twelve-month period from the signing of the accounts. Accordingly, the accounts continue to be prepared on a going concern basis.

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 served as Directors of the Society during the year and up to the date of the report:

Non-Executive Directors

J Nicholson, Chair
I Grayson

P Winter

M Himsworth, retired 25 April 2023

J G Dumeresque

J T Anderson

K D Malayapillay

Executive Directors

S Beresford, Chief Executive

R K Patel, Finance Director

P E Jarman, Legal Director & Secretary

None of the Directors, nor any of their close family members, held an interest in shares or debentures of any undertaking connected with the Society. Full details of the Society's Directors in office as at 31 December 2023 can be found in the Annual Business Statement.

Directors report

Continued

At the next Annual General Meeting, on 25 April 2024, all Directors will offer themselves for re-election with the exception of Ian Grayson.

Directors' Responsibilities for Preparing Annual Accounts

The following statement, which should be read in conjunction with the statement of the auditor's responsibilities within the Independent Auditor's report to the members accompanying this report, is made by the Directors to explain their responsibilities in relation to the preparation of the Annual Accounts, Annual Business Statement and Directors' Report:

The Directors are required by the Building Societies Act 1986 to prepare, for each financial year, Annual Accounts which give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the affairs of the Society as at the end of the financial year, and the income and expenditure of the Society for the financial year.

In preparing those Annual Accounts, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the Accounts on the going concern basis, unless it is inappropriate to presume that the Society will continue in business.

The Building Societies Act 1986 requires the Directors to prepare for each financial year, in addition to the Accounts, 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 accounting records in accordance with the Building Societies Act 1986; 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 under the Financial Services and Markets Act 2000.

The Directors have general responsibility for safeguarding the assets of the Society and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors who held office at the date of approval of this report confirm that, so far as they are aware, there is no relevant audit information of which the Society's auditor is unaware, and each Director has taken all the steps that they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the Society's auditor is aware of that information.

On behalf of the Board

Julie Nicholson

Chair of the Board 11 March 2024

Report on corporate governance

Although the UK Corporate Governance Code (the Code), issued by the Financial Reporting Council, does not directly apply to mutual societies, the Board has regard to its principles. The Code has been written with publicly quoted companies in mind, and some of its provisions are not necessarily consistent with the structure of building societies and the legal framework within which they operate. The Board has therefore considered the Code with this in mind and adapted its principles, where appropriate, to make them relevant to a building society.

This Report describes the Board's approach to the Code by considering each of the Code's five groups of principles: Board Leadership and Company (Society) Purpose; Division of Responsibilities; Composition, Succession and Evaluation; Audit, Risk and Internal Control; and Remuneration.

Board Leadership and Society Purpose

Board's role and activities

The Board's role is to promote the long-term sustainable success of the Society and to set the Society's purpose, values and strategy. The Board considers that its governance structure is a fundamental part in delivering these aims and enables it to successfully focus on strategy and risk management.

The Board maintains a list of matters reserved for its decision and a schedule of delegated authorities, identifying what matters are delegated, to whom and with what limitations. The Board approves major business decisions and mandates a series of policies, including a lending policy, within which the Society's business is required to operate. The Board also approves, annually, a five year rolling corporate plan with appropriate targets and objectives designed to ensure the Society's long-term sustainability. Additionally, each year, the Board reviews all of its policies on at least one occasion, ensures appropriate funding plans are in place, sets limits on delegated expenditure and reviews the Society's risk profile and its capital and liquidity position, both current and projected. In taking each of these actions, the Board considers how opportunities and risks may impact the future success of the business and the sustainability of the Society's business model.

In order to monitor the Society's performance and achievement of strategic objectives, the Board receives monthly reports on a wide variety of subjects including data on the Society's financial and operational performance, achievement of strategic milestones, compliance with risk appetite and policy limits and other performance indicators. Where the data it receives indicates that a corrective response is required, the Board will ensure that appropriate actions are put in place and implemented.

The Board's governance structure includes the following Board committees:

- Audit Committee – See section on Audit, Risk and Internal Control on page 25;
- Risk Committee – see section on Audit, Risk and Internal Control on page 26;
- Remuneration Committee – see section on Remuneration on page 26;
- Nomination Committee – see section on Composition, Succession and Evaluation on page 24.

There are also a number of Executive-led management committees, information on which is contained in the section on Division of Responsibilities on page 21.

Report on corporate governance

Continued

Stakeholder engagement

The Board endeavours to understand the views of the Society's key stakeholders. Engagement with the Society's members is pursued in a number of forms, particularly through discussion at the AGM, member surveys and member communications. In the event that more than 20% of votes are cast at an AGM against a Board recommended resolution, the Board undertakes to explain what actions it intends to take to understand the reasons for the vote and to publish its response within the following six months. An update would also be provided in the next Annual Report. In addition, with the introduction of the FCA's Consumer Duty obligations, Kelvin Malayapillay acts as the Board's Consumer Duty champion.

With regard to suppliers, Executive Directors and senior management hold regular update meetings with key business partners. The aim of these discussions is to ensure that an open and productive relationship is maintained.

The Board has appointed two of its independent Non Executive Directors, Paul Winter and Ian Grayson, as its designated directors responsible for engagement with the Society's workforce. In addition to informal communication channels, every three months Mr. Winter and Mr. Grayson hold a meeting with different groups of colleagues to enable an exchange of views to take place. Over the course of the year, all colleagues have the opportunity to participate in at least one of these meetings. Points made by colleagues during these quarterly meetings are fed back to the Board. Mr. Winter and Mr. Grayson will, additionally, highlight any colleague views relevant to any matters discussed by the Board as and when they arise. The Society also has a whistleblowing process, overseen by Mr Winter, to enable colleagues to raise concerns in confidence, and anonymously if they wish to.

The Board also ensures that there is an open and co-operative relationship with the Society's regulators. Regular communications and updates are provided to them, as and when appropriate.

Culture

The Board seeks to ensure that the Society's culture is aligned with its purpose, values and strategy. The Board monitors the Society's culture in a number of different ways. Firstly, it receives quarterly culture monitoring reports which include wide ranging and comprehensive indicators including data on colleague turnover, exit interviews, disciplinary data, remuneration/promotion information, supplier relations, customer outcomes, complaints, regulatory compliance, and audit actions status. Secondly, Board members maintain informal direct contact with a large number of the Society's colleagues. As a small building society, it is possible for Board members to form a clear view of the Society's culture through these informal connections. Thirdly, through the designated Directors' stakeholder engagement activities noted above. If any of these monitoring activities indicate that corrective action needs to be taken, the Board would seek assurance from management that this had been carried out.

Colleague investment and reward

The Board attaches a high priority to investing in the skills and capabilities of the Society's colleagues and ensures that an appropriate budget is allocated for training and development. Part of the objectives of the training and development programme is to support the promotion of the Society's values and to ensure that the Society's culture is aligned to them. Similarly, the Board's approach to reward for colleagues – more particularly described in the Remuneration Report – is to ensure that colleagues are rewarded fairly but also that reward supports the alignment of values and culture.

Division of Responsibilities

Chair and Chief Executive

The Chair of the Board is Julie Nicholson, who the Board determined was independent on The Chair of the Board is Julie Nicholson, who the Board determined was independent on appointment when assessed against the Code's independence criteria. She leads the Board and is responsible for its overall effectiveness in directing the Society. In so doing, the Board believes she has demonstrated objective judgement and promoted a culture of openness and debate. The roles of Chair and Chief Executive are separate and distinct and held by different directors. The Chief Executive, Simon Beresford, is responsible, with the other Executive Directors, for managing the Society's business subject to the matters reserved for Board decision and in accordance with the Society's corporate plan, policy structure and the Board's risk appetite.

Board membership, meetings and attendance

There were six Non Executive Directors until 25 April 2023 and five after that date and three Executive Directors, including the Chief Executive, throughout the year. The following table lists all the Directors serving during the reported year, the number of meetings held and Directors' attendance at those meetings. (The number of meetings each Director was eligible to attend is indicated in brackets.)

Director:	Attendance
Julie Nicholson	10 (10)
Ian Grayson	10 (10)
Malcolm Himsworth[1]	4 (4)
Jane Dumeresque	10 (10)
Paul Winter	10 (10)
Jonathan Anderson	10 (10)
Kelvin Malayapillay	10 (10)
Simon Beresford[2]	9 (10)
Patrick Jarman[2]	10 (10)
Rajesh Patel[2]	10 (10)
Total meetings:	10

1 Retired from the Board 25.04.2023
2 Executive Director

Outside of Board meetings, the Directors met for a day focused on strategy, the Non Executive Directors met without the Executive Directors present and the independent Non Executive Directors met without the Chair present to appraise the Chair's performance.

In this, and the subsequent section on Board committees, references to meetings includes meeting by video conference.

Full details of Directors during the reported year are contained in the Directors' Report and the Annual Business Statement.

Report on corporate governance
Continued

Non Executive Directors

Non Executive directors have a prime role in appointing and removing Executive Directors and scrutinising and holding to account the performance of management and individual Executive Directors. In addition to the Chair, the Non Executive Directors are:
Ian Grayson,
Paul Winter,
Jane Dumeresque,
Jonathan Anderson,
Kelvin Malayapillay,
all of whom are considered by the Board to be independent. None of the circumstances identified by the Code as potentially impairing independence apply to any of them. Paul Winter is the Senior Independent Director.
Committee membership, meetings and attendance
The tables below state, for each Board committee its chair, committee members, number of meetings held during the reported year, and committee members' attendance at those meetings. (The number of meetings each Director was eligible to attend is shown in brackets.)

Audit Committee

Members	Attendance
Jonathan Anderson (Chair)	5 (5)
Ian Grayson	5 (5)
Paul Winter	5 (5)
Jane Dumeresque	5 (5)
Kelvin Malayapillay	5 (5)
Malcolm Himsworth*	2 (2)
Total meetings	**5**

* Retired from the Committee April 2023

Risk Committee

Members	Attendance
Jane Dumeresque (Chair)	8 (8)
Paul Winter	8 (8)
Julie Nicholson	8 (8)
Ian Grayson	8 (8)
Jonathan Anderson	8 (8)
Kelvin Malayapillay	8 (8)
Malcolm Himsworth*	4 (4)
Total meetings	**8**

* Retired from the Committee April 2023

Remuneration Committee

Members	Attendance
Ian Grayson (Chair)	5 (5)
Malcolm Himsworth[1]	2 (2)
Julie Nicholson	5 (5)
Paul Winter[1]	2 (2)
Jane Dumeresque[2]	3 (3)
Jonathan Anderson[2]	3 (3)
Kelvin Malayapillay[2]	3 (3)
Total meetings	**5**

1 Retired from the Committee April 2023

2 Appointed to the Committee April 2023

Nomination Committee

Members	Attendance
Julie Nicholson (Chair)	2 (2)
Simon Beresford	2 (2)
Jonathan Anderson	2 (2)
Paul Winter	2 (2)
Total meetings	**2**

In addition to the Board Committees, the Society's governance structure includes a number of Executive-led management committees that report to the Board or a Board Committee. These are the Executive Committee, Credit Committee, Assets and Liabilities Committee, Conduct & Operational Risk Committee, Transformation Project Committee and the Product Governance Committee.

The members of these committees are the Executive Directors, the Chief Operating Officer, the Commercial Director and the Head of People and Culture. Two Non Executive Director attend each Transformation Project Committee meeting.

External appointments

Directors are not permitted to take on additional external appointments without prior approval of the Board. During the reported year approval was given to Non Executive Directors to accept the appointment of additional directorships. The approvals were given because the appointments did not present a conflict of interest with the Society or impact on the time the Non Executive Director in question could devote to the Society's affairs.

Report on corporate governance

Continued

Composition, Succession and Evaluation

Nomination Committee role

The Nomination Committee is responsible for considering Board composition, succession planning for both Executive and Non Executive Directors and leads the process for Board appointments. It also oversees Board and Board Committee effectiveness evaluations. A summary of the work of the Nomination Committee follows.

