PILLAR 3 DISCLOSURES

2023

CONTENTS

Introduction

1. The Capital Requirements Directive (known as CRD IV) defines how the capital required to be held by banks and building societies, to provide security for shareholders, members and depositors, is calculated. The Directive also determines the rules around corporate governance and regulation and defines the disclosure requirements related to these requirements which are reflected in this Pillar 3 disclosure document.
2. The CRD comprises 3 main elements, or Pillars, as follows:
   - **Pillar 1:** Minimum capital requirements to meet for Credit, Market and Operational Risk
   - **Pillar 2:** Internal capital adequacy assessment process (ICAAP) and supervisory review and evaluation process (SREP)
   - **Pillar 3:** Disclosure
3. The Pillar 3 disclosure requirements are set out in Part Eight of the Capital Requirements Regulation (CRR) component of CRD IV and in the Disclosure (CRR) Part of the PRA Rulebook.
4. The Family Building Society **(FBS)** is a trading name of National Counties Building Society **(Society).** The Society and the National Counties Group **(Group)** are regulated by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). The Society's LEI code is NL2I5A3IM3D6VE6JQP41.
5. The latest full Group ICAAP was approved by the Society Board in July 2023. The Group's Total Capital Requirement (TCR) was set by the PRA in July 2023.

   The Society Board monitors and updates the Group capital adequacy requirements quarterly.

   The Society Board reviewed and approved the Group Pillar 3 Disclosure Policy, which embodies the interpretation of the Disclosure (CRR) Part of the PRA Rulebook, in April 2024. The policy complies with the relevant articles of the Disclosure (CRR) Part of the PRA Rulebook for an undertaking of the size and complexity of the Group. The disclosures made reflect considerations of frequency of disclosure, materiality and confidentiality as permitted by the PRA Rulebook. No mandatory disclosures or references have been omitted on the grounds of materiality (as permitted under Article 432(1)) or because the information is regarded as proprietary or confidential (as permitted under Article 432(2)).
6. The figures quoted in this disclosure have been drawn from the Group's Annual Report and Accounts as at 31 December 2023 and cover the period 1 January 2023 to 31 December 2023, unless otherwise stated. The Report and Accounts were prepared under applicable United Kingdom Accounting Standards - Financial Reporting Standard 102 (FRS102) including the recognition and measurement provisions of IAS 39 Financial Instruments: Recognition and Measurement, and where relevant and material, the Building Societies (Accounts and Related Provisions) Regulations 1998 and the Building Societies Act 1986.

   The Pillar 3 disclosures are prepared by first line with oversight and review by second line. The Society's Board reviews and approves the disclosures. The disclosures are not subject to an external audit; however, some of the information included within the disclosures is drawn from the Society's Annual Report and Accounts for the year ended 31 December 2023, which is subject to an external audit.

Scope of Application of Directive Requirements

7. The Group meets the criteria for being a 'small and non-complex' institution as introduced in the CRR II and incorporated into the PRA Rulebook under Article 433b. The Group's policy is to comply with all requirements of the derogation for small and non-complex institutions as per article 433b of the PRA Rulebook.
8. The disclosures have therefore been prepared applying the concept of derogation for small and non-complex institutions.
9. These disclosures are made at Group level unless otherwise stated. For disclosure purposes the Group comprises the following entities:
    - **National Counties Building Society** a regulated building society
    - **Counties Home Loan Management Limited** (CHLM) a regulated entity
    - **Ebbisham No.1 Limited (Ebbisham)** a quasi-subsidiary special purpose funding vehicle
10. For capital adequacy purposes, CHLM's figures are solo-consolidated with those of the Society with the regulator's approval along with the results for Ebbisham.
11. For financial reporting purposes, the Society, CHLM and Ebbisham are consolidated with the following entities:
    - **Family & Arden Homes LLP** (F&A), an unregulated property investment partnership. As of 31 December 2023, the Society has advanced £9.4m to F&A for residential property investment purchases.
    - **Smart Money People Limited** (SMP), an unregulated financial services review and research website.
    - **Be Clever With Your Cash (BCWYC)**, an unregulated consumer money advice website.
    - **National Counties Financial Services Limited** (NCFS), an unregulated entity which is dormant.
12. CHLM, SMP and NCFS are wholly-owned subsidiaries of the Society whilst the Society has a controlling 50.01% interest in F&A. BCWYC is a 100% subsidiary of SMP.
13. There were no current or foreseen material practical or legal impediments to the prompt transfer of capital or repayment of liabilities between Group entities at the reporting date.
14. The Society is fully committed to supporting its subsidiaries, as stated in the **Annual Report and Accounts 2023, Note 29(b), Financial Commitments**.
15. **Table 1** summarises the capital adequacy monitoring arrangements for the Group and its subsidiaries as at 31 December 2023:

TABLE 1	
Monitoring Level	**Component entities**
Solo-consolidated	Society, Ebbisham, CHLM

Risk Management Objectives and Policies

16. The Society's Board is responsible for determining a framework for risk management and control and approves policies and Board sub-committee terms of reference. Senior management are responsible for designing and monitoring risk exposure and operating internal control processes, under the guidance of the Group Risk Committees.

