Teachers Building Society
Annual Report & Accounts

For the year ended 2022

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

Malcolm Himsworth, 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

National Westminster Bank PLC,

7 West Borough, Wimborne, Dorset, BH21 1PR

Principal Office

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

Firm Reference Number

156580

Chair's and Chief Executive's Statement

As we acknowledge another successful year here at Teachers Building Society we'd like to extend a very warm welcome to members old and new. Whether you've supported us for many years or just a few months we're grateful for your loyalty and support.

As a mutual organisation we work only for you, our members. That work - our core purpose - has remained unchanged since we were formed in the 1960s: we exist to help teachers especially with smaller deposits buy their first home. We do that by offering savings accounts that help fund our lending and we offer mortgages to select other groups that in turn facilitate low deposit teacher mortgages. So whether you borrow from us, save with us, are a teacher or not, you're part of something special, something you can be as proud of as we are.

Against a backdrop of difficult economic circumstances, including rising inflation and a cost of living crisis we're pleased to be able to report that your Society has achieved strong financial results.

2022 Business Performance
Once again in 2022 we delivered against two important measures of business performance: financial strength and operational resilience. We kept your money safe and kept the Society strong.

Lending
2022 was another year of very strong lending growth for the Society, despite the rising Bank of England base rate putting upward pressure on mortgage rates that has been unseen in recent years. Teacher first time buyers with smaller deposits accounted for a significant portion of our mortgage lending in 2022, reaffirming our core lending purpose. We complemented this with higher deposit specialist lending. In total, the Society delivered net lending of £29.7m (2021: £25.7m). This equates to an annual increase of 9.5% to our overall mortgage balance, and follows a 9.4% increase in 2021.

Savings
Having endured a period of low interest rates in recent years, our members benefitted from rising rates in 2022 and a number of our savings accounts featured in the national media and best buy tables. As a result we welcomed many new savings account holders in 2022 and the deposits of new and existing members alike through the course of the year meant the Society ended 2022 with an additional £19.9m in savings balances, a 6.1% increase on 2021.

Overall performance
The Society's product and operating strategy resulted in an operating profit (profit before taxation) of £1.87m for the year, up from £1.37m reported in 2021, mainly driven by additional lending and a rising interest rate environment.

Having eclipsed £350m of assets for the first time during 2021, the Society grew again in 2022, reaching total assets of £375.4m. This represents a £22.6m increase on 2021 (£352.8m 2021) equivalent to 6.4% year on year growth.

The Society's capital and liquidity which are two key measures of financial resilience remained strong in 2022. The Society's capital, which is predominantly made up of retained earnings increased to £24.9m (£23.2m: 2021), this level of capital is 40% above the amount the UK financial services regulator requires us to hold. The Society's holding of high quality liquid assets (HQLA) was £55.6m (£65.8m: 2021), the level of HQLA at the end of 2022 was 171% greater than the amount the UK financial services regulator requires us to hold.

Investing in our future
As a member owned organisation, we reinvest profits we make back into the Society, ensuring it remains 'fit for purpose' in the face of the changing needs of our members. Last year we announced we were embarking on a multi-year investment project to change our customer account management systems with the intention of transforming member experiences. Work on this continued throughout 2022 and included investment in specialist skills to support the project's successful delivery.

Chair's and Chief Executive's Statement

Continued

Overall in 2022 we welcomed 28 new colleagues to our team to support us in welcoming more new members to the Society in 2023 and beyond. We want to help even more teachers take their first steps on the ladder and to do that we'll need to welcome many more savers. Whether you know a teacher looking to get a mortgage or a saver ready to open a new account with a social feel good factor please do help us spread the word.

Environmental sustainability will naturally remain a focus for us in 2023. We're doing the common sense things like cutting down on paper usage, ensuring we recycle, and using energy as efficiently as possible. We're also exploring future product and service innovations that will support a more sustainable future for you as members and us as an organisation.

Summary

We ended 2022 in a very positive place: 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.

We are hopeful that the current cost of living crisis will soon show signs of easing and that the UK will be on a path back to economic normality after a turbulent couple of years. In the short term we are ready to support our members who are struggling. If you are finding the current climate financially difficult, please visit our website to access resources or reach out to us directly, we are here to support you.

It only remains for us to say a few heartfelt thank yous. Firstly to the frontline teaching and education sector professionals amongst our membership who continue to make us proud with their dedication and commitment to our young people: you are amazing.

Secondly to our team of colleagues who have adjusted to hybrid working: thank you for continuing to deliver exceptional member service, the Society's success is a result of the whole team.

Thirdly to Malcolm Himsworth who steps down as Non Executive Director. We thank him for his significant contribution to the Society and wish him all the best for the future. We're pleased to welcome two new Non Executive Directors, Jonathan Anderson who will act as Chair of the Audit Committee and Kelvin Malayapillay who will act as Consumer Duty champion for the Board.

Finally to you, our wonderful members – thank you for your trust, loyalty and support.

Julie Nicholson Chair
28 February 2023

Simon Beresford Chief Executive Officer
28 February 2023

Strategic Report

The Directors have pleasure in presenting the Strategic Report for the year ended 31 December 2022.

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 statement of financial position by £22.6m to end the year at £375.4m (2021: £352.8m) and generated a profit for the year of £1,505k (2021: £1,083k). The increase in profit was the result of increased net interest margin through mortgage growth and careful management of interest rate increases. 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 the core equity tier 1 capital ratio of 18.4% (2021: 19.5%), with the reduction being due to the increased capital requirement from the mortgage book growth. 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 2022 with around 47% (2021: 53%) of new lending being to first-time buyers including through schemes such as Help to Buy.

New mortgage lending for the year was £97.1m (2021: £93.5m) with net lending of £29.7m (2021: £25.7m).

Our personal service and approach of individually assessing all mortgage applications for credit quality and affordability 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 £158k to £396k as a result of growth in the mortgage book, representing 0.1% of the mortgage book balance (2021: £238k – 0.1%).

Savings and Funding

The overall funding balance increased to £348.6m (2021: £328.7m). The shares and other customer deposits balance increased to £303.3m (2021: £284.7m) to support the increased level of lending in 2022. We have been able to maintain competitive savings rates throughout the year.

The total drawings under the Bank of England's Term Funding Scheme with additional incentives for Small and Medium sized Enterprises (TFSME) are £40m (2021: £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 18.6% (2021: 22.2%), the reduction is the result of utilising excess liquidity to fund growth in the mortgage book.

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 2022, with recruitment levels increasing in line with growth in the Society. Colleagues throughout England 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 2022.

Strategic Report
Continued

Future Development

Our strategy is to continue to support teachers 'under-served' by the wider mortgage market, such as newly qualified 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, which mitigate the risks of an unexpected wider economic or financial shock.

Core to the Society's ethos, we aspire to provide 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.

Key Performance Indicators

The Society monitors its performance and development by reference to a range of Key Performance Indicators ('KPIs'). For 2022 , the results for the primary KPIs used by the Board were:

Key Performance Indicators	2022	2021
Total profit for the year	£1,505k	£1,083k
Net interest margin	2.62%	£2.14%
Growth in mortgage balances	9.5%	9.4%
Common equity tier 1 ratio	18.4%	19.5%
Cost to income ratio	78.0%	80.7%
Total liquid asset ratio	18.6%	22.2%
Mortgages > 3 months in arrears	0.04%	0.06%

Total Profit for the Year

The Society aims to manage the level of profit to ensure that 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 £1,505k (2021: £1,083k) 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 2.62% from 2.14% in 2022. This is the result of growth in the mortgage book combined with the result of interest rate changes on 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 rate margins.

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 9.5% (2021: 9.4%) from £277.0m to £303.3m.

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.

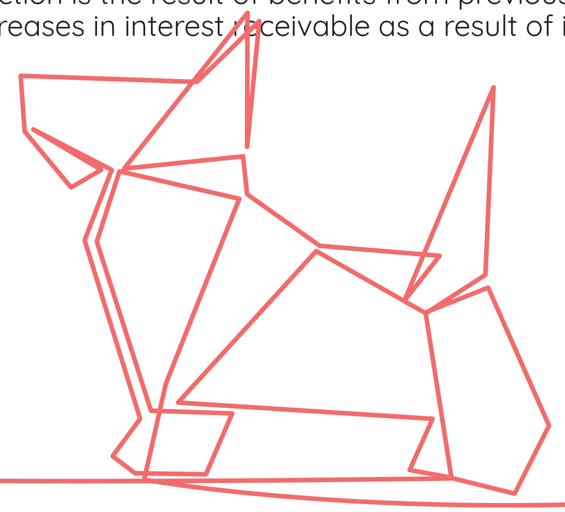
Core tier 1 equity ('CET1') capital is composed of the highest quality capital of an institution and in the case of the Society this represents the majority of its available capital resources. CET1 capital is expressed as a percentage of the regulatory risk-weighted assets ('RWAs') of the Society. RWAs 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 2022 was 18.4% (2021: 19.5%), 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 2022 this was 78.0% (2021: 80.7%). This reduction is the result of benefits from previous investment in the Society combined with net increases in interest receivable as a result of interest rate movements.



Strategic Report
Continued

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 18.6% (2021: 22.2%). The reduction is the result of utilising excess liquidity to fund growth in the mortgage book.

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 2022, 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 0.04% (2021: 0.06%).