Succession planning and appointments

The Committee considers the balance of skills and experience on the Board and the requirements of the business in the context of succession planning and Board composition. It maintains a Board skills matrix in which it identifies current and future skills requirements. Board composition and the succession pipeline is reviewed at least annually and new Board appointments are made both to reflect the Society's close association with the teaching profession and to ensure that the Society's affairs are directed and overseen with the necessary range of professional skills and business experience.

Candidates for directorship are identified in a number of ways, including advertisements in relevant publications and through external search agencies. No appointments to the Board were made during 2023.

Board evaluation

The Committee has established a system of appraisal and review to evaluate the performance, and the training and development needs, of individual directors and the Board as a whole.

Each of the Non Executive Directors, and the Chief Executive, undergoes an annual performance review by the Chair of the Board. The Chair's own annual performance is reviewed by the Senior Independent Director, after having solicited feedback from the other Directors. The Chief Executive conducts an annual performance review of the other Executive Directors. The Nomination Committee itself assesses the continuing independence and commitment of the Non Executive Directors and the Board's training and development needs.

The Committee initiates a review and evaluation of Board and Board Committee effectiveness by conducting a formal annual appraisal. This is facilitated by means of a questionnaire completed anonymously by all attendees to the relevant meetings, and extends beyond Directors and committee members. From time to time, the Committee also seeks an external assessment of its effectiveness; such a review was last undertaken in January 2023. Whether the review is through self-appraisal or external assessment, actions are agreed to take forward any identified improvements and their implementation is subsequently monitored by the Committee and the Board.

Inclusion & Diversity

The Society has an Inclusion & Diversity Policy to encourage diversity in its workforce and an inclusive culture. In furtherance of this, the Board receives reports on the Society's progress on inclusion and diversity and the Committee takes account of this in its deliberations.

The Board has a policy of encouraging diversity in its composition as much as possible. In support of this, when short-listing for Board appointments, CVs are anonymised with no indication of name or gender available to the selectors.

As required to be disclosed by the Code, the gender balance of those in senior management (defined as members of the Executive Committee) and their direct reports, as at 31 December 2023, is 50% male and 50% female (2022: 45% male and 55% female).

Re-elections at the AGM

Unless they are stepping down from the Board, all Directors submit themselves for re-election every year, subject to continued satisfactory performance. At the 2024 AGM, Ian Grayson will be retiring and not seeking re-election.

Audit, Risk and Internal Control

Audit Committee Role

The Audit Committee is comprised only of independent Non-Executive Directors. Its role is to monitor the integrity of the external audit and the Society's financial statements, to appraise the Society's systems of financial control, and to contribute to assessing the overall effectiveness of the Society's control environment and oversee the necessary actions to improve such controls to mitigate the risks faced by the Society. It is supported by regular reports from the Internal Auditor and External Auditor. A summary of the work of the Audit Committee follows.

External audit

The Committee reviewed the overall work plan of the external auditor and approved their remuneration and terms of engagement and considered in detail the results of the audit, the external auditor's performance and independence and the effectiveness of the overall audit process. BDO was first appointed as external auditor at the 2020 AGM.

A key activity of the Committee is to review the Annual Accounts prior to Board approval. It reviewed and challenged relevant accounting policies and significant financial judgements including the level of lending loss provisions, the basis of the 'effective interest rate' (EIR) calculation for revenue recognition, investment property valuation and hedge accounting. In order to address these issues, the Committee sought and received detailed briefings and explanations.

All significant financial judgements are set out in the Accounting Policies in note 1 to the Accounts, with further details provided in other notes to the Accounts, the Chair's and Chief Executive's Statement and the Strategic Report and the Directors' Report.

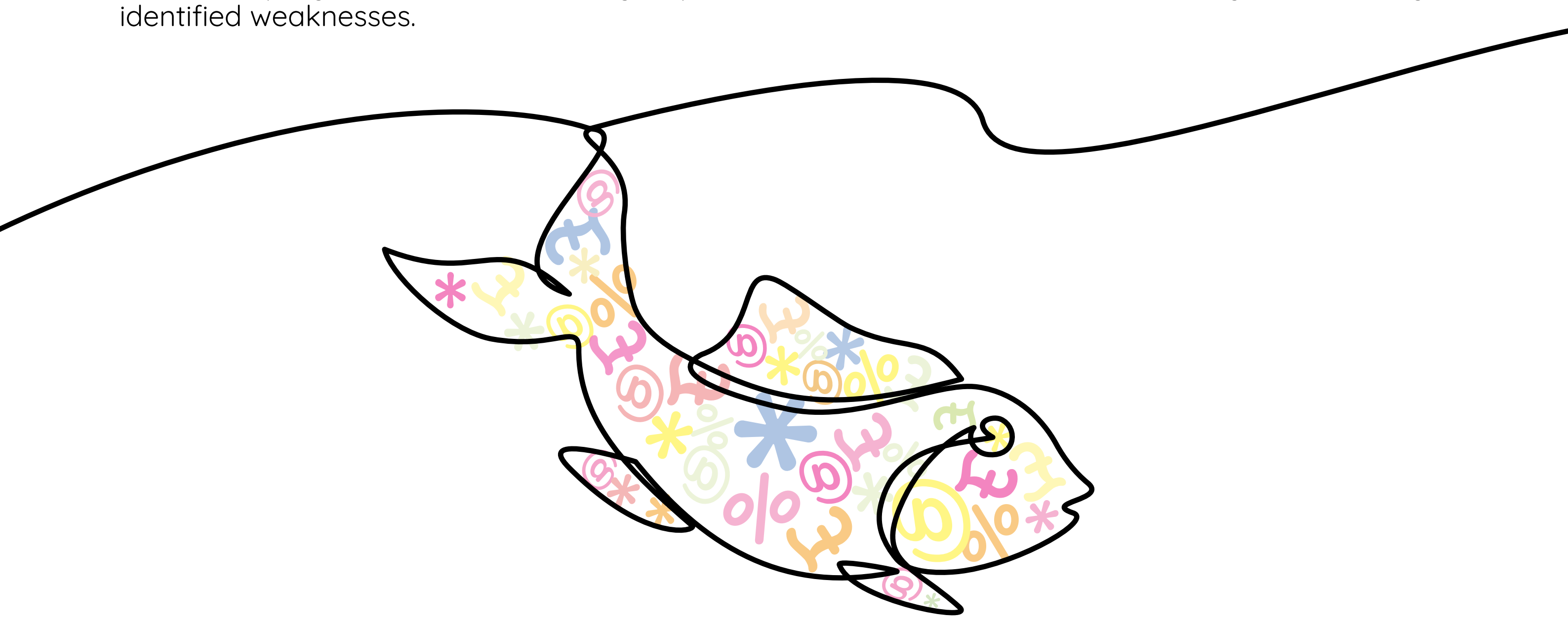
The Directors' statement of responsibility for preparation of the Annual Report and Accounts is included in the Directors' Report.

Internal audit

The Committee also reviews and approves the plans of the Internal Auditor and during the course of the year receives and reviews the Internal Auditor's reports. The Society has outsourced its internal audit function to RSM Risk Assurance Services LLP.

Internal controls

The Committee has reviewed the effectiveness of the Society's internal financial controls and has monitored progress to ensure that any required remedial action has been or is being taken on any identified weaknesses.



Report on corporate governance

Continued

Risk Committee Role

The Risk Committee is comprised only of independent Non Executive Directors and the Chair of the Board. Its role is to oversee the Society's risk management framework and regulatory compliance. It is supported by regular reports from the risk and compliance functions. A summary of the work of the Risk Committee follows.

Risk management

The Committee has reviewed the effectiveness of the Society's risk management systems, compliance with financial services legislation, and has monitored progress to ensure that any required remedial action has been or is being taken on any identified weaknesses.

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 Risk Committee advises the Board on these matters and monitors the risk management framework accordingly. The Board, on the Committee's advice, sets high-level risk appetites to define the level and type of risk the Society is willing to accept and key risk metrics. The Board also directly oversees the risk management of the Society's customer account management system project.

Risk assessment

The Risk Committee and the Board have carried out a robust assessment of the Society's emerging and principal risks and a summary of the outcome of that assessment is included in the Strategic Report. The latter also includes further information on the Society's risk management framework and the mitigation strategies for the specific risks to which the Society is exposed.

Remuneration

The Remuneration Committee has delegated responsibility for determining remuneration policy generally and for setting the remuneration of the Chair, Executive Directors and senior management. Further detail is included in the Remuneration Report.

On behalf of the Board

Julie Nicholson

Chair of the Board

11 March 2024

Report of the Directors on Remuneration

The Board aims to follow best practice in its remuneration policy and has regard to the principles of the UK Corporate Governance Code (the Code), issued by the Financial Reporting Council.

The Board's objective in designing its remuneration policies and practices is to support strategy and long-term sustainable success.

Remuneration Committee

The Remuneration Committee is comprised exclusively of independent Non-Executive Directors and the Chair of the Board.

The Board has given delegated authority to the Remuneration Committee for setting the remuneration of the Executive Directors, senior management and the Chair. It also reviews policy on workforce remuneration generally.

The Committee's remit does not extend to Non-Executive Directors' remuneration. Their remuneration 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 by the Remuneration Committee without the Chair participating in the decision.

Executive Directors' remuneration

Strategic rationale

The Remuneration Committee has the same policy for the Executive Directors as for senior management. The latter is defined for this purpose as Executive Committee members who are not Executive Directors.

There are four objectives supporting the Committee's approach to remuneration: that remuneration is sufficient to attract, retain and motivate individuals of sufficiently high calibre with the necessary skill sets; that it is aligned with the Society's culture and values as a mutual; that it is consistent with managing the Society's business in line with the Board's risk appetite and regulatory requirements; and that it supports the long-term strategic objectives of the Board.

Executive Directors remuneration consists of salary, a bonus payment, and a benefits package.

The benefits package comprises a contributory (defined contribution) pension scheme with a maximum 10% employer contribution, a 4 times salary death-in-service benefit, and Permanent Health Insurance (PHI) and Private Medical Insurance (PMI). A relocation package for new appointees may be available on a case-by-case basis depending on individual circumstances.

The executive bonus is earned as agreed core objectives are achieved. It comprises a broad range of financial and non-financial measures derived from the Society's Corporate Plan.

Achievement of each individual objective results in a proportion of the bonus being earned up to a total of 20% of salary for achievement of all of the targets. An increased award is possible for exceeding objectives, but this is subject to an absolute maximum of 24% of an individual's salary.

Partial awards are possible where an objective has been missed by a relatively narrow margin, but only within pre-agreed parameters. The bonus is therefore designed to support the Board's strategic aims.

The Remuneration Committee has absolute discretion to withhold or reduce an award if it believes it is appropriate to do so either generally or in a particular case regardless of whether a target has been met. The Committee may make an award even if an objective has not been met if, in exceptional circumstances, it believes, in its absolute discretion, it is appropriate to do so.

Appropriateness of remuneration

On joining, the Executive Director's salary is determined by reference to roles carrying similar responsibilities in comparable organisations, particularly other similar building societies, and other factors such as expertise, experience and the need to attract candidates from outside our region. Thereafter, salary increases are normally in line with general cost-of-living increases awarded to all colleagues and further reference to market comparisons.

Report of the Directors on Remuneration
Continued

'Provision 40 factors'

Provision 40 of the Code identifies a number of factors of which the Committee should take account in determining Executive Director remuneration, and requires that examples should be given in this Report of how they have been addressed. The factors and examples of how the Committee has taken them into account are set out below:

• Clarity – the remuneration package, including a summary of the terms of the bonus scheme, is set out in this report;

• Simplicity – the remuneration package is simple, with few components, and involves only cash payments plus pension contributions, PHI, PMI and the death-in-service benefit;

• Risk – bonus payments are expressly subject to key performance indicators demonstrating that the Society has been managed within the Board's risk appetite;

• Predictability – the only variable element of the remuneration package, the bonus, has a clear pre-set range of outcomes with a capped maximum as stated above;

• Proportionality – There is a clear link between awards and delivery of strategic objectives. The bonus targets are derived from the strategy set out in the Corporate Plan; and

• Alignment to culture – if the requirements of a series of qualitative gates are not met, regardless of achievement of objectives, then no bonus will be paid. One of these gates includes achievement of good customer outcomes objectives for the Society's members.