17. In order to maintain a strong risk culture, the Society has adopted the three lines of defence model. The system of internal control is designed to enable the Group to achieve its corporate objectives within a managed risk profile, not to eliminate risk.

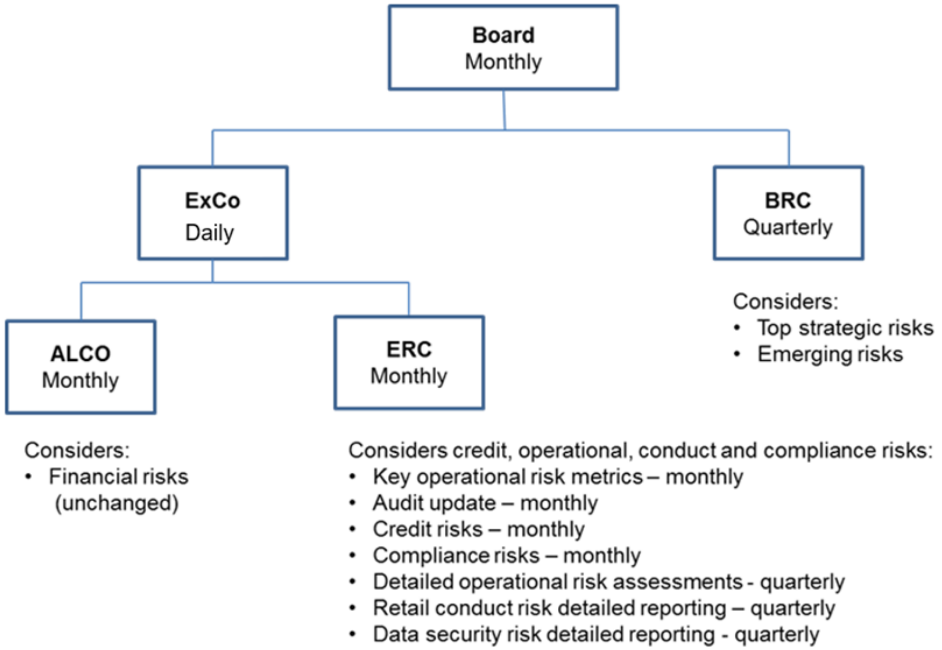
18. The risk functions are responsible for oversight of all the Group's risks. In addition, the Group has a formal structure for managing **financial risk**, which includes the establishment of risk limits, monitoring and reporting, mandates and other control procedures. This structure is reviewed regularly by the Board, with a major review being conducted annually.

19. First line risk control is provided by all relevant business functions. Managers are responsible for identifying and maintaining effective management of risk in accordance with the Group risk appetite. Where appropriate, these business functions are supported by specialist risk teams (e.g. Compliance) under the control of executive managers and directors.

20. Second line independent oversight staff report into the Chief Risk Officer or Director of Legal and Compliance as appropriate. They review risk management policies, standards and limits to establish consistency with risk appetite, monitor and report to the Chairman of the Board Risk Committee on compliance with those limits, and oversee the first line management of risk. These functions thereby ensure that the first line of defence is properly designed, implemented and operating.

21. Third line assurance is provided by Group Internal Audit, which reports to the Group Audit Committee. Group Internal Audit provides independent assurance regarding the activities of both first line risk control and second line risk oversight. The internal audit function is carried out by Deloitte LLP to ensure that the appropriate level of expertise is devoted to the audit work.

22. The committees that form the Group risk governance structure are set out in the table below. Terms of reference for risk committees are recorded within the Board Manual.



23. The Board receives risk management support and insight from the Board Risk Committee and the Group Audit Committee.

24. The **Board Risk Committee** (BRC) is a Board committee comprising Non-executive Directors responsible for reviewing the Group's risks and the adequacy and effective operation of internal processes. The BRC met four times during 2023.

25. The **Executive Risk Committee** (ERC), is an executive committee reporting to and supporting the Board Group Risk Committee which carries out a similar role, but with operational responsibilities. The ERC incorporates the **Retail Conduct Risk Committee** (RCRC), the **Operational and Compliance Risk Committee** (OCRC) and the **Credit Committee** (CC). The RCRC focuses on the business model, strategy, culture and governance arrangements with respect to ensuring satisfactory outcomes for customers. The OCRC focuses on operational and compliance risks including key metrics, reports on risk assessments, incidents and oversight activities. The CC focuses on key credit metrics at origination, ongoing account monitoring and prudential credit risk considerations. The ERC met twelve times during 2023.