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 0.20% cases in this category (0.26% in 2021) compared to a UK Finance average of 0.74% (0.82% in 2021) for homeowners.

The Society had no properties in possession as at 31 December 2022 (2021: 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 2022, the Society had offered forbearance measures to 7 customers (2021: 8).

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 2022 (see note 9) and represents 0.13% percent of the mortgage book (2021: 0.09%). The percentage of provision to the overall mortgage book remains low compared to our peers and the industry average.

Principal Risks and Uncertainties

Risks management framework

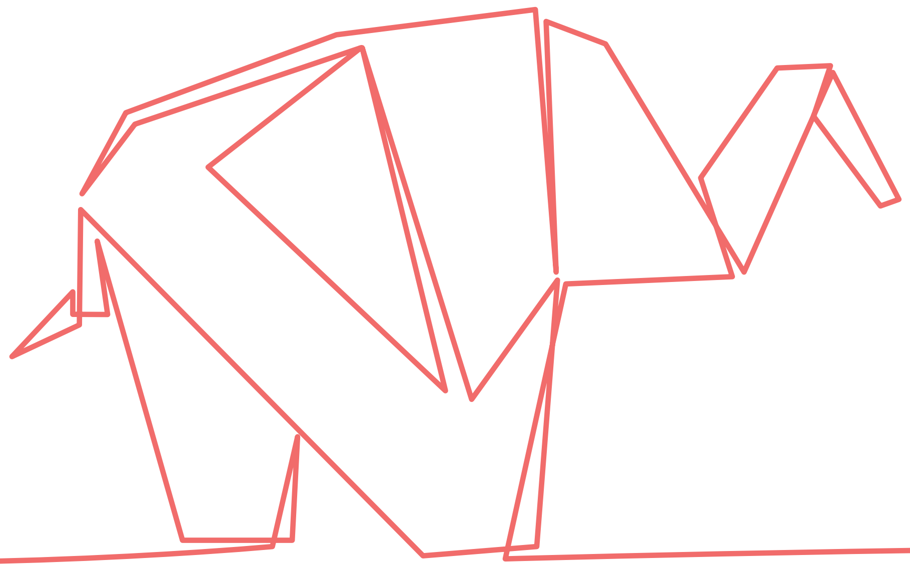
Building societies operate in a competitive environment and are subject to economic uncertainties. The management of risk is therefore central to the continuing success of the Society.

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 an external provider. 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.

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.	• 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 or Solvency risk The risk that the Society maintains insufficient capital resources to protect its depositors, support business growth, meet regulatory requirements and ensure that its liabilities can be met as they fall due.	• Capital Planning as part of the Society's Internal Capital Adequacy Assessment Process ('ICAAP') and corporate plan. • Stress testing and monitoring of key ratios by the Executive Assets and Liabilities Committee and Board Risk Committee.
	Liquidity and Funding risk Liquidity risk is the risk that the Society is unable to settle obligations with immediacy and maintain public and stakeholder confidence. Funding risk is the risk that the Society is unable to realise assets or otherwise raise funds on economic terms, and/or within reasonable timescales. Concentration risk is an aspect of funding risk (as well as of credit risk - see above). Traditional building societies, such as Teachers Building Society, have an inherent funding concentration risk arising from reliance on the UK retail savings market.	• Financial Risk Policy sets risk limits. • Maintaining appropriate levels of High Quality Liquid Assets. • The Society's Individual Liquidity Adequacy Assessment Process ('ILAAP') and Contingency Funding Plan. • Stress testing. • Oversight by Executive Asset and Liability Committee and Board Risk Committee.

Risk	Description (and sub category)	Key mitigating actions
Operational	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including cyber security risk and a risk of a failure by third party suppliers but excluding strategic risk. Currently, this includes the risks associated with the project to upgrade our customer account management system (see page 14 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.
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.

Strategic Report
Continued

Further information is provided below on two of these risk areas: those relating to the customer account management systems 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 has had regard to the requirements of the Financial Stability Board's Task Force on Climate-Related Financial Disclosures (TCFD).

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 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.

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.

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

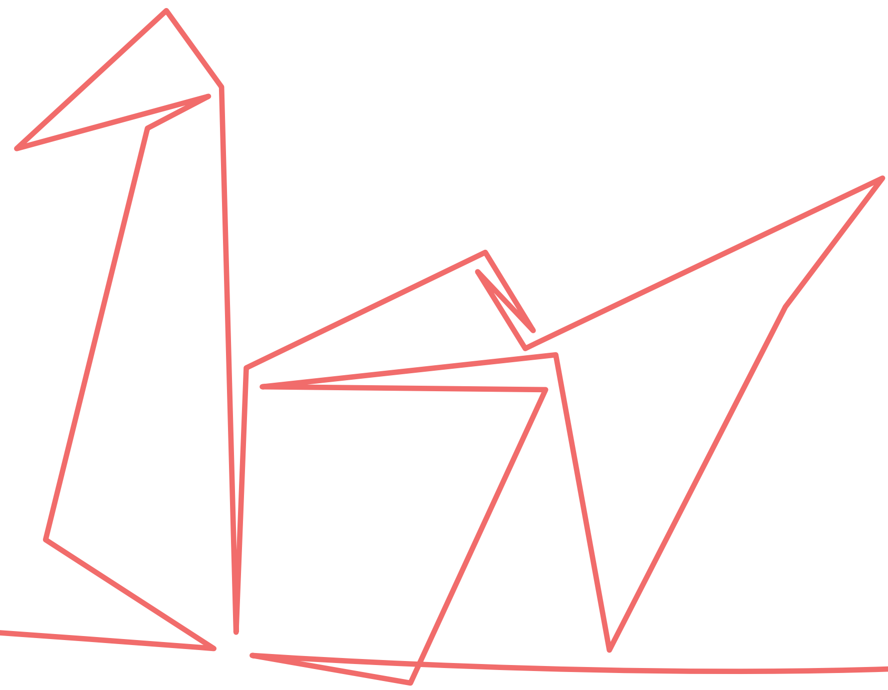
The Society is working to quantify its exposure to climate change risks and, in due course, set targets and risk limits to aid the management of such risks. Each of the executive committees and the Board Risk Committee receive quarterly reports on a wide variety of metrics related to climate change risk.

With regard to credit risk, the Society has for the second 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 view, relatively resilient to the financial risk from climate change.

On behalf of the Board

Julie Nicholson
Chair of the Board 28 February 2023



Directors report

The Directors have pleasure in presenting the Annual Report and Accounts for the year ended 31 December 2022. 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 2022, the average number of days which the Society took to settle amounts owing to trade creditors was 16 (2021: 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 £25,744 (2021: £621) 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 (2021: 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 2022, there was 1 mortgage account more than 12 months in arrears (2021: nil). 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 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 stress scenarios 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

A P Lee, resigned 28 April 2022

P Winter

M Himsworth

J G Dumeresque

J T Anderson, appointed 9 August 2022

K D Malayapillay, appointed 19 October 2022

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 2022 can be found in the Annual Business Statement.

Directors report

Continued

At the next Annual General Meeting, on 25 April 2023, Jonathan Anderson and Kelvin Malayapillay will offer themselves for election and all the remaining Directors will offer themselves for re-election except Malcolm Himsworth who will be retiring.

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 28 February 2023

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 how the Board has addressed 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 25;
- Remuneration Committee – see section on Remuneration on page 26;
- Nomination Committee – see section on Composition, Succession and Evaluation on page 24.

Until July 2022, the responsibilities of the Audit Committee and the Risk Committee were carried out by a single Audit & Risk Committee. Reflecting the growing complexities of the role, the Board took the decision to replace that Committee with two Committees separately focusing on risk and audit. 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 newsletters. 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 new Consumer Duty rules, Kelvin Malayapillay has been appointed 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 process, overseen by Malcolm Himsworth, an independent Non Executive Director, 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 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 judgment 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

The number of directors changed during the course of the year. There were six Non Executive Directors until April 2022, five between April and August, six between August and October, and seven thereafter. There were 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	9 (10)
Malcolm Himsworth	8 (10)
Andrew Lee[1]	3 (3)
Jane Dumeresque	10 (10)
Paul Winter	10 (10)
Jonathan Anderson[2]	4 (4)
Kelvin Malayapillay[3]	2 (3)
Simon Beresford[4]	10 (10)
Patrick Jarman[4]	10 (10)
Rajesh Patel[4]	10 (10)
Total meetings:	10

1 Retired from the Board 28.04.2022
2 Appointed to the Board 09.08.2022
3 Appointed to the Board 19.10.2022
4 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,
Malcolm Himsworth,
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.) The Audit and Risk Committee was replaced in July 2022 by an Audit Committee and a Risk Committee.