Remuneration policy outcomes

The remuneration policy operated as intended in terms of Society performance and quantum.

Member engagement

At the forthcoming Annual General Meeting, members will be invited to vote on the Remuneration Report.

Workforce engagement

Remuneration is raised and discussed through the workforce engagement activities described in the Corporate Governance Report. The objectives set for the workforce's bonus scheme are included in the executive bonus scheme, although the latter has additional objectives.

Remuneration Committee discretion

The Committee has applied discretion to an objective relating to net lending. The reason is that the objective was not achieved as a result of a Board-supported decision during the course of the year to slow down the acquisition of new business in order to support work on the Society's customer account management system project and to ensure that risks are appropriately managed. In addition, the Committee applied its discretion to judging the outcome of an objective relating to the project itself. Because of the project's complex nature, the objective was set on the basis that the Committee would make a holistic judgement on progress rather than setting a narrowly defined outcome to be achieved.

Non Executive Directors' remuneration

In setting Non Executive Directors remuneration, a comparison of the level of fees to those paid in similar building societies is made, and consideration is given to the responsibilities of each Director and the amount available to be paid, as determined by the Society's rules. Normally, Non Executive Directors receive the same cost-of-living annual percentage increase as Executive Directors and other colleagues.

There are no bonus schemes or other benefits for Non Executive Directors, and they are not entitled to any pension from the Society.

Individual Directors Remuneration

Fees paid to Non Executive Directors		
Director	**2023 £000**	**2022 £000**
J Nicholson	40	38
A P Lee (until 28.04.22)	-	7
I Grayson	30	27
P Winter	30	27
M Himsworth (until 25.04.23)	9	28
J G Dumeresque	30	26
J Anderson (from 09.08.22)	30	11
K Malayapillay (from 19.10.22)	28	11
Total	**197**	**175**
Executive Directors' remuneration		
S Beresford		
Salary	211	195
Bonus	39	43
Benefits	1	2
Pension contributions	16	-
Payment in lieu of pension	5	19
Car allowance	5	5
Total	**277**	**264**
P E Jarman		
Salary	108	100
Bonus	19	21
Benefits	2	2
Pension contributions	4	4
Total	**133**	**127**
R K Patel		
Salary	172	158
Bonus	26	34
Benefits	1	1
Pension contribution	17	16
Total	**216**	**209**
Total Directors' remuneration	**823**	**775**

Ian Grayson
Chair of the Remuneration Committee
11 March 2024

Independent auditor's report to the members of Teachers Building Society

Opinion on the financial statements

In our opinion, the financial statements:

• give a true and fair view of the state of the Society's affairs as at 31 December 2023 and of the Society's profit for the year then ended;

• have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and

• have been prepared in accordance with the requirements of the Building Societies Act 1986.

We have audited the financial statements of Teachers Building Society (the 'Society') for the year ended 31 December 2023 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Members' Interests, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

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

Independence

Following the recommendation of the audit committee, we were appointed by the Board of Directors on 30 April 2020 to audit the financial statements for the year ended 31 December 2020 and subsequent financial periods. The period of total uninterrupted engagement including retenders and reappointments is 4 years, covering the years ended 31 December 2020 to 31 December 2023. We remain independent of the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Society.

Conclusions relating to going concern

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

• Assessing the Directors' assessment of going concern including supporting financial forecasts through review of key ratios such as net assets, capital and liquidity for significant deterioration, indicating issues related to going concern;

• With the assistance of our regulatory experts, reviewing the Internal Capital Adequacy Assessment Process (ICAAP), Internal liquidity adequacy assessment process (ILAAP) and regulatory capital and liquidity requirements;

• Discussing with the Directors whether events or conditions exist that, individually or collectively, may cast significant doubt on the Society's ability to continue as a going concern. We corroborated those discussions by agreeing information acquired to supporting documents such evidence of cash flow forecasts and minutes of meetings of Board of Directors;

• Challenging the appropriateness of the Directors' assumptions and judgements made in their base forecast and stress-tested forecast, including reverse stress test scenarios. In doing so we agreed key assumptions such as forecast growth to historic actuals and relevant market data and considered the historical accuracy of the Directors forecasts;

and

• Assessing how the Directors' have factored in key external factors expected to affect the Society such as the rise in interest rates, falling house prices, climate change and cyber-attacks and their corresponding economic impact, checking these had been appropriately considered as part of the Directors' going concern assessment.

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

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

Key audit matters		2023	2022
	Revenue recognition	Yes	Yes
	Impairment provisions for losses on loans and advances to customers	Yes	Yes
Materiality	£319,000 (2022: £244,000) based on 1.25% (2022: 1%) of Net Assets (2022: Net Assets)		

An overview of the scope of our audit

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

Climate change

The disclosure of the Director's consideration of the impact of climate change on the operations of the Society is included in the Strategic Report and forms part of the Statutory Other Information. Our procedures on these unaudited disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated, in line with our responsibilities as set out in the "Other information" section of our audit report below.

In the Strategic Report, the Directors have explained that climate change has been integrated into the Society's risk management framework, and the Society is working to quantify its exposure to climate change risks and, in due course, set targets and risk limits to aid the management of such risks. We have performed our own quantitative and, for certain areas, qualitative risk assessment of the impact of climate change on the Society, taking into consideration the sector in which the Society operates and how climate change affects this particular sector. We reviewed of the minutes of Board and Audit Committee meeting and other papers related to climate change and performed a risk assessment as to how the impact of the Society's commitment may affect the financial statements and our audit.

Based on our risk assessment procedures, we did not identify there to be any Key Audit Matters materially impacted by climate-related risks.

Key audit matters

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

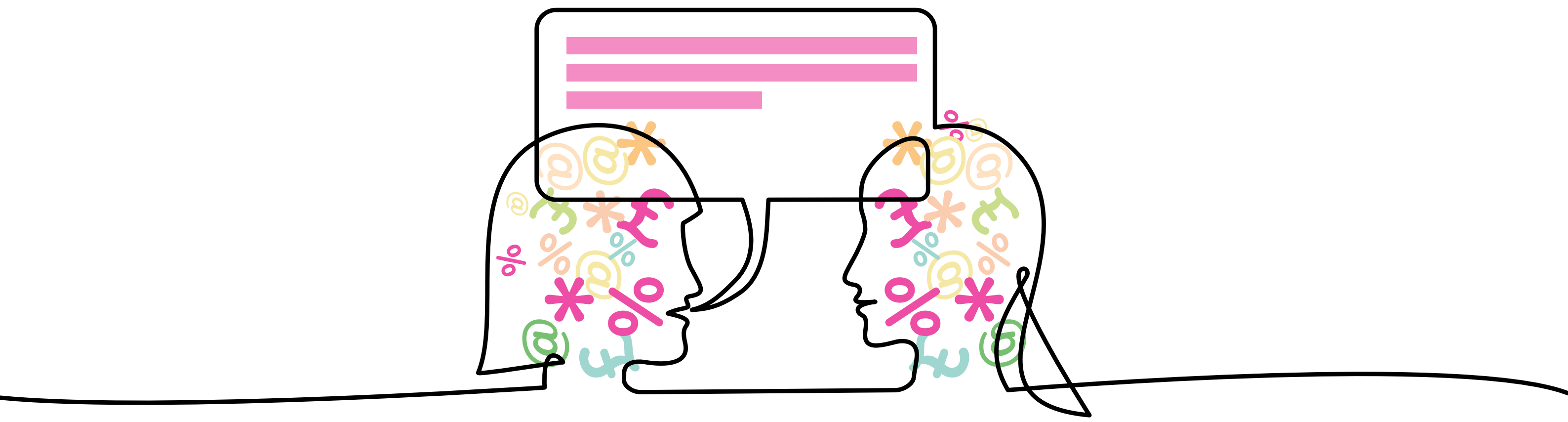
Independent auditor's report to the members of Teachers Building Society Continued

Key audit matter		How the scope of our audit addressed the key audit matter
Revenue Recognition As disclosed in Note 1(i) and explained in Note 2(iii) Critical accounting judgements and key sources of estimation uncertainty), the Society's mortgage interest income is recognised using an effective interest rate ("EIR") method.	The Society's mortgage interest income is recognised using an effective interest rate ("EIR") method in accordance with the requirements of the applicable accounting standards. This method involves adjusting fee and interest income to ensure it complies with the EIR method. The models used to achieve this are complex and reliant on the completeness and accuracy of input data. Significant management judgement is also required to determine the expected cash flows for the Society's loans and advances within this model. The key assumptions in the EIR model are the directly attributable fees and costs and the expected behavioural life and redemption profiles of the mortgages due to the impact on timing and quantum of expected future cash flows. Errors within the EIR models itself or bias in key assumptions applied could result in the material misstatement of revenue. Revenue recognition was therefore	Our testing included but was not limited to: • We obtained an understanding of the design and operating effectiveness of the Society's controls over revenue recognition, including key reconciliations and processes to ensure complete and accurate capture of fees, interest charges, customer payments and balances and tested the operating effectiveness of controls over the EIR model's review and approval process; • We assessed whether the revenue recognition policies adopted by the Society are in accordance with requirements of the applicable accounting framework. This included an assessment of the types of fees and costs being spread within the effective interest rate models versus the requirements of the applicable financial reporting standard, including early redemption charges; • We identified the key data elements of the model and on a sample basis, we tested the completeness and accuracy of key data inputs being loan terms, repayment terms and upfront fees, by agreeing them back to underlying source data such as loan contracts; • We tested the functionality of the model assessing the consistency of the calculations with the accounting policy. We verified the arithmetic accuracy of the EIR model by performing a detailed review of the logic, consistency and integrity of the formulae throughout the EIR model and recalculated the model output; • We assessed the reasonableness of the loan behavioural life assumptions used by management by considering recent historical experience of loan behavioural lives based on customer behaviour, product type, market factors (such as current inflationary and interest rate pressures present in the economy) • We assessed the models for their sensitivities to changes in the key assumptions by considering different profiles of behavioural life; and

Key audit matter		How the scope of our audit addressed the key audit matter
Revenue Recognition	considered to be a significant risk area.	• We reviewed the relevant interest income and effective interest rate disclosures made by management for compliance with accounting standards and agreed the disclosures to supporting evidence. **Key observations:** We have not identified any indicators that the assumptions included in the EIR models are unreasonable in consideration of the Society's mortgage portfolio, historic behaviours and current economic and market conditions.
Impairment provisions for losses on loans and advances to customers The Society's accounting policies are detailed in Note 1(l) with detail about judgements in applying Accounting policies and critical accounting estimates in Note 2(i). As disclosed in Note 9, the collective impairment provision at year-end is £409k (2022: £382k).	The Society accounts for the Impairment provisions for losses on loans and advances to customers using an incurred loss model. In accordance with the recognition and measurement criteria of applicable accounting standards, management has calculated two types of provisions. (i) A specific provision is calculated for loans where there is an observable loss event. (ii) A collective provision is recognised for loans which are impaired as at the year-end date and, whilst not specifically identified as such, are known from experience to be present in any portfolio of loans. Estimating the collective loan loss provision requires significant management judgement and estimate in determining the value and timing of expected future cash flows.	Our testing included but was not limited to: • We obtained an understanding of the design and operating effectiveness of the Society's controls across the process relevant for Impairment provisions for losses on loans and advances to customers • We assessed the collective provision methodology against the requirements of applicable accounting standards; • For the collective impairment provision, we evaluated and challenged management key assumptions in the model. The assumptions challenged included forced sales discount, discount applied on the HPI, other sales costs, probability of default (PD) and the HPI haircut for macroeconomic factors not identified in the model input. These were challenged with reference to historic Society experience, the reasonableness of external data points used, and the level of the overall collective impairment provision to comparable peer organisations; We checked the completeness and accuracy of data and key assumption inputs feeding into the model through agreeing them on a sample basis to underlying source data; • We challenged management on the appropriateness of use of probability of default sourced from an external party by the Society's management and we tested its relevance, reliability and compliance with the incurred loss model; • We challenged the appropriateness of use of HPI sourced from external party, and compared the indexed valuation using an alternative HPI;