26. The **Assets and Liabilities Committee** (ALCO) is an executive committee which considers developments in financial markets and regulatory requirements as they affect the Society's operations and group risk appetite. ALCO recommends and approves appropriate actions, agrees product pricing, and reviews the Society's short and medium term investment and funding strategies, whilst monitoring the various forms of exposure. ALCO meets at least monthly and reports to the Society's Executive Committee.

27. The **Group Audit Committee** (GAC) is a Board committee comprising Non-executive Directors which reviews the integrity of the financial statements and the effectiveness of internal controls and risk management systems. The GAC also monitors and reviews the effectiveness of the internal and external audit functions and met four times during 2023.

28. The **Remuneration Committee** is a Board committee comprising Non-executive Directors which is responsible for determining the remuneration of all Executive Directors.

29. The **Nomination Committee** is responsible for making recommendations on the appointment, election and re-election of Board Directors and on succession planning.

30. The principal business and financial risks to which the Group is exposed are business, credit, market, liquidity, operational, conduct, regulatory and climate change risk. The Board has also identified pension obligations as a significant risk requiring separate consideration within the Group ICAAP.

31. **Business Risk** reflects competition and variability in the market for financial services (such as mortgages and savings) and the balance of product volume and pricing necessary to cover the costs incurred in management and regulatory compliance.

32. **Credit risk** is the risk that a financial loss will arise from a customer or counterparty failing to meet their obligations. This arises primarily from the Group's lending activities but also from the Group's investments and transactions as part of its treasury operations. **Concentration risk**, which adds a further dimension to credit risk, arises from the concentration of exposures within the same category, whether it is geographical location, product type, industry sector or counterparty type. These risks are managed through adherence to Board-approved lending and arrears policies, which set the Group's risk appetite for credit risk and provide for a range of limits that are regularly monitored and reviewed in the light of changing economic conditions and Group objectives.

33. The Society is predominantly a residential mortgage lender, which means that it is exposed to the UK housing market.

34. Within the residential mortgage business, the Society's main concentration risk is geographical, with the majority of its lending being in the London and South East regions.

35. Product type concentrations are also present in the Society, in relation to lifetime (equity release) mortgages, interest only mortgages and buy-to-let mortgages. These are monitored monthly to ensure that Board-approved limits are not exceeded.

36. All concentrations are managed within limits which the Board believes are appropriate to current economic conditions and Group objectives.

37. **Market risk** incorporates the changes in income or reserves from changes to market rates, mainly movements in interest rates, which affect the balance sheet valuation of financial instruments, particularly derivatives, and consequently increases the risk of volatility in profits. Exposure to this risk is primarily managed through a combination of natural hedges that exist in the Group balance sheet together with appropriate hedging contracts with external counterparties, as

permitted under the Board-approved financial risk management policy. The Group is also subject to basis risk where the interest rates on offsetting assets and liabilities do not change in exactly the same way. This is monitored and managed by hedging contracts or by reducing the underlying basis risk.

38. **Liquidity risk** concerns the Group's ability to meet its financial obligations as they fall due from imbalances in the cash flow of its activities. This risk is subject to an Internal Liquidity Adequacy Assessment Process (ILAAP). The ILAAP is analogous with the ICAAP and is designed to identify and manage all aspects of liquidity risk faced by the Group as well as regulatory liquidity requirements received from the PRA following their risk assessment and liquidity review. The ILAAP assesses the minimum amount of liquidity the Group should hold and was updated in November 2023.

39. **Operational risk** is the risk associated with the Group's internal processes and systems and the potential for these not to function properly. It also covers human error and external events. To ensure the effective monitoring and reporting of risk, all business functions are required to maintain a risk register. This register includes an assessment of the key risks faced by each business function and an evaluation of the controls that are in place to ensure that the risks are managed within the Society's risk appetite. The risk registers are used by management to document the effective management of both risks and controls within their business functions. These risk registers help management assess the probability and impact of the risks identified, and the effectiveness of any mitigating controls. A range of insurance policies are in place to provide protection against such eventualities as business interruption, public and employer liability and certain losses through criminal activity.

40. **Conduct risk** is linked with regulations affecting our customers, ensuring that the correct culture in terms of 'treating customers fairly' is adhered to and embedded in the Society together with Board expectations of the service levels that we provide to our customers.

41. **Regulatory risk** is the risk of loss arising from failure to comply with statutory and regulatory requirements and the risk that the volume, complexity and cumulative effect of regulatory issues may impact the Society's ability to compete and function effectively.