Audit and Risk Committee to July 2022

Members	Attendance
Malcolm Hinsworth (Chair)	2 (4)
Ian Grayson	4 (4)
Andrew Lee	4 (4)
Paul Winter	4 (4)
Jane Dumeresque	4 (4)
Total meetings	**4**

Audit Committee from July 2022

Members	Attendance
Malcolm Hinsworth (Chair[1])	2 (2)
Ian Grayson	2 (2)
Paul Winter	2 (2)
Jane Dumeresque	2 (2)
Jonathan Anderson[2]	1 (1)
Kelvin Malayapillay[3]	0 (1)
Total meetings	**2**

1 Malcolm Himsworth stepped down as Chair of the Committee on 23.01.2023

2 Appointed to the Committee 30.09.2022. Jonathan Anderson became chair of the Committee on 23.01.2023

3 Appointed to the Committee 19.10.2022

Risk Committee from July 2022

Members	Attendance
Jane Dumeresque (Chair[1])	2 (2)
Malcolm Hinsworth[1]	2 (2)
Paul Winter	2 (2)
Julie Nicholson	2 (2)
Ian Grayson	2 (2)
Jonathan Anderson[2]	1 (1)
Kelvin Malayapillay[3]	0 (1)
Total meetings	**2**

1 Malcolm Himsworth was Chair of the Committee until 20.08.2022 when Jane Dumeresque succeeded him.

2 Appointed to the Committee 30.09.2022

3 Appointed to the Committee 19.10.2022

Remuneration Committee

Members	Attendance
Ian Grayson (Chair)	5 (5)
Malcolm Himsworth	3 (5)
Julie Nicholson	5 (5)
Paul Winter	5 (5)
Total meetings	**5**

Nomination Committee

Members	Attendance
Julie Nicholson (Chair)	2 (2)
Simon Beresford	2 (2)
Malcolm Himsworth	1 (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. A Non Executive Director attends an Assets and Liabilities Committee meeting at least quarterly and 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 none of the directors were appointed to additional directorships.

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. Two appointments to the Board were made during 2022, those of Jonathan Anderson and Kelvin Malayapillay, both as a Non Executive Director. Their appointments followed a robust selection process which included open advertising and the use of an external search consultancy, Thorburn McAlister.

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 a half-yearly report 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. Specifically, it has agreed an objective of each gender constituting at least a third of any short-list for any appointment as a director.

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 2022, is 45% male and 55% female (2021: 50% male and 50% female).

Re-elections at the AGM

Unless they are retiring from the Board, all Directors submit themselves for re-election every year, subject to continued satisfactory performance. At the 2023 AGM, Malcom Himsworth will be retiring.

Audit, Risk and Internal Control

In July 2022, the Board's Audit & Risk Committee was split into two new Committees: a Risk Committee and an Audit Committee. The Audit & Risk Committee's role prior to that was the aggregate of the new Committees' roles, as described below.

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.

In addition to the statutory audit, BDO have provided non-audit services in relation to an assurance report provided to the Bank of England to support our TFSME funding. The appointment of BDO to conduct this assignment was approved by the Audit and Risk Committee.

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 financial and the internal 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.

Risk assessment

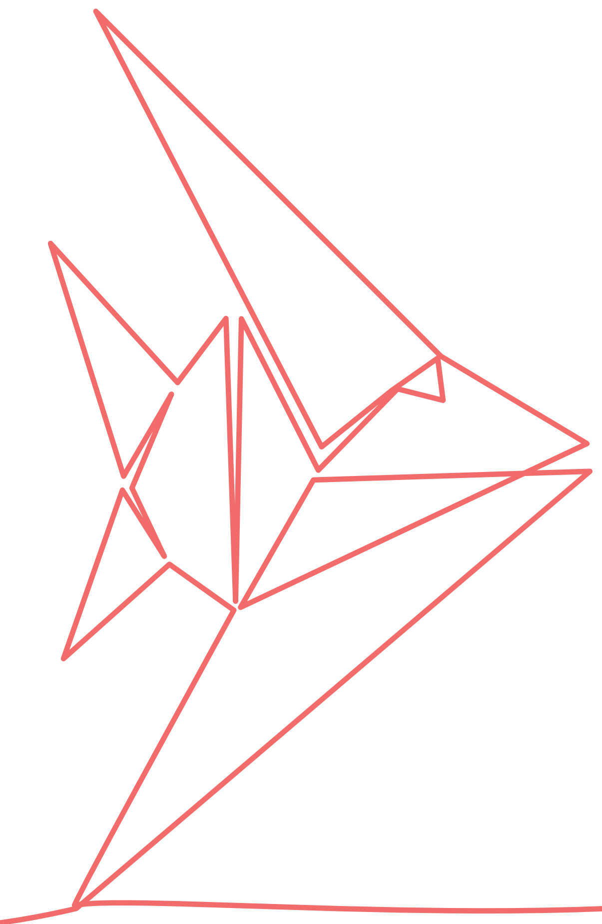
The Risk Committee and the Board have carried out a robust assessment of the Society's emerging and principal risks and a summary of the outcome of that assessment is included in the Strategic Report. The latter also includes further information on the Society's risk management framework and the mitigation 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 28 February 2023



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, with effect from 1 January 2022, 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. It does not, however, have the ability to recover bonuses once paid. 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 a costs target. The reason is that although the objective was not wholly achieved, the reason was because additional expenditure was deemed necessary to support this year's strong asset growth. For example, head count was increased to support growth in the mortgage book. Additionally, some recruitment was needed to "back-fill" colleagues engaged in the customer account management systems project.

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	**2022 £000**	**2021 £000**
J Nicholson	38	35
A P Lee (until 28.04.22)	7	22
I Grayson	27	23
P Winter	27	23
M Himsworth	28	25
J G Dumeresque (from 28.10.21)	26	4
J Anderson (from 09.08.22)	11	-
K Malayapillay (from 19.10.22)	11	-
Total	**175**	**132**
Executive Directors' remuneration		
S Beresford		
Salary	195	175
Bonus	43	38
Benefits	2	-
Pension contributions	-	4
Payment in lieu of pension	19	13
Car allowance	5	4
Total	**264**	**234**
P E Jarman		
Salary	100	91
Bonus	21	19
Benefits	2	-
Pension contributions	4	4
Total	**127**	**114**
R K Patel		
Salary	158	151
Bonus	34	30
Benefits	1	-
Relocation allowance	-	20
Pension contribution	16	15
Total	**209**	**216**
Total Directors' remuneration	**775**	**696**

Ian Grayson
Chair of the Remuneration Committee
28 February 2023

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 2022 and of its profit for the year then ended;
• have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
• have been prepared in accordance with the requirements of the Building Societies Act 1986.

We have audited the financial statements of Teachers Building Society (the ‘Society’) for the year ended 31 December 2022 which comprise Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Members’ Interests and 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 members on 30 April 2020 to audit the financial statements for the year ending 31 December 2020 and subsequent financial periods. The period of total uninterrupted engagement including retenders and reappointments is 3 years, covering the years ending 31 December 2020 to 31 December 2022. We remain independent of the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Society.

Conclusions relating to going concern

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

• Reviewing the Internal Capital Adequacy Assessment Process (ICAAP), Internal liquidity adequacy assessment process (ILAAP) and regulatory capital and liquidity requirements
• Assessing the directors’ assessment of Going Concern including supporting financial forecasts and challenging management’s assumptions and judgements made with regards to their base forecast and stress-tested forecast, including reverse stress test scenarios, with reference to historical performance, our understanding of the position of the Society and verifying the impact of the stressed scenarios on the capital position of the Society;
• Sensitivity analysis and review of key ratios such as Net Interest Margins, Growth in mortgage balances, cost to income ratio, total liquid asset ratio and Common equity tier 1 capital ratio for significant deterioration, to determine if the Directors’ assessment of the Society as a going concern is appropriate; and
• Assessing how the Directors have factored in key external factors expected to impact the Society such as the ongoing cost of living crisis, checking these had been appropriately considered as part of management’s 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.

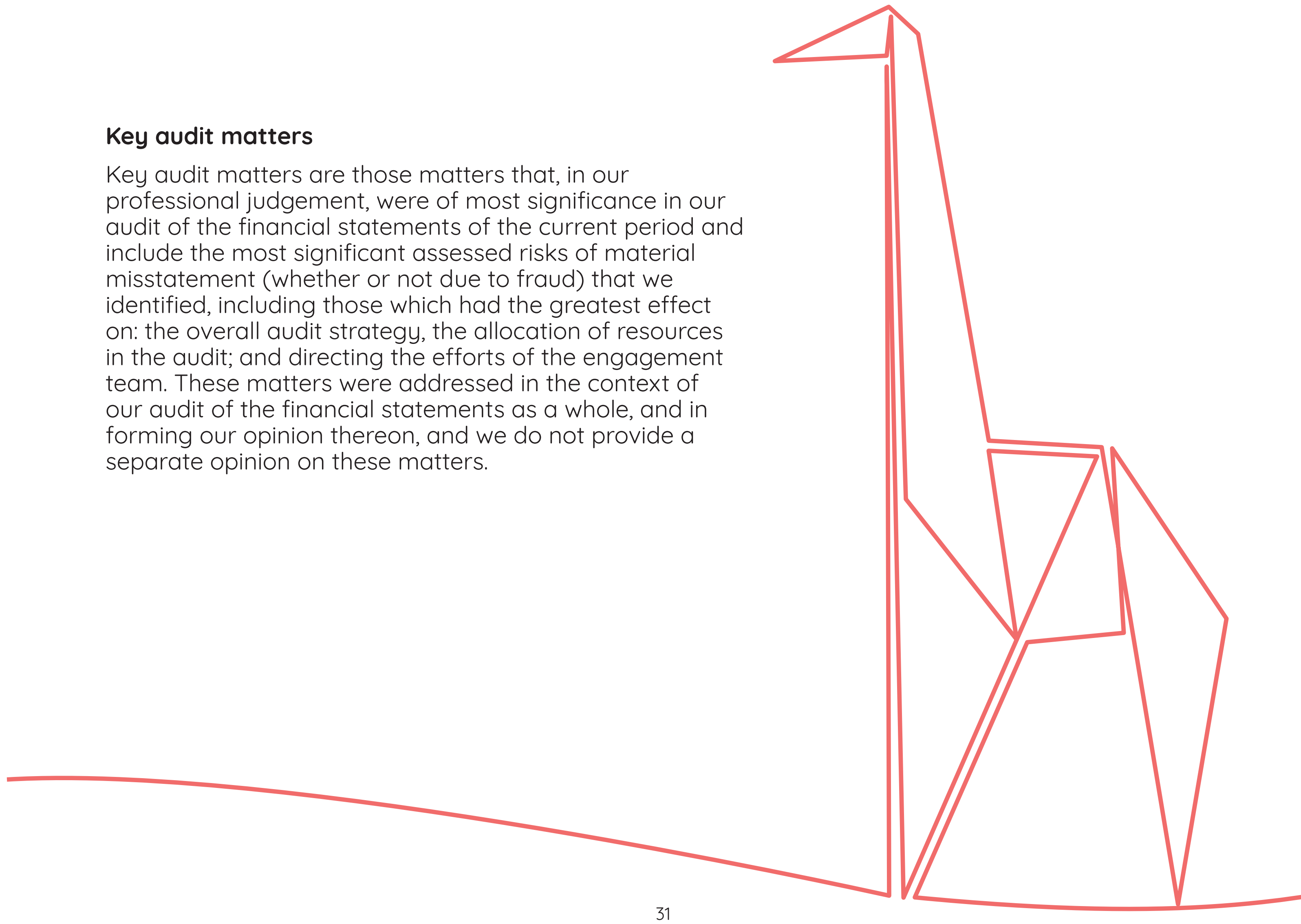
Key audit matters		2022	2021
	Revenue recognition	Yes	Yes
	Impairment losses on loans and advances	Yes	Yes
Materiality	£244,000 (2021: £172,000) based on 1% (2021: 0.75%) of Net Assets		