Independent auditor’s report to the members of Teachers Building Society Continued

Key audit matter		How the scope of our audit addressed the key audit matter
Impairment provisions for losses on loans and advances to customers The Society’s accounting policies are detailed in Note 1(l) with detail about judgements in applying Accounting policies and critical accounting estimates in Note 2(i). As disclosed in Note 9, the collective impairment provision at year-end is £409k (2022: £382k).	The collective provision is calculated within a model that uses a combination of the Society’s historical experience, segmentation of the loans by risk and external data, adjusted for current conditions including the impact of the current cost of living crisis through the applied probabilities of default and the House Price Index (HPI) haircut. The model is sensitive to key judgements and assumptions including probability of defaults, future house price movements and forced sale discounts against collateral. Due to the sensitivity to key inputs judgements and estimates and high degree of estimation uncertainty, the Society’s collective impairment provision has a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. Error within the loan loss provisioning model itself or bias in key assumptions applied, namely the house price index and forced sales discount could result in the material misstatement of impairment provisions. For these reasons we considered the collective provision together with the related disclosures to be a key audit matter.	• We tested the appropriateness of the model and its logical application and then independently recalculated the results for the entire portfolio to test the integrity and mathematical accuracy of the model calculations; • We challenged the adequacy of the provision by considering the completeness of adjustments applied by management, and whether post-model adjustments are required to address the model limitation in light of the current inflationary and interest rate pressures present in the economy. We challenged management on the appropriateness of use of probability of default sourced from external party, its relevance, reliability and compliance with the incurred loss model; and • We reviewed the impairment and sensitivity analysis disclosures made by management to assess compliance with the requirements of the applicable accounting standards and agreed the disclosures to supporting evidence. **Key observations:** We have not identified any indicators to suggest that the provision for loans and advances to customers, in particular the collective provision, is unreasonably estimated in consideration of the key assumptions and judgements made or that the related disclosures are not appropriate.



Our application of materiality

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

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

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

	2023	**2022**
Materiality	£319,000	£244,000
Basis for determining materiality	1.25% of Net assets (2022: 1.00%) The increase to 1.25% of net assets in the current year is in line with our audit methodology and attributable to this being an established audit engagement (BDO's fourth year as auditors) as well as the limited changes that have occurred in the business and risk profile of the Society.	
Rationale for the benchmark applied	We determined that Net assets was the most appropriate benchmark considering the different stakeholders. Regulatory stability is considered to be a main driver for the Society as well as the purpose of the Society which is to optimise rather than maximise profits.	
Performance materiality	£239,000	£183,000
Basis for determining performance materiality	75% of materiality	
Rationale for the percentage applied for performance materiality	On the basis of our risk assessment together with our assessment of the Society's overall control environment and expected total value of known and likely misstatements, based on past experience, our judgment was that overall performance materiality for the Society should be 75% of materiality.	

Independent auditor's report to the members of Teachers Building Society

Continued

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £15,000 (2022:£12,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information

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

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

We have nothing to report in this regard.

Other Building Societies Act 1986 reporting

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

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

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

In our opinion the information given in Note 27 for the financial year ended 31 December 2023 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

Non-compliance with laws and regulations

Based on:

• Our understanding of the Society and the industry in which it operates;

• Discussion with management and those charged with governance ; and

• Our understanding of the Society's policies and procedures regarding compliance with laws and regulations.

We considered the significant laws and regulations to be the Building Societies Act 1986, pension legislation, tax legislation.

The Society is also subject to laws and regulations where the consequence of non-compliance could have a material effect on the amount or disclosures in the financial statements, for example through the imposition of fines or litigations. We identified such laws and regulations to be requirements of the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA).

Our procedures in respect of the above included:

• Review of minutes of meeting of those charged with governance for any instances of non-compliance with laws and regulations;

• Review of legal correspondence and correspondence with regulatory authorities for any instances of non-compliance with laws and regulations; and

• Review of financial statement disclosures and agreeing to supporting documentation.

Independent auditor's report to the members of Teachers Building Society

Continued

Irregularities including fraud

We assessed the susceptibility of the financial statements to material misstatement, including fraud. Our risk assessment procedures included:

• Enquiry with management and those charged with governance, and the internal auditor regarding any known or suspected instances of fraud;

• Obtaining an understanding of the Society's policies and procedures relating to:

  o Detecting and responding to the risks of fraud; and

  o Internal controls established to mitigate risks related to fraud.

• Review of minutes of meeting of those charged with governance for any known or suspected instances of fraud;

• Conducting a review of correspondence with and reports from the regulators, including the PRA and the FCA;

• Discussion amongst the engagement team as to how and where fraud might occur in the financial statements;

• Performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud; and

• Considering remuneration incentive schemes and performance targets and the related financial statement areas impacted by these.

The Society operates in the banking industry which is a highly regulated environment. 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, involving specialists where appropriate.

Based on our risk assessment, we considered the areas most susceptible to fraud to be management override of controls and in relation to accounting estimates such as the EIR and loan loss provisioning.

Our procedures in respect of the above included:

• Testing journal entries throughout the year which met a defined risk criteria, by agreeing to supporting documentation; and

• Assessing significant estimates made by management for bias (refer to the key audit matters section for procedures performed).

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, who were deemed to have the appropriate competence and capabilities, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

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

Use of our report

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

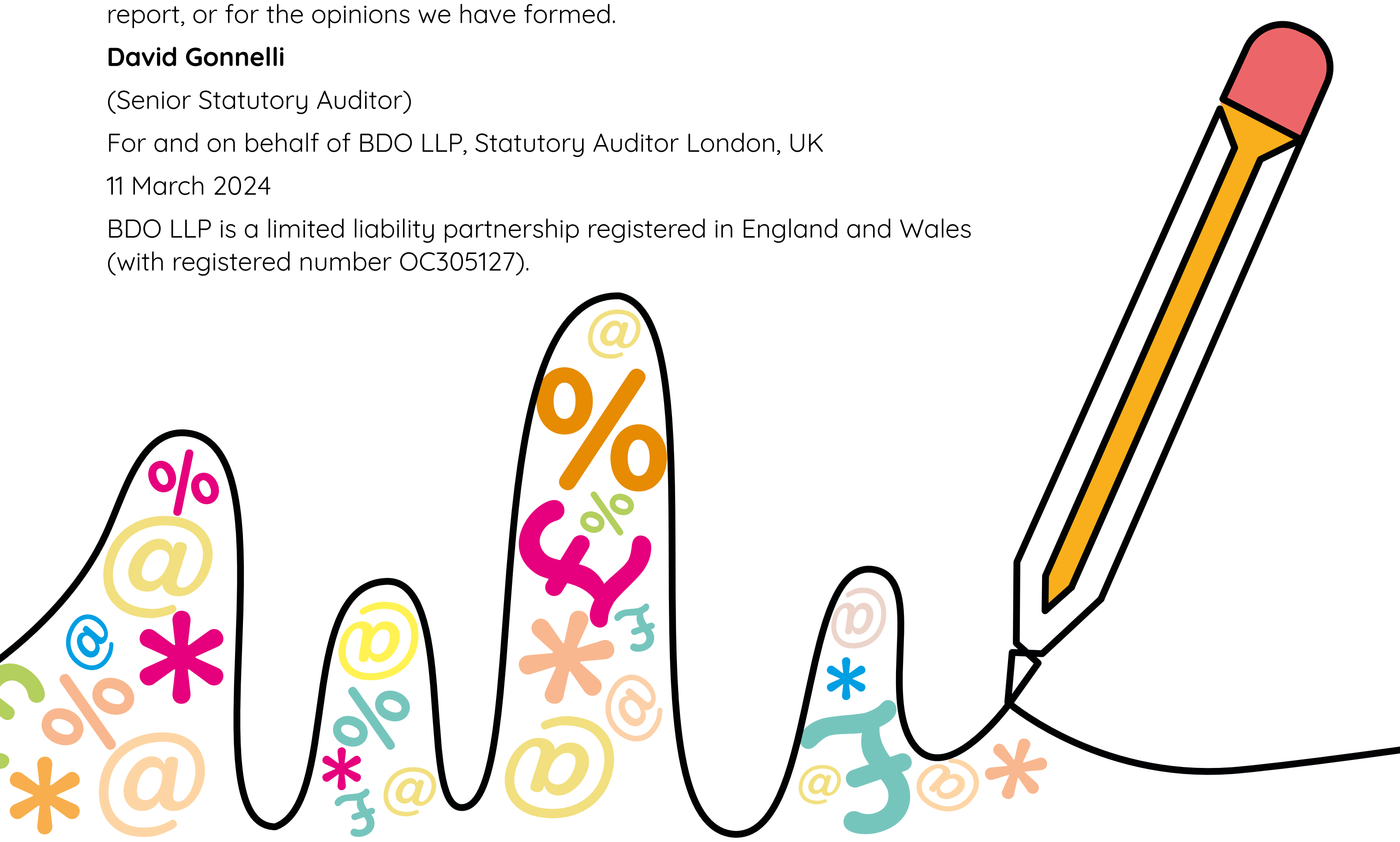
David Gonnelli

(Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor London, UK

11 March 2024

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

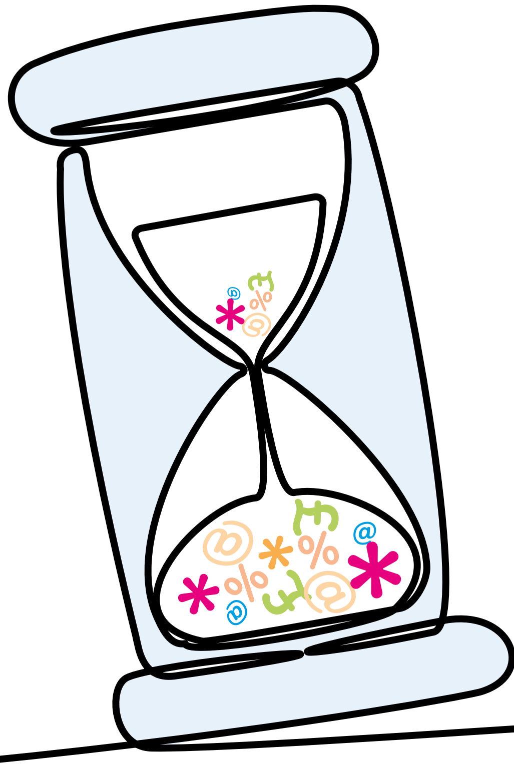


Statement of Comprehensive Income

For the year ended 31 December 2023

	Notes	2023 £000	2022 £000
Interest receivable and similar income	5	21,535	12,915
Interest payable and similar charges	6	(11,048)	(3,386)
Net interest income		**10,487**	**9,529**
Fees and commission receivable		130	305
Fees and commission payable		(479)	(720)
Net fees and commission expense		**(349)**	**(415)**
Other operating income	16	56	40
Other fair value (losses)/gains	7	(313)	83
Net operating income		**9,881**	**9,237**
Administrative expenses	8	(8,632)	(7,154)
Depreciation and amortisation	14,15	(67)	(51)
Operating expenses		**(8,699)**	**(7,205)**
Operating profit before provisions		**1,182**	**2,032**
Impairment provisions for losses on loans and advances	9	(36)	(158)
Profit before taxation		**1,146**	**1,874**
Taxation expense	10	(277)	(369)
Total profit and comprehensive income for the year		**869**	**1,505**

All results arise from continuing operations



Statement of Financial Position

At 31 December 2023

Assets	Notes	2023 £000	2022 £000 (restated)
Liquid assets:			
Cash in hand and balances with the Bank of England		92,588	55,637
Loans and advances to credit institutions	11	4,691	9,124
		97,279	**64,761**
Loans and advances to customers:			
Loans fully secured on residential property		318,090	303,041
Other loans fully secured on land		128	243
	12	**318,218**	**303,284**
Derivative financial instruments	13	2,892	5,969
Intangible fixed assets	14	7	17
Tangible fixed assets	15	555	372
Investment property	16	589	760
Prepayments		189	224
Other assets	17	3	-
Total assets		**419,732**	**375,387**

Liabilities	Notes	2023 £000	2022 £000
Shares and customer deposits:			
Shares	18	238,183	226,363
Deposits owed to other customers	19	115,891	76,894
		354,074	**303,257**
Amounts owed to credit institutions	20	36,519	45,322
Derivative financial instruments	13	1,641	431
Current tax liabilities		255	328
Accruals and deferred income	21	1,260	1,168
Deferred tax liabilities	22	154	132
Other liabilities	23	473	262
Total liabilities		**394,376**	**350,900**
Total equity attributable to members		25,356	24,487
Total equity and liabilities		**419,732**	**375,387**

These accounts were approved by the Board of Directors on 11 March 2024
Julie Nicholson, Chair; **Simon Beresford,** Chief Executive; **Rajesh Patel,** Finance Director.