42. **Climate change** risk is arising in a number of ways but the particular risks most recognised by the Society are physical and transitional. Physical risks relate to specific weather events such as flooding, or longer-term events such as rising sea levels. A key element of this risk is to property, both the Society's own properties and properties held as security for lending. Transition risks can arise from the process of adjustment towards a low-carbon economy. This could lead to a changing regulatory expectation in terms of the way the Society is expected to run its own business, including who it uses as suppliers. It may also impact property held as security, for example the energy efficiency expectations of properties mortgaged for Buy to Let purposes. The Society is increasingly mindful of these risks when making business decisions, including mortgage underwriting ones. The Society monitors the loans portfolio for specific climate risks and uses this information to inform the key risk management processes such as the ICAAP. The Finance Director has responsibility for monitoring the financial risk presented by climate change risk at an operational level, with oversight provided by the Risk Committee.

43. **Pension obligation risk** arises from the Group defined benefits pension scheme and derives mainly from changes in the discount rate used, improving life expectancy and the resultant increase in the cost of servicing pension obligations, particularly in respect of those members with a pension commitment linked to final salary. This risk has been reduced going forward through the closure to future accruals of the final salary part of the scheme, closure to new entrants of the cash benefit part of the scheme and replacing this with a revised benefit structure which eradicates the post retirement longevity risk with its associated impact on pension annuities. For new employees a defined contribution scheme is in place which does not present any future actuarial risk to the Society. The Board has made adequate provision in the Group ICAAP for residual pension obligation risks.

44. Full details regarding the financial risks and instruments used by the Group are given in the **Annual Report and Accounts 2023, Note 30, Financial Instruments.** The Group continues to be able to maintain overall capital at a level which is in excess of the TCR.

45. The risk management and governance structure for the Group is illustrated in the following table 2:

TABLE 2

Risk category	Control	Oversight	Assurance	Executive Governance	Non-Executive Governance
Business	ExCo Finance Business Development New Business Team	Risk Oversight	Internal Audit	ERC	Board
Concentration	Lending	Risk Oversight	Internal Audit	ALCO (Treasury) ERC	BRC
Credit	Treasury Lending Customer Services Central Services	Risk Oversight	Internal Audit	ALCO (Treasury) ERC	BRC
Interest rates	Treasury Business Development	Risk Oversight	Internal Audit	ALCO ERC	BRC
Liquidity	Treasury Business Development	Risk Oversight	Internal Audit	ALCO ERC	BRC
Operational	All departments	Risk Oversight Compliance Oversight	Internal Audit	ERC	BRC
Pension	Trustees	Risk Oversight	Internal Audit	-	Board
Compliance	All departments	Compliance Oversight	Internal Audit	ERC	BRC or Group Audit Committee

Conduct	Business Development Customer Services	Compliance Oversight	Internal Audit	ERC	BRC
Model	All relevant departments	Risk Oversight	Internal Audit	ERC	BRC

46. The risk management and control framework, as set out above, is encapsulated in the Enterprise Risk Management Framework (ERMF) which was approved by the Board during September 2023.

47. The Group risk appetite, expressed in the ERMF, is set out in **Table 3.**

TABLE 3	
Business	Business model, strategy and capital resources are focused on growing stable earnings and minimising the risk of volatility and loss.
Liquidity and Funding	We hold sufficient liquid resources and a diverse funding mix.
Interest rates	Product interest rates and group net interest rate exposure will be managed to provide stability in the net interest margin and market valuation of the balance sheet.
Credit	We build high quality lending portfolios that earn an adequate return through limiting LTVs and applying affordability thresholds.
Concentration	Concentration of exposures will be managed to avoid exposure to operational capacity constraints.
Operational	We ensure controls are effective to minimise serious customer or business disruption or associated financial losses.
Compliance	We maintain legal and regulatory compliance.
Conduct	We deliver fair customer outcomes and avoid regulatory fine and censure
Pension	We remain alert to existing and emerging risks to the business

48. Risk exposure is also monitored against the Group risk appetite as measured quantitatively through key ratios and risk indicators which includes the Liquidity Coverage Ratio (LCR) as well other figures within this disclosure.

49. Further details of corporate governance arrangements including the Group's policies on Board diversity and appointments, can be found in the **Annual Report and Accounts, Report on Corporate Governance. Details of directorships held by Board members can be found in the Annual Report and Accounts, Annual Business Statement.**

Summary of key disclosures

50. Group own funds at 31 December 2023, amount to £170.6m. This is made up predominantly of Common Equity Tier 1 (CET1) capital comprising accumulated profits of the Group of £170.1m.

51. Tier 2 capital is limited to collective provisions for bad and doubtful debts, which amounted to £0.5m in the Group at 31 December 2023.