An overview of the scope of our audit

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

Key audit matters

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

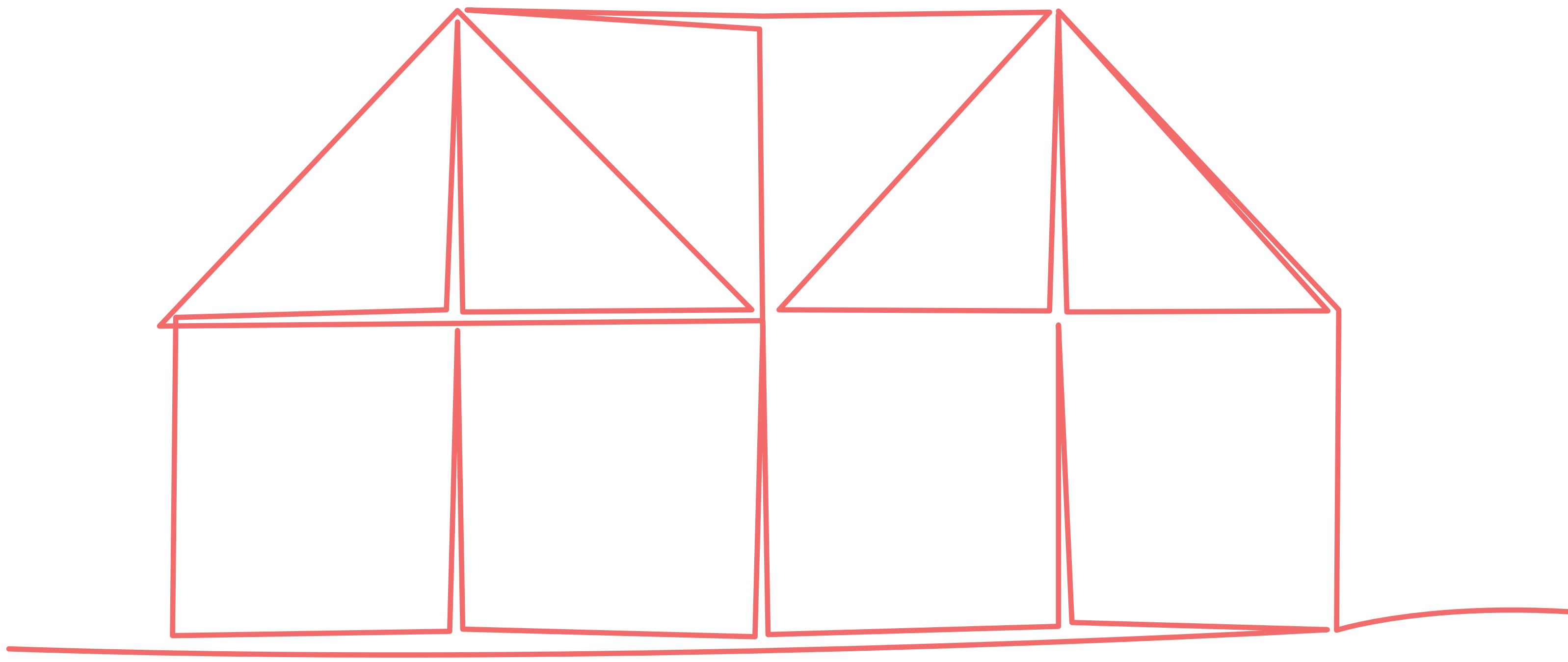


Independent auditor’s report to the members of Teachers Building Society

Continued

Key audit matter		How the scope of our audit addressed the key audit matter
Revenue Recognition *The Society’s accounting policies are disclosed in note 1 and the effective interest adjustment has been disclosed in note 5.*	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 contractual interest income to ensure it complies with the EIR method. The models used to achieve this are 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 these models. The key assumptions in the EIR models 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 themselves or bias in key assumptions applied could result in the material misstatement of revenue. Revenue recognition with regards to the EIR accounting adjustment is therefore considered to be a significant risk area.	We assessed whether the revenue recognition policies adopted by the Society are in accordance with requirements of the 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. Through inspection of contractual terms we challenged the fees and costs included or excluded from the effective interest rate estimates, including early redemption charges. We tested the completeness and accuracy of data and key model inputs feeding into the EIR models by agreeing samples back to the source documents. This includes the data used in the historical behavioural life redemption profiles. The arithmetical accuracy and logic in the model was also tested. We challenged the reasonableness of the loan behavioural life assumptions used by management considering historical experience of loan behavioural lives based on customer behaviour, product type, market factors, recent performance and external data where applicable. We assessed the models for their sensitivities to changes in the key assumptions by considering different profiles of behavioural life. We reviewed the relevant interest income and effective interest rate disclosures made by management to ensure 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.

Key audit matter		How the scope of our audit addressed the key audit matter
Impairment losses on loans and advances *The Society’s accounting policies are detailed in note 1 with detail about judgements in applying Accounting policies and critical accounting estimates in note 2. As disclosed in Note 9, the collective impairment provision at year-end is £382,000 (2021: £227,000).*	The Society accounts for the impairment of loans and advances to customers using an incurred loss model. In accordance with the recognition and measurement criteria of applicable accounting standards, management has calculated two types of provisions. (i) A specific provision is calculated for loans where there is an observable loss event. (ii) A collective provision is recognised for loans which are impaired as at the year-end date and, whilst not specifically identified as such, are known from experience to be present in any portfolio of loans.	We tested the operating effectiveness of the system control that identifies loans in arrears which are then flagged for investigation. This was tested by reperforming the arrears calculation by verifying the last payment date to bank statements to verify the correct flagging in the system. We assessed the specific and collective provision methodology against the requirements of applicable accounting standards. We checked the completeness and accuracy of data and key assumption inputs feeding into the collective and specific provision calculations through reconciliation to underlying records. We have checked that management’s stated loan provisioning assumption inputs have been consistently applied to the specific provision and collective provision model calculations. We have profiled the loan population and tested a sample of loans, including performing loans for impairment indicators including arrears and high loan to values to identify individual loans, which may have impairments not identified by management to challenge the completeness and accuracy of management’s impairment provision estimate.



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 losses on loans and advances	Estimating both the specific and collective loan loss provision requires significant management judgement and estimate in determining the value and timing of expected future cash flows. The specific provision is sensitive to key judgements and assumptions in respect to the underlying value of collateral held. The collective provision is calculated within a model that uses a combination of the Society's historical experience, segmentation of the loans by risk and external data, adjusted for current conditions including the impact of the cost of living crisis and rising interest rates. 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 models itself or bias in key assumptions applied could result in the material misstatement of impairment provisions.	We assessed the collective impairment provision for sensitivity to changes in key inputs to identify areas requiring additional focus. For the specific and collective impairment provision, we evaluated and challenged management key assumptions in the model. The assumptions challenged included forced sales discount, discount applied on the House Price Index (HPI), other forced sales costs, probability of default and the management overlay for macroeconomic factors not identified in the model. 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 assessed the adequacy of the Society's disclosures in respect of loan loss provisioning and of the degree of estimation involved in arriving at the provision. **Key observations:** We have not identified any indicators to suggest that the provision for loans and advances to customers is unreasonably estimated in consideration of the key assumptions and judgements made or that the related disclosures are not appropriate.