Statement of changes in Members' Interests

As at 31 December 2023

	Revaluation reserve £000	General reserves £000	Total equity attributable to members £000
At 1 January 2023	737	23,750	24,487
Profit for the year	-	869	869
Transfer to general reserve - depreciation on revaluation surplus	(2)	2	-
At 31 December 2023	**735**	**24,621**	**25,356**

	Revaluation reserve £000	General reserves £000	Total equity attributable to members £000
At 1 January 2022	739	22,243	22,982
Profit for the year	-	1,505	1,505
Transfer to general reserve - depreciation on revaluation surplus	(2)	2	-
At 31 December 2022	**737**	**23,750**	**24,487**

Statement of cash flows

For the year ended 31 December 2023

	2023 £000	2022 £000 (restated)
Net cash inflow/(outflow) from operating activities (see below)	32,588	(8,097)
Cash flows used in investing activities		
Purchase of intangible assets and property, plant and equipment	(70)	(85)
Increase/(decrease) in cash and cash equivalents	32,518	(8,182)
Cash and cash equivalents at beginning of year	64,761	72,943
Cash and cash equivalents at end of year	**97,279**	**64,761**
Represented by:		
Cash and balances with the Bank of England	92,588	55,637
Loans and advances to credit institutions repayable on demand	4,691	9,124
	97,279	**64,761**

Net cash inflow/(outflow) from operating activities	**2023 £000**	**2022 £000**
Profit before taxation	1,146	1,874
Adjusted for:		
Depreciation and amortisation	67	51
Impairment loss on loans and advances to customers	36	158
Fair value (gain) on investment property	-	(20)
Fair value (gain)/loss on derivative financial instruments	(4,262)	3,729
Effective interest rate accounting adjustment	(109)	(514)
Changes in net operating assets		
(Increase) in loans and advances to customers	(14,861)	(25,923)
(Increase)/decrease in other assets	(3)	25
Decrease in prepayments and accrued income	35	16
Change in derivative financial instruments	8,549	(7,820)
Increase in shares, deposits and amounts owed to credit institutions	42,014	19,873
Increase in other liabilities	211	74
Increase in accruals and deferred income	92	636
Taxation paid	(327)	(256)
Net cash inflow/(outflow) from operating activities	**32,588**	**(8,097)**

Total cash interest received during the year totalled £21,119k (2022: £12,027k) and total cash interest paid during the year totalled £9,720k (2022: £3,094k).

Note 1 to 28 on the following pages form part of the financial statements.

Notes to the Accounts for the year ended 31 December 2023

1. Accounting policies

The Accounts have been prepared in accordance with the Building Societies (Accounts and Relations Provisions) Regulations 1998 and applicable law and United Kingdom Financial Reporting Standard 102 (FRS 102). The particular accounting policies adopted by the Directors are described below.

a. Accounting convention

The accounts are prepared under the historical cost convention modified to include certain items at fair value, and in accordance with FRS 102 issued by the Financial Reporting Council, with the exception of hedge accounting which is prepared in accordance with IAS39 (see note 1g).

b. Basis of preparation

The Society's accounts are made up to 31 December each year. The Directors are required to consider whether the Society will continue as a going concern for a period of twelve months from the date of signing of the accounts.

In making the assessment the Directors have reviewed the Society's corporate plan and considered risks that could impact on the Society's capital, financial and liquidity positions over that period.

The Directors have also reviewed forecasts prepared using stressed but plausible operating conditions for a period in excess of 12 months from the date of approval of these financial statements. A range of sensitivities has also been applied to these forecasts, including unplanned expenditure, stress scenarios and reverse stress testing relating to economic uncertainty caused by the direct or indirect consequences of high inflation and rising interest rates, focused on the Society's capital and liquidity position and operational resilience.

After considering this information, together with available market information as well as the Directors' knowledge and experience of the Society and markets in which it operates, after making the necessary enquiries the Directors are satisfied that the Society has adequate resources to continue in business for at least the twelve-month period from the signing of the accounts. Accordingly, the accounts continue to be prepared on a going concern basis.

The impact of Climate risk on the accounting judgments and estimates

The Society makes use of reasonable and supportable information to make accounting judgments and estimates. This includes information about the observable effects of the physical and transition risks of climate change on the current creditworthiness of borrowers, asset values and market indicators, where relevant. Many of the effects arising from climate change will be longer term in nature, with an inherent level of uncertainty, and have limited effect on accounting judgments and estimates for the current period. Some physical and transition risks can manifest in the shorter term.

The following items represent the most significant effects:

• The use of market indicators as inputs to fair value is assumed to include current information and knowledge regarding the effect of climate risk.

• The measurement of loan loss provision with regards to the valuation of collateral that is assumed to include current information and knowledge regarding the effect of climate risk.

Prior period restatement

Prior period has been restated to reclassify accrued interest of £351,000 from other assets to derivative financial instruments on the asset side as accrued interest is part of the fair value of the derivative financial instruments. This impacts both the statement of financial position and the statement of cash flows.

c. Tangible fixed assets and depreciation

Depreciation is not provided on freehold land or investment property. On other assets it is provided on cost or revalued amounts using the straight-line method so as to write them down to their residual values over the following estimated useful lives:

Freehold building – fifty years

Major improvements to buildings – ten years

Computers and electronics equipment – two to seven years Fixtures and fittings – four to ten years

d. Intangible fixed assets and amortisation

Purchased software and costs directly attributable to the development of software are capitalised and recognised as intangible assets where the software is expected to generate future economic benefits and where attributable costs can be reliably measured. Intangible assets are measured at cost less accumulated amortisation and any impairment charges. Amortisation commences when the software first becomes available for operational use and is charged to the Income Statement on a straight-line basis over the expected useful life of the software, currently between two and seven years

The investment in the new customer account management system has recognised through the income statement as costs are incurred rather than being capitalised as this will be a 'Software as a Service (SaaS) solution rather than the Society owning the software asset.

e. Investment properties

The proportion of the head office building which is not occupied by the Society but rented out (including the roof space) is classified under FRS 102 as investment property and held at fair value. Any change in fair value during the year resulting from an annual valuation is recognised through the Statement of Comprehensive Income.

The value of the investment property is based on a triennial market valuation which is carried out by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and class of the investment property being valued. The basis

of the market valuation is an estimation for which the property would be exchanged between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion. It assumes that the property is free from structural or other defects that would materially affect the market value. The method of valuation used is based on current rents and capitalisation yields in the area where the property is located. Where an external valuation is not obtained within the year, the value is assessed internally with external support where required.

f. Basic financial instruments

Basic financial instruments include cash in hand and balances with the Bank of England, loans and advances to credit institutions, loans and advances to customers, amounts owed to credit institutions, shares, and deposits owed to other customers. In accordance with sections 11 and 12 of

FRS102, basic financial instruments are initially recognised at transaction price, including transaction costs. Assets and liabilities are subsequently measured at amortised cost which is the present value of a financial instrument's future cash flows discounted at the original effective interest rate. The interest income or expense in a period equals the carrying amount at the beginning of a period multiplied by the effective interest rate. The Society derecognises a financial liability when its contractual obligations are discharged or either cancelled or expire.

g. Derivative financial instruments and hedge accounting

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

Currently, the Society only uses derivatives to hedge interest rate risk through interest rate swap agreements. These are commitments to exchange one set of cash flows for another. No exchange of principal takes place. By applying hedge accounting, Interest rate swaps are recorded on the statement of financial position at fair value, with any valuation movements being taken to the Statement of Comprehensive Income.

If it can be proven, through the use of regression testing, that there is a qualifying hedge relationship with the underlying items being hedged then the fair value of those underlying items is offset in the Statement of Comprehensive Income in accordance with IAS39, hedge accounting.

However, Statement of Comprehensive Income volatility may still arise to the extent that these hedge relationships are ineffective, or because hedge accounting is not achievable.

h.Taxation

Current tax, including UK Corporation Tax, is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted, or substantially enacted, by the statement of financial position date.

Deferred taxation is provided in full on timing differences that result in an obligation at the statement of financial position date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Notes to the Accounts for the year ended 31 December 2023 Continued

i. Revenue recognition

The Society uses the effective interest rate (EIR) method to recognise income for certain financial instruments held at amortised cost. To calculate the appropriate EIR, the Society makes assumptions of the expected lives of financial instruments and the anticipated level of early redemption charges to spread interest together with all directly attributable fees payable and receivable over the calculated behavioural life of each mortgage.

j. Fees and commissions payable

Mortgage indemnity guarantee premiums, broker fees and valuation fees paid are included in 'Fees and commissions payable' and are expensed using the underlying asset's Effective Interest Rate.

k. Other operating income

Other operating income comprises rent and other income receivable from the letting of property and is included in the accounts on an accruals basis.

l. Impairment provision for losses on loans and advances

The Society reviews its loan portfolios to assess whether an impairment loss should be recorded in the Statement of Comprehensive Income where objective evidence exists that a loss has been incurred. The loss is measured as the difference between the asset's carrying amount and the

present value of estimated future cash flows discounted at the asset's original effective interest rate. The amount charged in the Statement of Comprehensive Income represents the net change in the ongoing provision, after allowing for losses written off in the year and bad debt recoveries. Losses would only be written off where a balance remained on a mortgage account after a repossessed property had been sold. Provisions for bad and doubtful debts are deducted from loans and advances to customers in the statement of financial position.

The Society uses forbearance techniques to help some borrowers through periods where their finances have become stretched and where servicing of the normal mortgage repayment has become difficult. The Society uses forbearance concessions where they are deemed appropriate for an individual borrower's circumstances and may include interest-only facilities, arrears arrangements, term extensions and capitalisation. Individual provisions are considered for all mortgage accounts in arrears by three months, or more, and for accounts where the property is in possession and there is objective evidence that all cash flows will not be received.

Provisions are made to the extent that the discounted proceeds of sale of the property would be insufficient to meet the outstanding debt and related costs of sale.

Accounts in default are individually assessed and the amount of loss is determined using historical default and loss experience and applying judgement requiring the estimation of forced sale discounts, likelihood of repossession (probability of default), and the impact of macro-economic factors such as house price volatility, interest rate expectations and unemployment rates. Default is defined as either being three months or more in arrears or being in receipt of forbearance. Losses on accounts where the property has been repossessed are provided for after consideration of the likely sale price and the costs of sale.

A collective provision is made against loans and advances which have not been specifically identified as impaired, but where the Society's experience would indicate that losses may ultimately be realised. The impairment value is calculated by applying various factors to each loan. These factors take into account the probability of eventual repossession, the value of the property in the event of a forced sale and the costs of sale together with the general economic climate, which may ultimately result in a loss being realised. The potential financial impact of climate change is captured in property prices determined using an external house price index. The probability of eventual repossession is applied based on externally obtained credit scores for each mortgage account where possible. For mortgages where no credit score is available, an internal calculation based on historic experience is applied.

m. Term Funding Scheme with additional incentives for SMEs (TFSME)

The Society has been admitted into the Bank of England's Term Funding Scheme with additional incentives for SMEs (TFSME) which provides funding for a fixed term of four years from the date of drawdown.

The TFSME scheme is an extension to the previous TFS scheme with the available funding being set by reference to mortgage growth. The availability of funding increases where lending is made to SMEs.

The Society has utilised TFSME to fully refinance the previous TFS funding, extending the maturity dates and to provide an additional source of funding for future growth.