52. A number of factors will impact the leverage ratio in any particular period. Profit or losses for the year increase or decrease the capital measure and impact the ratio accordingly. Balance sheet size is the main factor underpinning the exposure measure. Off balance sheet items including the lending pipeline also contribute.

53. The Group ratio of 6.9% is higher than the leverage ratio from the previous year of 6.3% arising from a growth in capital and a growth in assets as detailed in the **Annual Report and Accounts 2023, Strategic Report.**

54. The leverage ratio is monitored by ALCO. Whilst the Society is not excessively leveraged, the risk posed by excessive leverage is managed as part of the Group's strategic planning framework.

55. The components of regulatory capital before adjustments at 31 December 2023 and the Group's prudential regulatory metrics is shown below in **Table 4:**

Table 4: UK KM1 - Key metrics		a	b
		2023 £'000	2022 £'000
1	Common Equity Tier 1 (CET1) capital	170,081	154,661
2	Tier 1 capital	170,081	154,661
3	Total capital	170,553	154,927
	Risk-weighted exposure amounts		
4	Total risk-weighted exposure amount	839,719	747,705
	Capital ratios (as a percentage of risk-weighted exposure amount)		
5	Common Equity Tier 1 ratio (%)	20.3%	20.7%
6	Tier 1 ratio (%)	20.3%	20.7%
7	Total capital ratio (%)	20.3%	20.7%
	Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)		
UK 7a	Additional CET1 SREP requirements (%)	1.1%	3.6%
UK 7b	Additional AT1 SREP requirements (%)	0%	0%
UK 7c	Additional T2 SREP requirements (%)	0%	0%
UK 7d	Total SREP own funds requirements (%)	9.1%	11.6%
	Combined buffer requirement (as a percentage of risk-weighted exposure amount)		
8	Capital conservation buffer (%)	2.5%	2.5%
UK 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	0%	0%
9	Institution specific countercyclical capital buffer (%)	1.8%	0.9%
UK 9a	Systemic risk buffer (%)	0%	0%
10	Global Systemically Important Institution buffer (%)	0%	0%
UK 10a	Other Systemically Important Institution buffer	0%	0%
11	Combined buffer requirement (%)	4.3%	3.4%
UK 11a	Overall capital requirements (%)	13.4%	15.0%
12	CET1 available after meeting the total SREP own funds requirements (%)	11.2%	9.1%
	Leverage ratio		
13	Total exposure measure excluding claims on central banks	2,213,916	1,980,410
14	Leverage ratio excluding claims on central banks (%)	6.9%	6.3%
	Additional own funds requirements to address risks of excessive leverage (as a percentage of leverage ratio total exposure amount)		
UK 14a	Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)		
UK 14b	Leverage ratio including claims on central banks (%)		
UK 14c	Average leverage ratio excluding claims on central banks (%)		

UK 14d	Average leverage ratio including claims on central banks (%)		
UK 14e	Countercyclical leverage ratio buffer (%)		
	Liquidity Coverage Ratio		
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	375.6	352.7
UK 16a	Cash outflows - Total weighted value	225.8	193.2
UK 16b	Cash inflows - Total weighted value	13.6	7.9
16	Total net cash outflows (adjusted value)	212.2	185.3
17	Liquidity coverage ratio (%)	177.2%	190.3%
	Net Stable Funding Ratio		
18	Total available stable funding	2,163,102	2,098,595
19	Total required stable funding	1,494,428	1,400,785
20	NSFR ratio (%)	144.7%	149.8%

56. **Overview of Risk Weighted Exposure Amounts (RWEAs)**

The RWEAs and credit risk exposures related to the standardised model for the Group are detailed in Table 5 below.

Table 5: UK OV1 – Overview of risk weighted exposure amounts

		Risk weighted exposure amounts (RWEAs)		Total own funds requirements
		a	b	c
		2023 £'000	2022 £'000	2023 £'000
1	Credit risk (excluding CCR)	733,751	663,267	58,700
2	Of which the standardised approach	733,751	663,267	58,700
3	Of which the foundation IRB (FIRB) approach	-	-	-
4	Of which slotting approach	-	-	-
UK 4a	Of which equities under the simple risk weighted approach	-	-	-
5	Of which the advanced IRB (AIRB) approach	-	-	-
6	Counterparty credit risk - CCR	13,443	6057	1,076
7	Of which the standardised approach	5,446	2,585	436
8	*Of which internal model method (IMM)	-	-	-
UK 8a	Of which exposures to a CCP	27	49	2