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:

	2022	2021
Materiality	£244,000	£172,000
Basis for determining materiality	1% of Net Assets constituting an increase of 0.25% as a result of our increased understanding of the Society and our underlying risk assessment factors.	0.75% of Net Assets
Rationale for the benchmark applied	We determined that Net assets was the most appropriate benchmark considering the different stakeholders as it closely corresponds to regulatory capital. Regulatory stability is considered to be a main driver for the Society as well as the purpose of the Society which is to optimise rather than maximise profits.	We determined that Net assets was the most appropriate benchmark considering the different stakeholders. The benchmark was changed to net assets as this is considered to be the measure which closely corresponds to regulatory capital. Regulatory stability is considered to be a main driver for the Society as well as the purpose of the Society which is to optimise rather than maximise profits.
Performance materiality	£183,000	£129,000
Basis for determining performance materiality	75% of materiality	75% of materiality
Rationale for the percentage applied for performance materiality	We have selected 75% of materiality due to the following factors: • Management is open to considering adjustments and usually corrects all known misstatements. • There are a limited number of accounts where amounts are subject to estimation and are not able to be determined with precision. • Society's operations are handled and managed from one site in Dorset. • We have not identified brought forward adjustments impacting the current year.	We have selected 75% of materiality due to the following factors: • Management is open to considering adjustments and usually corrects all known misstatements. • There are a limited number of accounts where amounts are subject to estimation and are not able to be determined with precision. • Society's operations are handled and managed from one site in Dorset. • We have not identified brought forward adjustments impacting the current year.

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

Continued

Reporting threshold

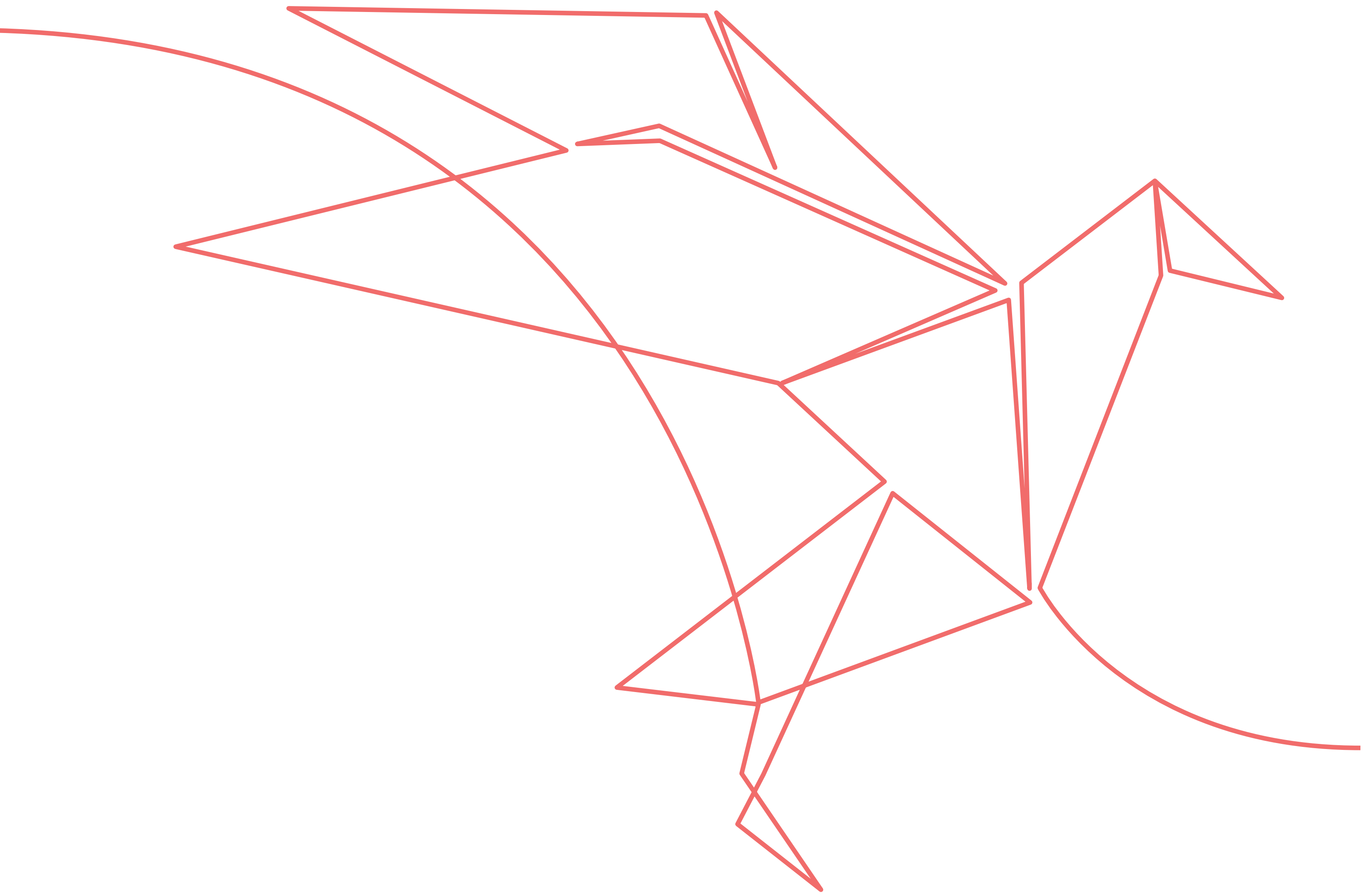
We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £12,000 (2021: £8,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information

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

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

We have nothing to report in this regard.



Other Building Societies Act 1986 reporting

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

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

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

In our opinion the information given on page 64 of the financial year ended 31 December 2022 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Responsibilities of directors

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

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

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

Continued

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:

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

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

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

Our procedures included, but were not limited to:

- obtaining an understanding of the control environment in monitoring compliance with laws and regulations;
- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with the relevant laws and regulations discussed above;
- enquiring of management and those charged with governance about their own identification and assessment of the risks of irregularities, including fraud;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and correspondence with the Financial Conduct Authority and the Prudential Regulation Authority;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments, corroborating these journals and adjustments to supporting documentation, and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business;
- in addressing the risk of fraud in accounting estimates, the procedures performed in the key audit matters section of our report assessing whether the judgements made in making accounting estimates are indicative of a potential bias;
- we also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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

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

Use of our report

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

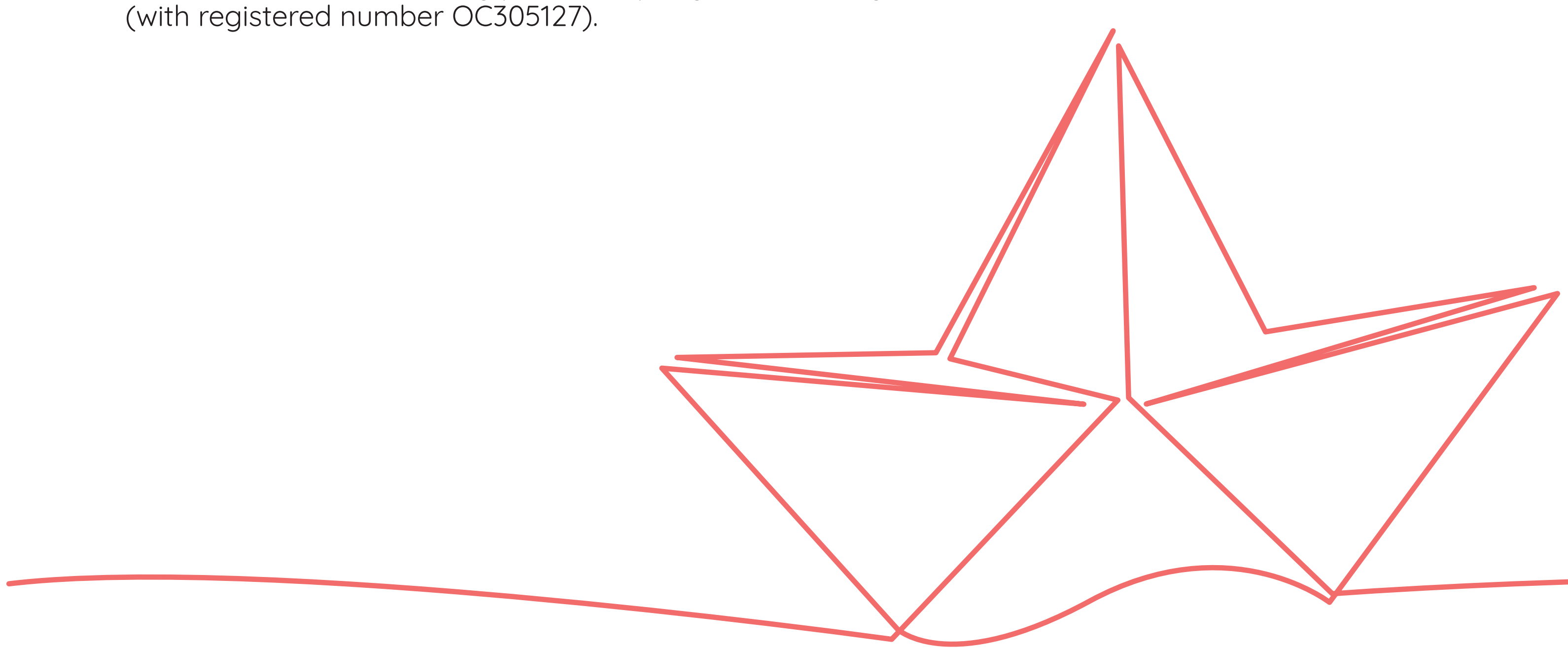
Daniel Taylor
(Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor

London, UK

28 February 2023

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 2022

	Notes	2022 £000	2021 £000
Interest receivable and similar income	5	12,915	8,741
Interest payable and similar charges	6	(3,386)	(1,387)
Net interest income		**9,529**	**7,354**
Fees and commission receivable		305	367
Fees and commission payable		(720)	(616)
Net fees and commission expense		**(415)**	**(249)**
Other operating income	16	40	56
Other operating charges		-	(2)
Other fair value gains	7	83	64
Net operating income		**9,237**	**7,223**
Administrative expenses	8	(7,154)	(5,769)
Depreciation and amortisation	14,15	(51)	(63)
Operating expenses		**(7,205)**	**(5,832)**
Operating profit before provisions		**2,032**	**1,391**
Impairment provisions for losses on loans and advances	9	(158)	(18)
Profit before taxation		**1,874**	**1,373**
Taxation expense	10	(369)	(290)
Total profit and comprehensive income for the year		**1,505**	**1,083**

All results arise from continuing operations

Statement of Financial Position

At 31 December 2022

Assets	**Notes**	**2022 £000**	**2021 £000**
Liquid assets:			
Cash in hand and balances with the Bank of England		55,637	65,827
Loans and advances to credit institutions	11	9,124	7,116
		64,761	**72,943**
Loans and advances to customers:			
Loans fully secured on residential property		303,041	275,471
Other loans fully secured on land		243	1,534
	12	**303,284**	**277,005**
Derivative financial instruments	13	5,618	1,514
Intangible fixed assets	14	17	27
Tangible fixed assets	15	372	328
Investment property	16	760	740
Prepayments		224	240
Other assets	17	351	29
Total assets		**375,387**	**352,826**

Liabilities	**Notes**	**2022 £000**	**2021 £000**
Shares and customer deposits:			
Shares	18	226,363	222,770
Deposits owed to other customers	19	76,894	61,923
		303,257	**284,693**
Amounts owed to credit institutions	20	45,322	44,013
Derivative financial instruments	13	431	71
Current tax liabilities		328	257
Accruals and deferred income	21	1,168	531
Deferred tax liabilities	22	132	91
Other liabilities	23	262	188
Total liabilities		350,900	329,844
Total equity attributable to members		24,487	22,982
Total equity and liabilities		**375,387**	**352,826**

These accounts were approved by the Board of Directors on 28 February 2023
Julie Nicholson, Chair; **Simon Beresford,** Chief Executive; **Rajesh Patel,** Finance Director.

Statement of changes in Members' Interests

As at 31 December 2022

	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**

	Revaluation reserve £000	General reserves £000	Total equity attributable to members £000
At 1 January 2021	742	21,157	21,899
Profit for the year	-	1,083	1,083
Transfer to general reserve - depreciation on revaluation surplus	(3)	3	-
At 31 December 2021	**739**	**22,243**	**22,982**

Statement of cash flows

For the year ended 31 December 2022

	2022 £000	2021 £000
Net cash outflow from operating activities (see below)	(8,097)	(5,433)
Cash flows used in investing activities		
Purchase of intangible assets and property, plant and equipment	(85)	(45)
(Decrease) in cash and cash equivalents	(8,182)	(5,478)
Cash and cash equivalents at beginning of year	72,943	78,421
Cash and cash equivalents at end of year	**64,761**	**72,943**
Represented by:		
Cash and balances with the Bank of England	55,637	65,827
Loans and advances to credit institutions repayable on demand	9,124	7,116
	64,761	**72,943**

Net cash outflow from operating activities	2022 £000	2021 £000
Profit before taxation	1,874	1,373
Adjusted for:		
Depreciation and amortisation	51	63
Impairment loss on loans and advances to customers	158	18
Fair value (gain)/loss on investment property	(20)	35
Fair value loss/(gain) on derivative financial instruments	3,729	(99)
Effective interest rate accounting adjustment	(514)	(174)
Changes in net operating assets		
(Increase) in loans and advances to customers	(25,923)	(23,688)
(Increase) in other assets	(322)	(5)
Decrease/(increase) in prepayments and accrued income	16	(90)
Change in derivative financial instruments	(7,473)	(2,010)
Increase in shares, deposits and amounts owed to credit institutions	19,873	19,188
Increase in other liabilities	74	28
Increase in accruals and deferred income	636	30
Taxation paid	(256)	(102)
Net cash (outflow) from operating activities	**(8,097)**	**(5,433)**

Total cash interest received during the year totalled £12,027k (2021: £8,396k) and total cash interest paid during the year totaled £3,094k (2021: £1,378k).

Notes to the Accounts for the year ended 31 December 2022

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. As noted on page 16, the Directors are satisfied that the Society has adequate resources to continue in business for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

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

Intangible assets consist of computer software which is currently amortised on a straight-line basis over two to seven years.

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.

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. 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.

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.

Such volatility is therefore primarily attributable to accounting rules which may not fully reflect the economic reality of the Society's hedging strategy.

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.

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.

Notes to the Accounts for the year ended 31 December 2022

Continued

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. 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 arrears or 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, and the impact of macro-economic factors such as house price volatility, interest rate expectations and unemployment rates. 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 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.

o. Interest Rate Benchmark Reform – Amendments to IAS39

The Society has implemented hedge accounting in line with IAS 39 as permitted under FRS 102. The designated macro hedges require matching, hedge effectiveness documentation and testing, and fair valuing of both the hedged instrument and the underlying hedged item. During 2021, as required by the Bank of England, the Society proactively completed its transition from LIBOR denominated swaps to SONIA denominated swaps prior to the deadline date. The transition had an immaterial impact on the accounts. The Committee considered the appropriateness of the hedging arrangements and the fair value processes in respect of hedging instruments and the underlying hedged items. The Committee agreed that hedge accounting had been applied in accordance with IAS 39.

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 as management considers appropriate to reflect current and future conditions. 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.

Notes to the Accounts for the year ended 31 December 2022

Continued

To the extent the HPI movements were to differ from current observations by 2.5%, the impact on provisions would be £57k (2021: £42k). The impact of a 2.5% change in the calculated probability of default currently being applied would impact provisions by £10k (2021: £6k).

The carrying value of impairment provisions on loans and advances as at 31 December 2022 is £396k (2021: £238k)

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 2022 is £5,187k asset (2021: £1,443k).

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 £1,582k/(£338k) respectively (2021: £16k/(£19k)).

The carrying value of the EIR, loan origination fees asset as at 31 December 2022 is £820k (2021: £305k).

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. The last formal valuation was as at 31 December 2021, with the next externally valuation due to take place as at 31 December 2024.

The carrying value of investment property as at 31 December 2022 is £760k (2021: £740k)

3. Directors

a. Directors Remuneration

Directors' remuneration totalled £775k (2021: £696k). 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 2022 two mortgage loans totalling £133,727 (2021: two mortgages totalling £136,836) made in the ordinary course of business were outstanding to two related parties (2021: two).

Amounts deposited by directors and their close family members earn interest at the same rates offered to the public and interest received totalled £394 (2021: £472). Total balances held by all directors and related parties at 31 December 2022 totalled £58,135 (2021: £51,123).

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

	2022	2021
Average number of persons employed by the Society		
Full time	56	47
Part time	10	7
Total	**66**	**54**

5. Interest receivable and similar income

	2022 £000	2021 £000
On loans fully secured on residential property	10,612	8,815
On other loans fully secured on land	78	82
Effective interest rate accounting adjustment	514	174
Total	**11,204**	**9,071**
On other liquid assets	813	74
Net interest income/(expense) on derivative financial instruments	898	(404)
Total	**12,915**	**8,741**

6. Interest payable and similar charges

	2022 £000	2021 £000
On shares held by individuals	2,751	1,343
On deposits and debt securities	654	44
On derivative financial instruments	(19)	-
Total	**3,386**	**1,387**

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:

	2022 £000	2021 £000
Fair value movements through the Statement of Comprehensive Income		
Hedged loans and advances	(3,729)	(2,010)
Hedged shares and customer deposits	48	-
Derivative financial instruments	3,744	2,109
Investment property	20	(35)
Other fair value gains	83	64

Notes to the Accounts for the year ended 31 December 2022

Continued

8. Administrative expenses

	2022 £000	2021 £000
Colleague costs		
Wages and salaries	3,438	2,725
Social security costs	419	312
Pension costs – defined contribution scheme	176	155
	4,033	3,192
Auditor remuneration		
For audit of the Society's annual accounts	143	107
Other assurance services	17	20
Total auditor remuneration	160	127
Other expenses	2,961	2,450
	7,154	**5,769**

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

Loans fully secured on residential property	2022 £000	2021 £000
At 1 January		
Collective provision	227	177
Individual provision	11	41
	238	**218**
Income & expenditure charge/(credit) for the year		
Collective provision	155	50
Individual provision	3	(30)
	158	**20**
At 31 December		
Collective provision	382	227
Individual provision	14	11
	396	**238**

The charge (credit) to income and expenditure is made up as follows:	2022 £000	2021 £000
Movements in provisions as above	158	20
Recoveries of amounts previously written off	-	(2)
	158	**18**

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

	2022 £000	2021 £000
Current Tax:		
UK Corporation Tax	328	257
Total current tax charge	**328**	**257**
Deferred Tax:		
Effect of tax rate change on opening balance	10	15
Origination and reversal of timing differences	31	18
Deferred tax charge	**41**	**33**
Total charge on profit on ordinary activities	**369**	**290**

Current tax has been provided at the rate of 19% (2021: 19%). Deferred tax has been provided at 25% (2021: 25%), being the substantively enacted rate at the statement of financial position date.