The balance of TFSME funding is disclosed under 'Amounts owed to credit institutions' on the Statement of Financial Position.

n. Colleague Benefits Pensions

The Society operates a defined contribution arrangement whereby the Society, and the colleague, pay fixed contributions, without any further obligation to pay additional contributions. Payments to defined contribution schemes are charged to the Statement of Comprehensive Income as they arise.

Other long-term colleague benefits

The cost of bonuses payable after the end of the year in which they are earned are recognised in the year in which the colleagues render the related service and when there is an obligation to pay a bonus under the terms of the scheme.

Short-term colleague benefits

The cost of short-term colleague benefits, including wages and salaries, social security costs and healthcare for current colleagues, is recognised in the year of service. Termination benefits, such as payments in lieu of notice and for redundancy, are charged to the Statement of Comprehensive Income as they fall due.

2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Society's accounting policies, which are described in note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of

assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

The following are estimations that the directors have made in the process of applying the Society's accounting policies and that have the most significant effect on the amounts recognised in the financial statements. There are no critical accounting judgements in the period:

i. Impairment Provision on Loans and Advances:

Key assumptions included in the incurred loss model include data regarding the probability of specifically provided accounts going into default, the probability of defaulted accounts progressing to possession and the eventual loss incurred in the event of forced sale or write-off. The House Price Index (HPI) and the discount applied on forced sale are key assumptions on the residential mortgage books. These assumptions are based on observed historical data and updated or adjusted as management considers appropriate to reflect current and future conditions. For the year ended 31 December 2023, management applied a 5% reduction (2022: 5% reduction) to HPI values and used a forced sale discount of 22.92% (2022: 22.92%) based on historical data. The accuracy of the impairment provision would therefore be affected by unexpected changes in the above assumptions. Collateral values are updated at the date of each statement of financial position based on the best information publicly available.

To the extent the HPI movements were to differ from current observations by 2.5%, the impact on provisions would be £48k (2022: £57k). The impact of a 2.5% change in the calculated probability of default currently being applied would impact provisions by £11k (2022: £10k).

The carrying value of impairment provisions on loans and advances as at 31 December 2023 is

£432k (2022: £396k)

Notes to the Accounts for the year ended 31 December 2023 Continued

ii. Fair Value of Derivatives:

Derivative financial instruments are valued by using market prices or prices obtained from counterparties. In cases where market prices are not available, discounted cash flow models are used. The Society applies fair value hedge accounting which relies on a number of assumptions, the most significant of which relates to estimates in respect of loan prepayments.

The net carrying value of derivative financial instruments as at 31 December 2023 is £1,251k asset (2022: £5,538k).

iii. Effective Interest Rate (EIR):

The Society uses the EIR method to recognise income for certain financial instruments held at amortised cost. To calculate the appropriate EIR, the Society makes assumptions of the expected lives of financial instruments and the anticipated level of early redemption charges. The impact of a 10% change in the expected lives of financial instruments would result in an increase/decrease in the value of the loans in the statement of financial position by £1,469k/(£369k) respectively (2022: £1,582k/(£338k)).

The Society does not adjust behavioural lives based on historical experience for changes in the base rate.

The carrying value of the EIR, loan origination fees asset as at 31 December 2023 is £929k (2022: **£820k).**

iv. Investment Property:

The fair value of the investment property is measured annually with the movements recognised in the Statement of Comprehensive Income. The Society's policy is to have a formal valuation based on rental yields every three years, with the valuation changes for the years between being the best estimate of the directors, taking advice from local commercial property experts. The last formal valuation was as at 31 December 2021, with the next external valuation due to take place as at 31 December 2024.

To the extent that rental yields were to reduce by 5%, this could result in a reduction of £29k in the investment property value.

The carrying value of investment property as at 31 December 2023 is £589k (2022: £740k)

3. Directors

a. Directors Remuneration

Directors' remuneration totalled £823k (2022: £775k). Full details are given in the Report of the Directors on Remuneration from pages 27 to 29.

b. Transactions with Directors and related parties

At 31 December 2023 one mortgage loan with a carrying amount of £87,082 (2022: two mortgages totalling £133,727) made in the ordinary course of business were outstanding to one related party (2022: two). These were both made to related parties of Non Executive Directors.

Amounts deposited by directors and their close family members earn interest at the same rates offered to the public and interest received totalled £476, being £436 to Non Executive Directors and £40 to Executive Directors (2022: £394, £307 to Non Executive Directors of which £106 were related parties and £87 to Executive Directors). Total balances held by all directors and related parties at 31 December 2023 totalled £41,017, £39,088 from Non Executive Directors and 1,929 from Executive Directors (2022: £58,135, £56,246 from Non Executive Directors of which £20,561 were related parties and £1,889 from Executive Directors).

In accordance with Section 68 of the Building Societies Act 1986, particulars of the loans falling within Section 65 of that Act are included in a register maintained for that purpose. These particulars, or

a copy of them, will be available for inspection by members on request from the Secretary at the Society's registered office, during the period of fifteen days prior to the Annual General Meeting and at that meeting.

4.Colleagues

	2023	2022
Average number of persons employed by the Society		
Full time	66	56
Part time	13	10
Total	**79**	**66**

5. Interest receivable and similar income

	2023 £000	2022 £000
On loans fully secured on residential property	14,595	10,612
On other loans fully secured on land	15	78
Effective interest rate accounting adjustment	109	514
Total	**14,719**	**11,204**
On other liquid assets	2,998	813
Net interest income/(expense) on derivative financial instruments	3,818	898
Total	**21,535**	**12,915**

6. Interest payable and similar charges

	2023 £000	2022 £000
On shares held by individuals	9,035	2,751
On deposits and debt securities	1,979	654
On derivative financial instruments	34	(19)
Total	**11,048**	**3,386**

7. Other fair value gains and losses

The Society's income, expense, gains and losses in respect of fair value changes through the Statement of Comprehensive Income and summarized in the following table:

	2023 £000	2022 £000
Fair value movements through the Statement of Comprehensive Income		
Hedged loans and advances	4,262	(3,729)
Hedged shares and customer deposits	(121)	48
Derivative financial instruments	(4,454)	3,744
Investment property	-	20
Other fair value (losses)/gains	**(313)**	**83**

Notes to the Accounts for the year ended 31 December 2023 Continued

8. Administrative expenses

	2023 £000	2022 £000
Colleague costs		
Wages and salaries	4,091	3,438
Social security costs	475	419
Pension costs – defined contribution scheme	234	176
	4,800	**4,033**
Auditor remuneration (inclusive of VAT)		
For audit of the Society's annual accounts	244	143
Other assurance services	-	17
Total auditor remuneration	**244**	**160**
Other expenses	3,588	2,961
	8,632	**7,154**

9. Impairment provisions for losses on loans and advances to customers

Loans fully secured on residential property	2023 £000	2022 £000
At 1 January		
Collective provision	382	227
Individual provision	14	11
	396	**238**
Income & expenditure charge for the year		
Collective provision	27	155
Individual provision	9	3
	36	**158**
At 31 December		
Collective provision	409	382
Individual provision	23	14
	432	**396**

The charge to income and expenditure is made up as follows:	2023 £000	2022 £000
Movements in provisions as above	36	158
	36	**158**

The interest arising from the un-wind of the discount of expected future recoveries is not material. There are no provisions for loans fully secured on the land.

10. Tax on profit on ordinary activities

	2023 £000	2022 £000
Current Tax:		
UK Corporation Tax	255	328
Total current tax charge	**255**	**328**
Deferred Tax:		
Effect of tax rate change on opening balance	21	10
Origination and reversal of timing differences	1	31
Deferred tax charge	**22**	**41**
Total charge on profit on ordinary activities	**277**	**369**

Current tax has been provided at the rate of 23.52% (2022: 19%). Deferred tax has been provided at 25% (2022: 25%), being the substantively enacted rate at the statement of financial position date.

	2023 £000	2022 £000
Tax charged on profit at the average standard rate	269	356
Effects of:		
Depreciation in excess of capital allowances	5	2
Income not taxable for tax purposes	-	1
Adjustments to tax charge in respect of previous periods - deferred tax	2	-
Re-measurement of deferred tax for changes in tax rate	1	10
	277	**369**

11. Loans and advances to credit institutions

Loans and advances to credit institutions mature from the date of the statement of financial position as follows:	2023 £000	2022 £000
Repayable on demand	4,691	8,619
Maturing in not more than three months	-	505
	4,691	**9,124**

Notes to the Accounts for the year ended 31 December 2023 Continued

12. Loans and advances to customers

	2023 £000	2022 £000
Loans and advances to customers are repayable from the statement of financial position date as follows:		
- repayable on demand – accounts in possession	120	-
- repayable in not more than 3 months	1,700	1,907
- repayable in more than 3 months but not more than 1 year	6,417	6,266
- repayable in more than 1 year but not more than 5 years	35,027	39,469
- repayable in more than 5 years	275,407	260,430
	318,671	**308,072**
- impairment provisions (see note 9)	(432)	(396)
- effective interest rate adjustment	929	820
- fair value adjustment	(950)	(5,212)
	318,218	**303,284**

Mortgage assets held by the Society included items with a carrying value of £122,007k (2022: £60,920k) that were pledged to the Bank of England as collateral.

13. Derivative financial instruments

Derivatives are only used by the Society in accordance with the Building Societies Act 1986. This means that such instruments are not used in trading activity, or for speculative purposes, and are only used to reduce the risk of loss on fluctuations in interest rates. Interest rate swaps are used to hedge the Society's exposures arising from fixed rate mortgage lending and savings products. The Society's primary goal is to manage risk within its risk tolerance, irrespective of the accounting treatment.

The following table summarises the derivative financial instruments held at the year-end and the hedged items in place at that date, together with the net adjustment taken to the Statement of Comprehensive Income.

	2023		2022 (restated)	
	Assets £000s	Liabilities £000s	Assets £000s	Liabilities £000s
Financial instruments measured at fair value				
Interest rate swaps in an effective hedging relationship	2,892	1,641	5,969	431
Fixed rate mortgages	-	950	-	5,212
Fixed rate savings	-	73	48	-
Total hedged position	**2,892**	**2,664**	**6,017**	**5,643**
Hedge ineffectiveness gain	290	-	-	23
Accrued swap interest income receivable		518		351
Total	**3,182**	**3,182**	**6,017**	**6,017**

2022 position is restated to include accrued swap interest income receivable within the fair value of derivative financial instruments. This was previously disclosed in other assets.

Interest rate swaps are valued at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

Where the fair value movement of an interest rate swap is within the range of 80% to 125% of the fair value movement in the hedged instrument (hedge effectiveness), hedge accounting may be applied so that the majority of the fair value movements can be offset. Where the effectiveness is within

the range above but not equal to 100%, the variation between 100% and the actual effectiveness is classed as the ineffective proportion of the hedge relationship and recognised through the Statement of Comprehensive Income.

Hedge ineffectiveness resulted in a loss of £167k (2022: gain of £63k) which was recognised in the Statement of Comprehensive Income.

The total notional value of swaps held at 31 December 2023 was £142.25m (2022: £169.45m), all of which were linked to SONIA.

14. Intangible fixed assets

	Computer Software £000	Total £000
Cost or valuation at 1 January 2023	719	719
Disposals	(21)	(21)
At 31 December 2023	**698**	**698**
Accumulated amortisation at 1 January 2023	702	702
Charge for the year	10	10
Eliminated on disposal	(21)	(21)
At 31 December 2023	**691**	**691**
Net book values		
At 31 December 2023	**7**	**7**
At 31 December 2022	**17**	**17**

15. Tangible fixed assets

	Freehold land and buildings £000	Equipment, fixtures, fittings, and vehicles £000	Total £000
Cost or valuation at 1 January 2023	399	455	854
Additions	-	70	70
Disposals	(1)	(105)	(106)
Transfer from investment property	270	-	270
Transfer to investment property	(99)	-	(99)
At 31 December 2023	**569**	**420**	**989**
Accumulated depreciation at 1 January 2023	132	350	482
Charge for the year	7	50	57
Eliminated on disposal	-	(105)	(105)
At 31 December 2023	**139**	**295**	**434**
Net book values			
At 31 December 2023	**430**	**125**	**555**
At 31 December 2022	**267**	**105**	**372**

16. Investment property

	2023 £000	2022 £000
Fair value at 1 January	760	740
Transfer to freehold land and buildings	(270)	-
Transfer from freehold land and buildings	99	-
Net gain/(loss) from fair value movements	-	20
At 31 December	**589**	**760**

Investment property represents the proportion of the head office building which is let to third parties, on commercial terms. This proportion of the building is held at fair value. The transfer between freehold and investment property is where the Society opted to rent out a section of the building that it previously occupied, thus transferring from freehold land and buildings into investment property. At the same time, the Society began occupying part of the building previously let out to tenants, resulting in a transfer from investment property to freehold land and buildings.