UK 8b	Of which credit valuation adjustment - CVA	7,970	3,423	638
9	Of which other CCR	-	-	-
15	Settlement risk	-	-	-
16	Securitisation exposures in the non-trading book (after the cap)	-	-	-
17	Of which SEC-IRBA approach	-	-	-
18	Of which SEC-ERBA (including IAA)	-	-	-
19	Of which SEC-SA approach	-	-	-
UK 19a	Of which 1250%/ deduction	-	-	-
20	Position, foreign exchange and commodities risks (Market risk)	-	-	-
21	Of which the standardised approach	-	-	-
22	Of which IMA			
UK 22a	Large exposures	-	-	-
23	Operational risk	92,525	78,381	7,402
UK 23a	Of which basic indicator approach	92,525	78,381	7,402
UK 23b	Of which standardised approach	-	-	-
UK 23c	Of which advanced measurement approach	-	-	-
24	Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)	63	63	5
29	**Total**	**839,719**	**747,705**	**67,178**

- This exposure value is inclusive of derivative counterparty and CVA RWAs

57. **Standardised approach – Credit risk exposure and CRM effects**

Standardised exposures in the Table 6 below are stated on two different bases - pre-CCF (credit conversion factor) and CRM (credit risk mitigation) and post-CCF and CRM.

	Table 6: UK CR4 – standardised approach – Credit risk exposure and CRM effects						
	Exposure classes £'000	Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWAs and RWAs density	
		On-balance-sheet exposures	Off-balance-sheet exposures	On-balance-sheet exposures	Off-balance-sheet amount	RWAs	RWAs density (%)
		a	b	c	d	e	f
		£'000	£'000	£'000	£'000	£'000	
1	Central governments or central banks	377,702		377,702		-	0.0%
2	Regional government or local authorities						
3	Public sector entities						
4	Multilateral development banks	9,408		9,408		-	-
5	International organisations						
6	Institutions	17,291		17,291		6,209	35.9%
7	Corporates	3,163		3,101		3,101	98.0%
8	Retail	4,975		4,925		3,731	100.0%
9	Secured by mortgages on immovable property	1,972,905	55,653	1,972,905	11,696	696,523	35.2%
10	Exposures in default	12,130		12,130		12,130	100.0%
11	Exposures associated with particularly high risk	955		955		1,433	150.0%
12	Covered bonds						
13	Institutions and corporates with a short-term credit assessment						
14	Collective investment undertakings						
15	Equity	25		25		63	250.0%
16	Other items	16,049		16,049		16,035	99.9%
17	**TOTAL**	2,414,602	55,653	2,414,540	11,696	739,224	30.5%

58. **Standardised approach – exposures by asset class**

Under the standardised approach for credit risk, the Group applies a risk weighted asset value to each of its exposure classes and provides 8% of that risk weighted asset value as the minimum capital requirement for credit risk.

Table 7 below provides details of the exposures as at 31 December 2023 and total exposures and the calculation of own funds requirements within the Group at 31 December 2023. Details of credit risk for retail lending are given in the section below. Further details of other risk exposures can be found in **Note 30** to the **Annual Report and Accounts 2023**.

Table 7: Template UK CR5 – standardised approach

	Exposure classes £'000	Risk weight										Total	Of which unrated
		0%	2%	20%	35%	50%	75%	100%	150%	250%	Others		
		a	b	e	f	g	i	j	k	l	o	p	q
1	Central governments or central banks	377,702										377,702	254,134
2	Regional government or local authorities											-	-
4	Multilateral development banks	9,408										9,408	-
5	International organisations											-	-
6	Institutions		1,345	5,970		9,976						17,291	-
7	Corporates							3,101				3,101	3,101
8	Retail exposures						4,975					4,975	4,975
9	Exposures secured by mortgages on immovable property				1,981,613			2,987				1,984,600	1,984,600
10	Exposures in default							12,130				12,130	12,130
11	Exposures associated with particularly high risk								955			955	955
14	Units or shares in collective investment undertakings											-	-
15	Equity exposures									25		25	25
16	Other items	14						16,035				16,049	16,049
17	**TOTAL**	**387,124**	**1,345**	**5,970**	**1,981,613**	**9,976**	**4,975**	**34,253**	**955**	**25**	**-**	**2,426,236**	**2,275,969**

Columns c (4%), d (10%), h (70%), m (370%) and n (1250%) are not shown as there are no exposures classes to disclose in those categories.

59. The Group maintains sufficient CET1 capital to meet the capital buffer requirements of the CRD. The Group has not needed to issue any remunerated capital e.g. subordinated debt or permanent interest bearing shares. Also, the Group has the additional ability to issue core capital deferred shares (CCDS) which would count as CET1 capital, should this be required in the future. **Table 8** below shows the Group's Capital composition as 31 December 2023.