	2022 £000	2021 £000
Tax charged on profit at the average standard rate	356	261
Effects of:		
Depreciation in excess of capital allowances	2	5
Income not taxable for tax purposes	1	2
Re-measurement of deferred tax for changes in tax rate	10	22
	369	**290**

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:	2022 £000	2021 £000
Repayable on demand	8,619	6,615
Maturing in not more than three months	505	501
	9,124	**7,116**

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

12. Loans and advances to customers

	2022 £000	2021 £000
Loans and advances to customers are repayable from the statement of financial position date as follows:		
- repayable on demand – accounts in possession	-	26
- repayable in not more than 3 months	1,907	2,027
- repayable in more than 3 months but not more than 1 year	6,266	6,250
- repayable in more than 1 year but not more than 5 years	39,469	40,752
- repayable in more than 5 years	260,430	229,366
	308,072	278,421
- impairment provisions (see note 9)	(396)	(238)
- effective interest rate adjustment	820	305
- fair value adjustment	(5,212)	(1,483)
	303,284	**277,005**

Mortgage assets held by the Society included items with a carrying value of £60,920k (2021: £80,778k) 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.

	2022		2021	
	Assets £000s	Liabilities £000s	Assets £000s	Liabilities £000s
Financial instruments measured at fair value				
Interest rate swaps in an effective hedging relationship	5,618	431	1,514	71
Fixed rate mortgages	-	5,212	-	1,483
Fixed rate savings	48	-	-	-
Total hedged position	**5,666**	**5,643**	**1,514**	**1,554**
Hedge ineffectiveness gain	-	23	40	-
Total	**5,666**	**5,666**	**1,554**	**1,554**

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 gain of £63k (2021: £99k) which was recognised in the Statement of Comprehensive Income.

The total notional value of swaps held at 31 December 2022 was £169.45m (2021: £121.30m), all of which were linked to SONIA (2021: £2.75m were linked to LIBOR).

14. Intangible fixed assets

	Computer Software £000	Total £000
Cost or valuation at 1 January 2022	719	719
At 31 December 2022	**719**	**719**
Accumulated amortisation at 1 January 2022	692	692
Charge for the year	10	10
At 31 December 2022	**702**	**702**
Net book values		
At 31 December 2022	**17**	**17**
At 31 December 2021	**27**	**27**

15. Tangible fixed assets

	Freehold land and buildings £000	Equipment, fixtures, fittings, and vehicles £000	Total £000
Cost or valuation at 1 January 2022	371	409	780
Additions	28	57	85
Disposals	-	(11)	(11)
At 31 December 2022	**399**	**455**	**854**
Accumulated depreciation at 1 January 2022	127	325	452
Charge for the year	5	36	41
Eliminated on disposal	-	(11)	(11)
At 31 December 2022	**132**	**350**	**482**
Net book values			
At 31 December 2022	**267**	**105**	**372**
At 31 December 2021	**244**	**84**	**328**

Notes to the Accounts for the year ended 31 December 2022

Continued

16. Investment property

	2022 £000	2021 £000
Fair value at 1 January	740	775
Net gain/(loss) from fair value movements	20	(35)
At 31 December	**760**	**740**

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.

Property rental income earned during the year was £40k (2021: £56k). This is included within 'Other operating income'.

The current value of future lease income expected is £154k. £36k is due within the next 12 months and £118k beyond 12 months, all of which is receivable in less than 5 years.

17. Other assets

	2022 £000	2021 £000
Rents receivable from investment property	-	16
Interest due from swap counterparties	351	4
Other debtors	-	9
	351	**29**

18. Shares

	2022 £000	2021 £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	105,161	104,050
- in not more than 3 months	79,539	88,528
- repayable in more than 3 months but not more than 1 year	19,136	26,397
- repayable in more than 1 year but not more than 5 years	22,575	3,795
- fair value adjustment	(48)	-
	226,363	**222,770**

19. Deposits owed to other customers

	2022 £000	2021 £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	16,095	16,065
- repayable in not more than 3 months	49,435	45,858
- repayable in more than 3 months but not more than 1 year	-	-
- repayable in more than 1 year but not more than 5 years	11,364	-
	76,894	**61,923**

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:	2022 £000	2021 £000
- repayable in not more than 3 months	1,004	1,500
- repayable in more than 3 months but not more than 1 year	4,033	2,501
- repayable in more than 1 year	40,285	40,012
	45,322	**44,013**

21. Accruals and deferred income

	2022 £000	2021 £000
Falling due within one year:		
Accruals	1,087	468
Deferred income	12	19
Interest due to swap counterparties	69	44
	1,168	**531**

Notes to the Accounts for the year ended 31 December 2022

Continued

22. Deferred taxation

	2022 £000	2021 £000
Deferred taxation balance in the period at 1 January	(91)	(58)
(Increase) in liability recognised	(41)	(33)
At 31 December	**(132)**	**(91)**
Analysis of deferred taxation balance:		
Depreciation difference to capital allowances	(39)	(21)
Short-term differences (less than three years)	38	55
Fair value of investment property	(131)	(125)
	(132)	**(91)**

23. Other liabilities

	2022 £000	2021 £000
Falling due within one year:		
Trade creditors	233	78
Pension contribution liability	29	24
Social security liability	-	86
	262	**188**

24. Financial instruments

a. Categories of financial instruments

	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	-	5,618	5,618
Loans and advances to customers	303,284	-	303,284
Total financial assets	**368,045**	**5,618**	**373,663**
Total non-financial assets			1,724
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
Total financial liabilities	**349,747**	**431**	**350,178**
Total non-financial liabilities			722
Total equity attributable to members			24,487
Total reserves and liabilities			**375,387**

	At amortised cost £000	Fair value through SOCI £000	Total £000
As at 31 December 2021			
Assets			
Cash in hand and balances with the Bank of England	65,827		65,827
Loans and advances to credit institutions	7,116		7,116
Derivative financial instruments	-	1,514	1,514
Loans and advances to customers	277,005	-	277,005
Total financial assets	**349,948**	**1,514**	**351,462**
Total non-financial assets			1,364
Total assets			**352,826**
Liabilities			
Shares	222,770	-	222,770
Amounts owed to credit institutions	44,013	-	44,013
Amounts owed to other customers	61,923	-	61,923
Derivative financial instruments	-	71	71
Accruals and deferred income	531	-	531
Total financial liabilities	**329,237**	**71**	**329,308**
Total non-financial liabilities			536
Total equity attributable to members			22,982
Total reserves and liabilities			**352,826**

Notes to the Accounts for the year ended 31 December 2022

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 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		**-**	**349,010**	**-**	**349,010**

31 December 2021	Note	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Assets					
Cash in hand & balances with the Bank of England	i.	65,827	-	-	65,827
Loans & advances to credit institutions	i.	-	7,116	-	7,116
Derivative financial instruments	ii.	-	1,514	-	1,514
Loans & advances to customers	iii.	-	-	277,005	277,005
Total financial assets		**65,827**	**8,630**	**277,005**	**351,462**
Liabilities					
Shares		-	222,770	-	222,770
Amounts owed to credit institutions	i.	-	44,013	-	44,013
Amounts owed to other customers	i.	-	61,923	-	61,923
Derivative financial instruments	ii.	-	71	-	71
Total financial liabilities		**-**	**328,777**	**-**	**328,777**

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 is approximates the fair value.

ii. Derivatives are used for economic hedging purposes and are determined 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.

	2022		2021	
	£000	**%**	**£000**	**%**
Loans fully secured on residential property	303,041	99.9%	275,471	99.4%
Other loans fully secured on land	243	0.1%	1,534	0.6%
	303,284		**277,005**	
Provision for impairment losses	396		238	
Unamortised loan origination fees	(820)		(305)	
Fair value adjustments	5,212		1,483	
Loans and advances to customers	**308,072**		**278,421**	

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

	2022		2021	
	£000	**%**	**£000**	**%**
Residential	302,617	98.2%	275,404	98.9%
Non-residential	243	0.1%	1,534	0.6%
Fair value adjustments	5,212	1.7%	1,483	0.5%
Loans and advances to customers	**308,072**	**100.0%**	**278,421**	**100.0%**

Notes to the Accounts for the year ended 31 December 2022

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:

	2022		2021	
	Residential	Non-residential	Residential	Non-residential
Less than or equal to 50%	23.4%	100.0%	27.6%	100.0%
More than 50% but less than or equal to 60%	14.3%	-	12.4%	-
More than 60% but less than or equal to 70%	16.7%	-	19.3%	-
More than 70% but less than or equal to 80%	24.2%	-	23.7%	-
More than 80% but less than or equal to 90%	15.2%	-	16.0%	-
More than 90% but less than or equal to 100%	6.2%	-	1.0%	-
More than 100%	0.0%	-	0.0%	-
	100.0%	**100.0%**	**100.0%**	**100.0%**

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

	2022		2021	
	Residential	Non-residential	Residential	Non-residential
Current	99.8%	100.0%	99.7%	100.0%
Past due up to 3 months	0.2%	-	0.3%	-
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 2022, one mortgage (2021: nil) was more than 12 months in arrears with a balance of £58.9k representing less than 0.1% of the total mortgage book.