Property rental income earned during the year was £56k (2022: £40k). This is included within 'Other operating income'.

The current value of future lease income expected is shown below:

	2023 £000	2022 £000
Receivable within 1 year	46	36
Receivable in more than 1 year and less than 5 years	104	118
Total amounts receivable under current lease agreements	**150**	**154**

17. Other assets

	2023 £000	2022 £000 (restated)
Rents receivable from investment property	3	-
	3	**-**

Prior year adjusted to re-allocate interest due form swap counterparties, now included in derivative financial instruments (note 13).

18. Shares

	2023 £000	2022 £000
Shares, all of which are held by individuals, are payable from the statement of financial position date in the ordinary course of business as follows:		
- on demand	105,501	105,161
- in not more than 3 months	75,275	79,539
- repayable in more than 3 months but not more than 1 year	55,329	19,136
- repayable in more than 1 year but not more than 5 years	2,005	22,575
- fair value adjustment	73	(48)
	238,183	**226,363**

19. Deposits owed to other customers

	2023 £000	2022 £000
Deposits owed to other customers are repayable from the statement of financial position date in the ordinary course of business as follows:		
- on demand	12,797	16,095
- repayable in not more than 3 months	43,630	49,435
- repayable in more than 3 months but not more than1 year	32,711	-
- repayable in more than 1 year but not more than 5 years	26,753	11,364
	115,891	**76,894**

20. Amounts owed to credit institutions

Amounts owed to credit institutions are payable from the statement of financial position date in the ordinary course of business as follows:	2023 £000	2022 £000
- repayable in not more than 3 months	-	1,004
- repayable in more than 3 months but not more than 1 year	11,188	4,033
- repayable in more than 1 year	25,331	40,285
	36,519	**45,322**

Included within amounts owed to credit institutions is £35m (2022: £40m) of TFSME borrowing from the Bank of England. Between the year end and date of approving the accounts, the Society has repaid a further £15m of TFSME funding, bringing the remaining balance down to £20m.

21. Accruals and deferred income

	2023 £000	2022 £000
Falling due within one year:		
Accruals	1,204	1,087
Deferred income	15	12
Interest due to swap counterparties	41	69
	1,260	**1,168**

Notes to the Accounts for the year ended 31 December 2022 Continued

22. Deferred taxation

	2023 £000	2022 £000
Deferred taxation balance in the period at 1 January	(132)	(91)
(Increase) in liability recognised	(22)	(41)
At 31 December	**(154)**	**(132)**
Analysis of deferred taxation balance:		
Depreciation difference to capital allowances	(50)	(39)
Short-term differences (less than three years)	27	38
Fair value of investment property	(131)	(131)
	(154)	**(132)**

23. Other liabilities

	2023 £000	2022 £000
Falling due within one year:		
Trade creditors	424	233
Social security liability	39	29
Unallocated funds to be returned	10	-
	473	**262**

24. Financial instruments

a. Categories of financial instruments

	At amortised cost £000	Fair value through SOCI £000	Total £000
As at 31 December 2023			
Assets			
Cash in hand and balances with the Bank of England	92,588	-	92,588
Loans and advances to credit institutions	4,691	-	4,691
Derivative financial instruments	-	2,892	2,892
Loans and advances to customers	318,218	-	318,218
Total financial assets	**415,497**	**2,892**	**418,389**
Total non-financial assets			1,343
Total assets			**419,732**
Liabilities			
Shares	238,183	-	238,183
Amounts owed to credit institutions	36,519	-	36,519
Amounts owed to other customers	115,891	-	115,891
Derivative financial instruments	-	1,641	1,641
Accruals and deferred income	1,260	-	1,260
Trade creditors	424	-	424
Total financial liabilities	**392,277**	**1,641**	**393,918**
Total non-financial liabilities			458
Total equity attributable to members			25,356
Total reserves and liabilities			**419,732**

	At amortised cost £000	Fair value through SOCI £000	Total £000
As at 31 December 2022			
Assets			
Cash in hand and balances with the Bank of England	55,637	-	55,637
Loans and advances to credit institutions	9,124	-	9,124
Derivative financial instruments	-	5,969	5,969
Loans and advances to customers	303,284	-	303,284
Total financial assets	**368,045**	**5,969**	**374,014**
Total non-financial assets			1,373
Total assets			**375,387**
Liabilities			
Shares	226,363	-	226,363
Amounts owed to credit institutions	45,322	-	45,322
Amounts owed to other customers	76,894	-	76,894
Derivative financial instruments	-	431	431
Accruals and deferred income	1,168	-	1,168
Trade creditors	233	-	233
Total financial liabilities	**349,980**	**431**	**350,411**
Total non-financial liabilities			489
Total equity attributable to members			24,487
Total reserves and liabilities			**375,387**

Notes to the Accounts for the year ended 31 December 2023 Continued

b. Fair values

The table below shows the fair values of the Society's financial instruments by type, including a note of the method used to determine the fair value.

31 December 2023	Note	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Assets					
Cash in hand & balances with the Bank of England	i.	92,588	-	-	92,588
Loans & advances to credit institutions	i.	-	4,691	-	4,691
Derivative financial instruments	ii.	-	2,374	-	2,374
Loans & advances to customers	iii.	-	-	318,218	318,218
Total financial assets		**92,588**	**7,065**	**318,218**	**417,871**
Liabilities					
Shares		-	-	238,183	238,183
Amounts owed to credit institutions	i.	-	36,519	-	36,519
Amounts owed to other customers	i.	-	115,891	-	115,891
Derivative financial instruments	ii.	-	1,641	-	1,641
Total financial liabilities		**-**	**154,051**	**238,183**	**392,234**

31 December 2022	Note	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Assets					
Cash in hand & balances with the Bank of England	i.	55,637	-	-	55,637
Loans & advances to credit institutions	i.	-	9,124	-	9,124
Derivative financial instruments	ii.	-	5,618	-	5,618
Loans & advances to customers	iii.	-	-	303,284	303,284
Total financial assets		**55,637**	**14,742**	**303,284**	**373,663**
Liabilities					
Shares		-	-	226,363	226,363
Amounts owed to credit institutions	i.	-	45,322	-	45,322
Amounts owed to other customers	i.	-	76,894	-	76,894
Derivative financial instruments	ii.	-	431	-	431
Total financial liabilities		**-**	**122,647**	**226,363**	**349,010**

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

i. The carrying value approximates the fair value.

ii. Derivatives are used for economic hedging purposes with level 2 inputs by reference to market prices.

The replacement value of the derivatives held by the Society approximates their fair values, as disclosed above.

iii. The fair value represents the discounted amount of estimated future cash flows after allowing for expected impairment provisions and early repayment charges discounted at current market rates.

Valuation techniques

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

Level 1: Quoted prices for similar instruments.

Level 2: Directly observable market inputs other than level 1 inputs.

Level 3: Inputs not based on observable market data.

c. Credit risk: loans and advances to customers

The Society is exposed to credit risk relating to loans and advances to customers and this is detailed below:

The first table reconciles mortgage balances to the Statement of Financial Position which includes provisions, EIR and fair value adjustments.

	2023		2022	
	£000	**%**	**£000**	**%**
Loans fully secured on residential property	318,090	99.96%	303,041	99.92%
Other loans fully secured on land	128	0.04%	243	0.08%
	318,218		**303,284**	
Provision for impairment losses	432		396	
Unamortised loan origination fees	(929)		(820)	
Fair value adjustments	950		5,212	
Loans and advances to customers	**318,671**		**308,072**	

The Society's exposure to credit risk relating to loans and advances to customers can be broken down by customer segment as follows

	2023		2022	
	£000	**%**	**£000**	**%**
Residential	317,593	99.66%	302,617	98.23%
Non-residential	128	0.04%	243	0.08%
Fair value adjustments	950	0.30%	5,212	1.69%
Loans and advances to customers	**318,671**	**100.00%**	**308,072**	**100.00%**

Notes to the Accounts for the year ended 31 December 2023 Continued

Credit risk: risk concentrations

Loan to value (LTV) is one of the primary factors used to assess the credit quality of secured lending. Index-linked LTV banding is shown below:

	2023		2022	
	Residential	Non-residential	Residential	Non-residential
Less than or equal to 50%	22.0%	100.0%	23.4%	100.0%
More than 50% but less than or equal to 60%	12.0%	-	14.3%	-
More than 60% but less than or equal to 70%	13.7%	-	16.7%	-
More than 70% but less than or equal to 80%	22.4%	-	24.2%	-
More than 80% but less than or equal to 90%	16.4%	-	15.2%	-
More than 90% but less than or equal to 100%	13.2%	-	6.2%	-
More than 100%	0.3%	-	0.0%	-
	100.0%	**100.0%**	**100.0%**	**100.0%**

The table below provides a break-down of secured lending by payment due status:

	2023		2022	
	Residential	Non-residential	Residential	Non-residential
Current	99.7%	100%	99.8%	100.0%
Past due up to 3 months	0.3%	-	0.2%	-
Past due 3 months up to 6 months	-	-	-	-
Past due 6 months up to 12 months	-	-	-	-
Past due over 12 months	-	-	-	-
Possessions	-	-	-	-
	100.0%	**100.0%**	**100.0%**	**100.0%**

As at 31 December 2023, one mortgage (2022: 1) was more than 12 months in arrears with a balance of £84k representing less than 0.1% of the total mortgage book.

The Society provides secured loans to retail and commercial customers across England and Wales.

	2023		2022	
Region	**£000**	**%**	**£000**	**%**
South West	63,119	20%	61,515	20%
Greater London	37,787	12%	41,452	14%
Outer Metropolitan	44,356	14%	43,940	14%
South East/East of England	54,094	17%	50,513	16%
Midlands	46,165	14%	44,518	14%
North West/North of England	58,834	18%	54,588	18%
Wales and Scotland	14,316	5%	11,546	4%
	318,671	**100%**	**308,072**	**100%**

Collateral values are updated at the date of each statement of financial position by reference to the Nationwide house price index (HPI). Based on these indexed valuations, the total collateral held against lending secured against land and residential property is estimated to be £649m (2022:

£712m). Any collateral surplus on the sale of repossessed properties, after the deduction for cost incurred in relation to the sale would be returned to the borrower.

d. Credit risk: Treasury financial instruments

The Society is exposed to Treasury credit risk in respect of loans and advances to credit institutions and financial derivatives. The credit risk exposure to Treasury Instruments equates to its carrying amount recognised in the statement of financial position. The following table shows the Society's maximum credit risk.

	2023 £000	**2022 £000**
UK government securities and amounts held with central banks	92,588	55,637
UK financial institutions	4,691	9,124
	97,279	**64,761**
Financial derivatives	2,374	5,618
	99,653	**70,379**

The following table shows exposure broken down by Fitch ratings for loans and advances to credit institutions

	2023 £000	**2022 £000**
AAA to AA-	92,588	55,637
A+ to A-	4,691	8,619
BBB+ to BBB-	-	-
Unrated	-	505
	97,279	**64,761**

The geographical distribution of these exposures is as follows:

	2023 £000	**2022 £000**
UK	99,653	70,379
	99,653	**70,379**

Notes to the Accounts for the year ended 31 December 2023 Continued

e. Liquidity risk

The following tables analyse the gross contractual cash flows payable under financial liabilities.