Table 8: UK CC1 - Composition of regulatory own funds Common Equity Tier 1 (CET1) capital: instruments and reserves		**2023 £'000**	**Cross ref to UK CC2**	**2022 £'000**
		a	b	c
1	Capital instruments and the related share premium accounts			
	of which: Instrument type 1			
	of which: Instrument type 2			
	of which: Instrument type 3			
2	Retained earnings	169,911	R1	156,006
3	Accumulated other comprehensive income (and other reserves)	835	R2	(581)
UK-3a	Funds for general banking risk	-		-
4	Amount of qualifying items referred to in Article 484 (3) CRR and the related share premium accounts subject to phase out from CET1	-		-
5	Minority interests (amount allowed in consolidated CET1)	-		-
UK-5a	Independently reviewed interim profits net of any foreseeable charge or dividend	-		-
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**170,746**		**155,425**
	Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	(200)		(221)
8	Intangible assets (net of related tax liability) (negative amount)	(465)	A8	(543)
9	Empty set in the UK			

10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount)	-		-
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	-		-
12	Negative amounts resulting from the calculation of expected loss amounts	-		-
13	Any increase in equity that results from securitised assets (negative amount)			
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing			
15	Defined-benefit pension fund assets (negative amount)	-		-
16	Direct, indirect and synthetic holdings by an institution of own CET1 instruments (negative amount)	-		-
17	Direct, indirect and synthetic holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-		-
18	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-		-
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-		-
20	Empty set in the UK	-		-
UK-20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-		-
UK-20b	of which: qualifying holdings outside the financial sector (negative amount)	-		-
UK-20c	of which: securitisation positions (negative amount)	-		-
UK-20d	of which: free deliveries (negative amount)	-		-
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount)	-		-
22	Amount exceeding the 17,65% threshold (negative amount)	-		-
23	of which: direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-		-
24	Empty set in the UK	-		-
25	of which: deferred tax assets arising from temporary differences	-		-
UK-25a	Losses for the current financial year (negative amount)	-		-
UK-25b	Foreseeable tax charges relating to CET1 items except where the institution suitably adjusts the amount of CET1 items insofar as such tax charges reduce the amount up to which those items may be used to cover risks or losses (negative amount)	-		-
26	Empty set in the UK	-		-
27	Qualifying AT1 deductions that exceed the AT1 items of the institution (negative amount)	-		-

27a	Other regulatory adjustments to CET1 capital *(including IFRS 9 transitional adjustments when relevant)*	-		-
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(665)**		**(764)**
29	**Common Equity Tier 1 (CET1) capital**	**170,081**		**154,661**
	Additional Tier 1 (AT1) capital: instruments			
30	Capital instruments and the related share premium accounts	-		-
31	of which: classified as equity under applicable accounting standards	-		-
32	of which: classified as liabilities under applicable accounting standards	-		-
33	Amount of qualifying items referred to in Article 484 (4) CRR and the related share premium accounts subject to phase out from AT1 as described in Article 486(3) CRR	-		-
UK-33a	Amount of qualifying items referred to in Article 494a(1) CRR subject to phase out from AT1	-		-
UK-33b	Amount of qualifying items referred to in Article 494b(1) CRR subject to phase out from AT1	-		-
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	-		-
35	of which: instruments issued by subsidiaries subject to phase out	-		-
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	-		-
	Additional Tier 1 (AT1) capital: regulatory adjustments			
37	Direct, indirect and synthetic holdings by an institution of own AT1 instruments (negative amount)	-		-
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-		-
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-		-
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-		-
41	Empty set in the UK	-		-
42	Qualifying T2 deductions that exceed the T2 items of the institution (negative amount)	-		-
42a	Other regulatory adjustments to AT1 capital	-		-
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	-		-
44	**Additional Tier 1 (AT1) capital**	-		-
45	**Tier 1 capital (T1 = CET1 + AT1)**	-		-
	Tier 2 (T2) capital: instruments			

46	Capital instruments and the related share premium accounts	-		-
47	Amount of qualifying items referred to in Article 484 (5) CRR and the related share premium accounts subject to phase out from T2 as described in Article 486(4) CRR	-		-
UK-47a	Amount of qualifying items referred to in Article 494a (2) CRR subject to phase out from T2	-		-
UK-47b	Amount of qualifying items referred to in Article 494b (2) CRR subject to phase out from T2	-		-
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	-		-
49	of which: instruments issued by subsidiaries subject to phase out	-		-
50	Credit risk adjustments	-		-
51	Tier 2 (T2) capital before regulatory adjustments	-		-
	Tier 2 (T2) capital: regulatory adjustments			
52	Direct, indirect and synthetic holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-		-
53	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-		-
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-		-
54a	Empty set in the UK	-		-
55	Direct, indirect and synthetic holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-		-
56	Empty set in the UK	-		-
UK-56a	Qualifying eligible liabilities deductions that exceed the eligible liabilities items of the institution (negative amount)	-		-
UK-56b	Other regulatory adjustments to T2 capital	-		-
57	**Total regulatory adjustments to Tier 2 (T2) capital**	-		-
58	**Tier 2 (T2) capital**	**472**		**266**
59	**Total capital (TC = T1 + T2)**	**170,553**		**154,927**
60	**Total Risk exposure amount**	**839,719**		**747,705**
	Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	20.3%		20.7%