The Society provides secured loans to retail and commercial customers across England and Wales. The Society has a geographical concentration in the South West region around its office in Dorset.

	2022		2021	
Region	**£000**	**%**	**£000**	**%**
South West	61,515	20%	57,118	21%
Greater London	41,452	14%	39,628	14%
Outer Metropolitan	43,940	14%	42,997	15%
South East/East of England	50,513	16%	41,788	15%
Midlands	44,518	14%	38,431	14%
North West/North of England	54,588	18%	48,735	18%
Wales and Scotland	11,546	4%	9,724	3%
	308,072	**100%**	**278,421**	**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 £712m (2021 : £679m). 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.

	2022 £000	**2021 £000**
UK government securities and amounts held with central banks	55,637	65,827
UK financial institutions	9,124	7,116
	64,761	**72,943**
Financial derivatives	5,618	1,514
	70,379	**74,457**

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

	2022 £000	**2021 £000**
AAA to AA-	55,637	65,827
A+ to A-	8,619	6,615
BBB+ to BBB-	-	-
Unrated	505	501
	64,761	**72,943**

The geographical distribution of these exposures is as follows:

	2022 £000	**2021 £000**
UK	70,379	74,457
	70,379	**74,457**

Notes to the Accounts for the year ended 31 December 2022

Continued

e. Liquidity risk

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

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 £000**
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	-

2021 (restated)					
Non-derivative liabilities	**Total £000**	**Less than 3 months £000**	**Between 3 months and 1 year £00**	**Between 1 year and 5 years**	**More than 5 years**
Shares	241,568	148,852	88,575	4,141	-
Amounts owed to credit institutions	44,150	1,504	2,541	40,105	-
Amounts owed to other customers	75,594	62,473	13,121-	-	-
	361,312	212,829	104,237	44,246	-
Derivative liabilities					
Interest rate swaps	888	75	225	588	-

Note that the 2021 table has been amended to correctly allocate the contractual cash flows, all of which had previously been disclosed as 'Shares', now split correctly between 'Shares' and 'Amounts owed to other customers'. The impact is to reduce contractual cash flows from shares by £75,594k and increase contractual cash flows from other customers by £13,671k, giving a net reduction in the amount due of £61,923k.

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. In the past, these interest rate swaps have been linked to LIBOR, however with this benchmarking ceasing at the end of 2021, the Society transitioned to SONIA linked swaps during 2021

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 £650k (2021: £303k) 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 after collateral:

2022	Gross Amounts £000	Financial Collateral £000	Net amounts £000
Financial Assets			
Derivative financial instruments	5,618	-	5,618
Financial Liability			
Derivative financial instruments	(431)	-	(431)
	5,187	-	5,187

2021	Gross Amounts £000	Financial Collateral £000	Net amounts £000
Financial Assets			
Derivative financial instruments	1,514	-	1,514
Financial Liability			
Derivative financial instruments	(71)	-	(71)
	1,443	-	1,443

* As reported in the statement of financial position

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

Notes to the Accounts for the year ended 31 December 2022

Continued

25. Analysis of change in net debt

	2021 £000	Cash Flows £000	2022 £000
Cash and cash equivalents:			
Cash in hand and balances with the Bank of England	65,827	(10,190)	55,637
Loans and advances to credit institutions	7,116	2,008	9,124
	72,943	(8,182)	64,761

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	2022	2021
		£000	£000
General reserves		23,750	22,243
Revaluation reserves		737	739
Deductions for intangible assets	14	(17)	(27)
Total Tier 1 Capital		**24,470**	**22,955**
Collective impairment provision	9	382	227
Total Tier 2 Capital		382	227
Total Capital		**24,852**	**23,182**

27. Country by country reporting

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

	2022	2021
Location of operations	United Kingdom	
Nature of activities	Deposit taking, mortgage lending	
Turnover*	£9,237k	£7,223k
Average number of colleagues	66	54
Profit before tax	£1,874k	£1,373k
Cash tax paid	£(256)k	£(102)k
Public subsidies	£nil	£nil
Bank of England Term Funding Scheme with additional incentives for SMEs	£40,000k	£40,000k

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

Annual business statement For the year ended 31 December 2022

1. Statutory percentages

	2022	Statutory limit
Lending limit	2.1%	25%
Funding limit	35.1%	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

	2022	2021
As a percentage of shares and borrowings		
Gross capital	7.0%	7.0%
Free capital	6.8%	6.7%
Liquid assets	18.6%	22.2%
As a percentage of mean total assets		
Profit after tax	0.41%	0.32%
Management expenses	1.98%	1.70%

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 2022
Continued

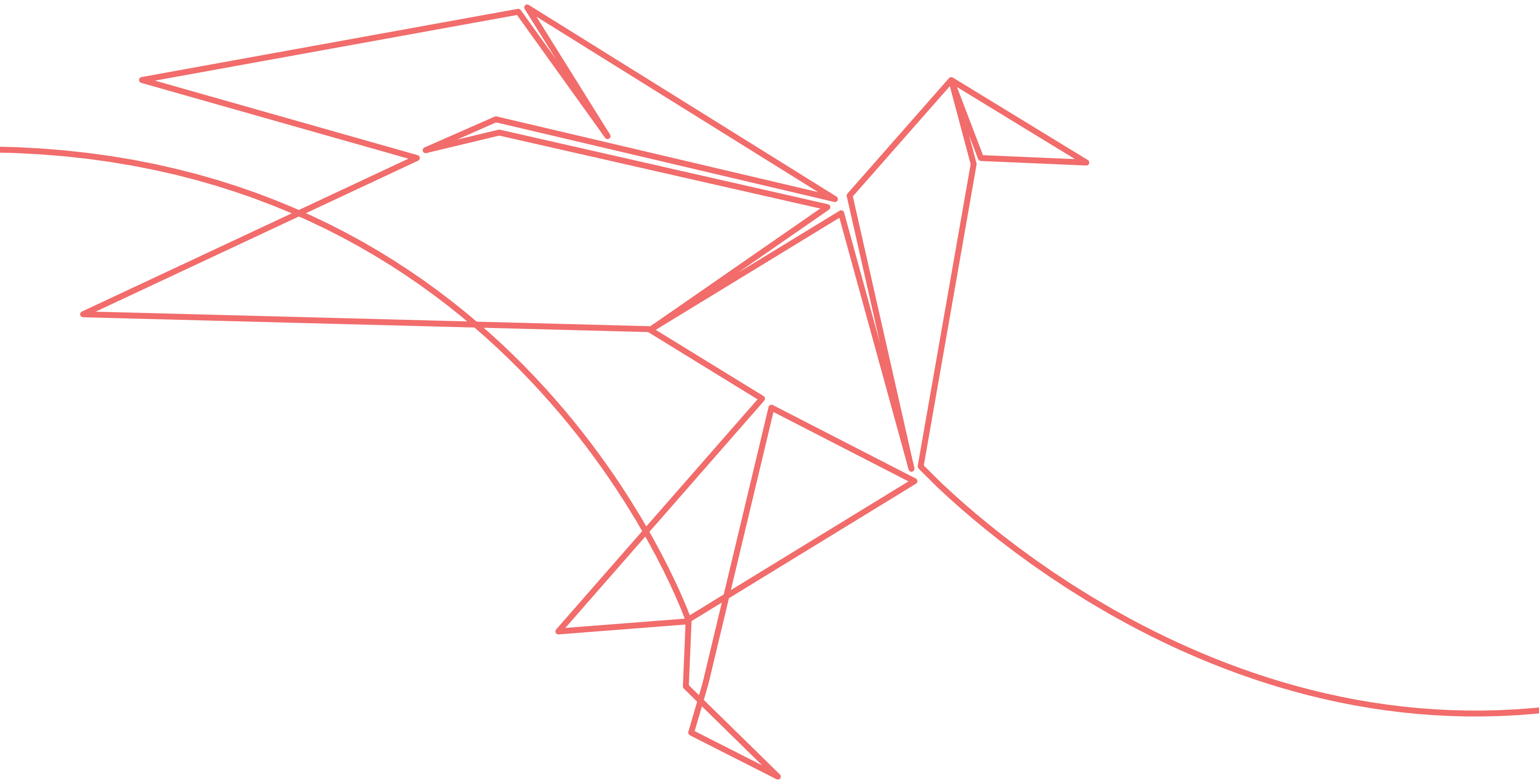
3. Information relating to directors and other officers

a. As at 31 December 2022 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
M Himsworth	29/03/1955	Director	07/11/2018	None
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 Anfora GP Ltd Beryllium 1 GP Ltd Beryllium 2 GP Ltd
P Winter	20/10/1950	Director	29/06/2017	University of Suffolk Ltd
J G Dumeresque	31/08/1958	Director	22/10/2021	Heart of the South-West LEP C.I.C. South West Mutual 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
K Malayapillay	05/03/1971	Director	19/10/2022	Tune Protect Bhd. Tune Protect Ventures Sdn. Bhd. Tune Protect Commercial Brokerage LLC Malayapillay Consulting Ltd

Documents may be served on Directors c/o BDO LLP, Chartered Accountants, 55 Baker Street, London, W1U 7EU.

At 31 December 2022 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).