2023					
Non-derivative liabilities	**Total £000**	**Less than 3 months £000**	**Between 3 months and 1 year £000**	**Between 1 year and 5 years £000**	**More than 5 years £000**
Shares	238,366	137,458	98,896	2,012	-
Amounts owed to credit institutions	39,274	463	2,421	36,390	-
Amounts owed to other customers	134,666	46,707	54,889	33,070	-
	412,306	184,628	156,206	71,472	-
Derivative liabilities					
Interest rate swaps	5,558	777	1,781	3,000	-

2022					
Non-derivative liabilities	**Total £000**	**Less than 3 months £000**	**Between 3 months and 1 year £000**	**Between 1 year and 5 years £000**	**More than 5 years**
Shares	243,619	142,994	75,663	24,962	-
Amounts owed to credit institutions	48,713	1,120	5,360	42,233	-
Amounts owed to other customers	90,437	60,921	15,542	13,974	-
	382,769	205,035	96,565	81,169	-
Derivative liabilities					
Interest rate swaps	1,863	554	1,239	70	-

Amounts payable in less than three months includes amounts repayable on demand.

f. Interest rate risk

The Society is exposed to interest rate risk which primarily arises from market changes in interest rates which affect the interest rate margin generated from lending and borrowing activities. One aspect of interest rate risk to which the Society is also exposed is basis risk. This arises where assets and liabilities re-price with reference to differing interest rate bases, principally Bank of England base rate and SONIA.

To reduce the impact of an adverse change in interest rates on the Society's net interest income the net exposure (i.e. after offsetting assets and liabilities internally) is hedged using interest rate swaps within parameters set by the Asset and Liability Committee in accordance with the Society's risk appetite. Basis risk is mitigated by managing the exposure within risk limits set by the ALCO.

By way of illustration, based on a static statement of financial position, a 2% parallel upward shift in interest rates would have a favourable impact on net interest income of £774k (2022: £650k) over a one-year period.

g. Derivative financial instruments

The Society has entered into Credit Support Annexes (CSA's) for its derivative instruments which typically provide for the exchange of collateral on a daily basis to mitigate net mark to market credit exposure.

The following table shows the impact on derivative financial instruments:

2023	Gross Amounts £000	Financial Collateral £000	Net amounts £000
Financial Assets			
Derivative financial instruments	2,892	-	2,892
Financial Liability			
Derivative financial instruments	(1,641)	-	(1,641)
	1,251		1,251

2022	Gross Amounts £000	Financial Collateral £000	Net amounts £000
Financial Assets			
Derivative financial instruments	5,969	-	5,969
Financial Liability			
Derivative financial instruments	(431)	-	(431)
	5,538	-	5,538

* As reported in the statement of financial position

** The minimum transfer amount for financial collateral is £250,000 in either direction

25. Analysis of change in net debt

	2022 £000	Cash Flows £000	2023 £000
Cash and cash equivalents:			
Cash in hand and balances with the Bank of England	55,637	36,951	92,588
Loans and advances to credit institutions	9,124	(4,433)	4,691
	64,761	32,518	97,279

Notes to the Accounts for the year ended 31 December 2023 Continued

26. Capital

The objective of the Board is to maintain a strong capital base to provide protection for members, promote market confidence and support future growth. The Society is required to manage its capital to meet the requirements of the Capital Requirements Directive (CRD IV) and related requirements set by the Prudential Regulation Authority (PRA).

The Society operates a formal Internal Capital Adequacy Assessment Process (ICAAP) to determine and demonstrate how these requirements are met. As part of the ICAAP the Board has established an internal minimum threshold for capital that is sufficient to support present and future capital requirements, withstand a severe but plausible stress and ensure the minimum regulatory requirement is adhered to. Compliance with capital requirements is monitored monthly, the results of which are reported to the Board. The Society complied with and maintained surplus capital requirements above the regulatory minimums during the reporting period.

More details regarding the Society's current capital position are contained within the Pillar 3 disclosure available from the Teachers Building Society website. The following table sets out the balances that the Society manages as capital in accordance with the PRA's requirements.

	Note	**2023**	**2022**
		£000	**£000**
General reserves		24,621	23,750
Revaluation reserves		735	737
Deductions for intangible assets	14	(7)	(17)
Total Tier 1 Capital		**25,349**	**24,470**
Collective impairment provision	9	409	382
Total Tier 2 Capital		409	382
Total Capital		**25,758**	**24,852**

27. Country by country reporting

Under Article 89 of the Capital Requirements Directive (CRD), the Society is required to disclose the following information:

	2023	**2022**
Location of operations	United Kingdom	
Nature of activities	Deposit taking, mortgage lending	
Turnover*	£9,881k	£9,237k
Average number of colleagues	79	66
Profit before tax	£1,146k	£1,874k
Cash tax paid	£(327)k	£(256)k
Public subsidies	£nil	£nil
Bank of England Term Funding Scheme with additional incentives for SMEs	£35,000k	£40,000k

*Note: Turnover is stated as Net Operating Income taken from the Society's statement of comprehensive income.

28. Subsequent events

The Directors consider that there has been no event since the end of the financial year that has a significant effect on the position of the Society.

Annual business statement
For the year ended 31 December 2023

1. Statutory percentages

	2023	Statutory limit
Lending limit	1%	25%
Funding limit	39%	50%

The above percentages have been calculated in accordance with the provisions of the Building Societies Act 1986 as amended by the Building Societies Act 1997.

The lending limit measures the proportion of business assets not in the form of loans fully secured on residential property. The funding limit measures the proportion of shares and borrowings other than those from individuals.

The statutory limits are the maxima laid down under the Building Societies Act 1986 as amended by the Building Societies Act 1997 and ensure that the principal purpose of a building society is that of making loans which are secured on residential property and that the Society is funded substantially by its members.

2. Other percentages

	2023	2022
As a percentage of shares and borrowings		
Gross capital	6.5%	7.0%
Free capital	6.3%	6.8%
Liquid assets	24.9%	18.6%
As a percentage of mean total assets		
Profit after tax	0.22%	0.41%
Management expenses	2.19%	1.98%

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

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

'Gross capital' comprises reserves and revaluations reserves.

'Free capital' comprises gross capital and collective provisions less tangible fixed assets.

'Liquid assets' represents the total of cash in hand, loans and advances to credit institutions, debt securities and other liquid assets shown as in the statement of financial position.

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

'Profit after tax' represents the profit for the financial year as shown in the Statement of Comprehensive Income.

'Management expenses' represent the aggregate of administrative expenses and depreciation and amortisation costs.

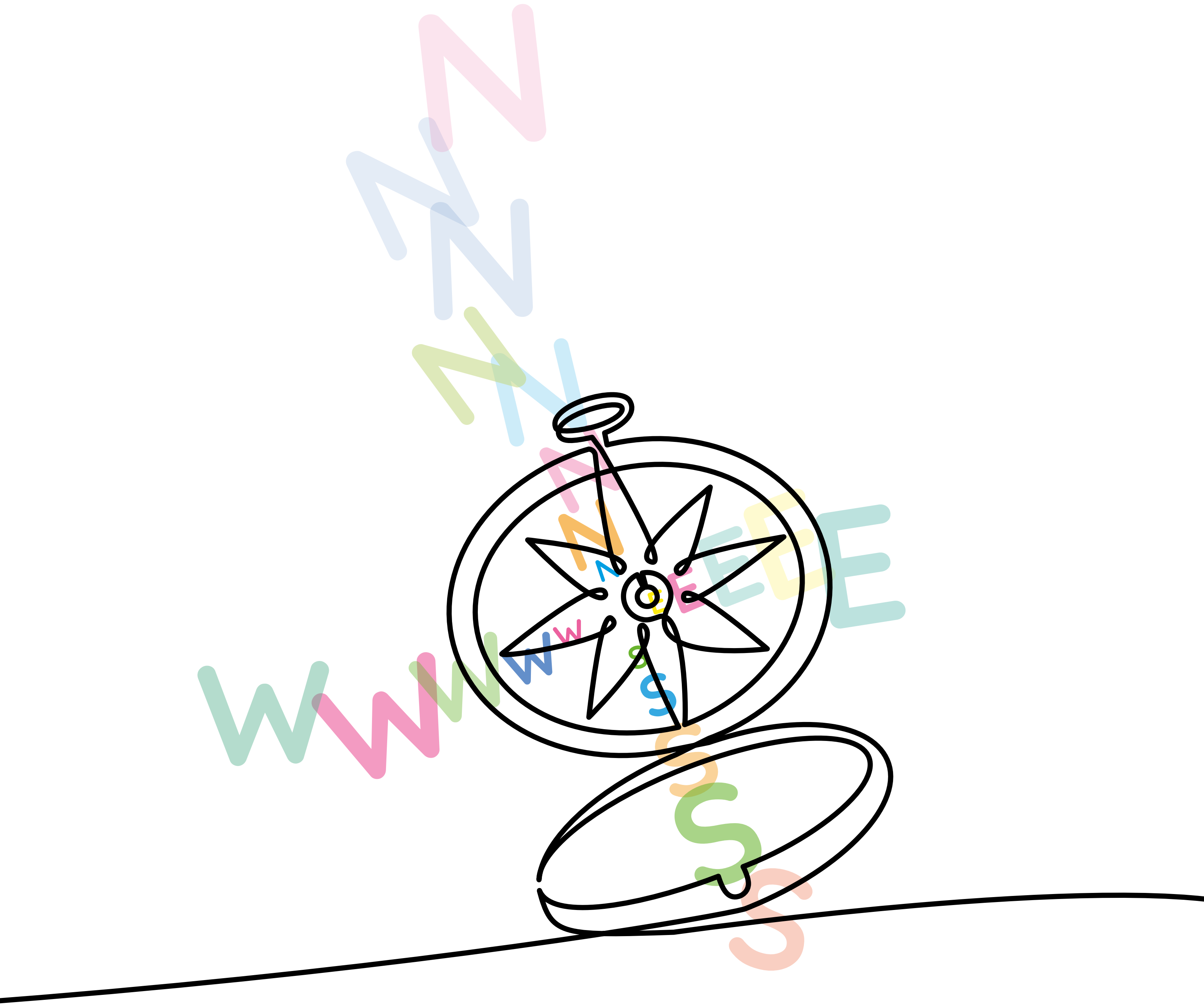
Annual business statement
For the year ended 31 December 2023
Continued

3. Information relating to directors and other officers

As at 31 December 2023 the directors were:

Name	Date of Birth	Occupation	Date of Appointment	Other Directorship
S Beresford	14/03/1963	Chief Executive	17/02/2017	Teachers Housing Association BSA Pension Trustees Ltd
I Grayson	07/10/1963	Teacher	08/07/2015	West End Rugby Football Club Ltd
P E Jarman	29/02/1964	Legal Director & Secretary	11/05/2015	Diocese of Salisbury Academy Trust
R K Patel	12/10/1969	Finance Director	10/07/2019	None
J Nicholson	29/04/1965	Director	26/04/2018	Amitra West Invest (UK) Ltd Amitra Capital Ltd Beryllium 1 GP Ltd Beryllium 2 GP Ltd Shop Direct Finance Company Ltd QIB (UK) plc VG Consumer Finance Ltd
P Winter	20/10/1950	Director	29/06/2017	None
J G Dumeresque	31/08/1958	Director	22/10/2021	Heart of the South-West LEP C.I.C. Exeter Science Park Limited Weir Quay Community Watersports Hub Club Limited Western Selection PLC JD Capital Management Ltd (dormant)
J Anderson	22/06/1955	Director	09/08/2022	Embark Group Ltd Embark Services Ltd Embark Investment Services Ltd EBS Pensions Ltd Sterling ISA Managers Ltd Halifax Share Dealing Ltd
K Malayapillay	05/03/1971	Director	19/10/2022	Tune Protect Bhd. Tune Protect Commercial Brokerage LLC Malayapillay Consulting Ltd Exeter Friendly Society Exeter Cash Plan Holdings Limited Exeter Cash Plan Limited

At 31 December 2023 none of the Directors has service contracts except Simon Beresford (dated 17.02.2017), Patrick Jarman (dated 06.12.2011) and Rajesh Patel (dated 17.06.2019). Their contracts may be terminated by either side on six months' notice.



Teachers Building Society, Allenview House, Hanham Road, Wimborne, Dorset BH21 1AG. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority (Register no 156580).

Teachers Building Society