62	Tier 1 (as a percentage of total risk exposure amount)	20.3%		20.7%
63	Total capital (as a percentage of total risk exposure amount)	20.3%		20.7%
64	Institution CET1 overall capital requirement (CET1 requirement in accordance with Article 92 (1) CRR, plus additional CET1 requirement which the institution is required to hold in accordance with point (a) of Article 104(1) CRD, plus combined buffer requirement in accordance with Article 128(6) CRD) expressed as a percentage of risk exposure amount)	13.4%		15.0%
65	of which: capital conservation buffer requirement	2.5%		2.5%
66	of which: countercyclical buffer requirement	1.8%		0.9%
67	of which: systemic risk buffer requirement	-		-
UK-67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	-		-
68	**Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)**	**11.2%**		**9.1%**
	Amounts below the thresholds for deduction (before risk weighting)			
72	Direct and indirect holdings of own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	63		63
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 17.65% thresholds and net of eligible short positions)	-		-
74	Empty set in the UK	-		-
75	Deferred tax assets arising from temporary differences (amount below 17,65% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met)	-		-
	Applicable caps on the inclusion of provisions in Tier 2			
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-		-
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	-		-
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	-		-
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	-		-
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)			
80	Current cap on CET1 instruments subject to phase out arrangements	-		-
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-		-
82	Current cap on AT1 instruments subject to phase out arrangements	-		-
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-		-
84	Current cap on T2 instruments subject to phase out arrangements	-		-

85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-		-

Capital Adequacy Assessment

60. The Group maintains a five-year strategic planning framework, the detail of which is reviewed by the Society's Board annually to take account of current and changing economic conditions and any other factors that may affect the Society's future performance, such as regulatory or technological change. The process culminates in the annual production of a five-year Corporate Plan including financial projections, with a detailed budget covering the following year's activities.
61. The projections are driven by reference to the Group ICAAP submission and in particular the Board's risk appetite for different business activities and risks, which is an important component within the submission.
62. The Group ICAAP contains the capital plan for the next five years and the Board ensures that there are adequate capital resources to support the corporate goals contained within the projections.
63. In order to produce a detailed capital plan, the Group ICAAP contains calculations of the capital resources requirement (effectively the minimum capital required) each year using the standardised approach for credit risk and the basic indicator approach for operational risk.
64. Under the standardised approach for credit risk, the Group applies a risk weighted asset value to each of its exposure classes and provides 8% of that risk weighted asset value as the minimum capital requirement for credit risk.
65. The Group has historically held capital in excess of its regulatory requirements and its regulatory CET1 ratio stands at 20.3%. The ICG at 31 December 2023 was to hold a minimum amount of capital of 8.45% of risk weighted assets plus a static add-on for pension risk of £5.6m. The Group's capital was in excess of this requirement.
66. Under the basic indicator approach for operational risk, the Group calculates its average net income over the previous three years and provides 15% of that average net income as the minimum capital requirement for operational risk.
67. Capital is also required in relation to the credit valuation adjustment. This is to account for counterparty credit risk in relation to derivative transactions.

Liquidity Risk

68. The Group's risk management objectives and policies for liquidity risk , which were approved by the Board, are summarised in the table below as required to be disclosed by the CRR:

TABLE 9	
Structure and organisation of liquidity risk management function	Liquidity risk is managed on a day-to-day basis by the Group Treasury function and managed by ALCO with oversight by the BRC.
Scope and nature of liquidity risk reporting and measurement systems	Treasury use a number of daily, weekly and monthly reports and liquidity forecasts to monitor risk against appetite and the effectiveness of liquidity risk mitigants which are in place.
Policies for hedging and mitigating the liquidity risk and strategies and processes for monitoring the continuing effectiveness of hedges and mitigants	The ILAAP informs the Board and proposes the liquidity risk appetite and policies and appropriate controls to enable compliance with this appetite. This is documented in, and managed through adherence to, the Board-approved liquidity and financial risk management policies and limits which include the LCR, ILAAP measures and Net Stable Funding Ratio.
Adequacy of liquidity risk management arrangements	The Board is satisfied that the liquidity risk management arrangements in place remain adequate and that the Group's overall risk profile continues to remain within its risk appetite.
Overall risk profile associated with the business strategy.	The Board is satisfied that the Group's overall risk profile remains within the policies and limits noted above and is in line with the Group's business strategy.

Credit Risk- Retail Lending

69. Assessment of the borrower's ability and propensity to make payments and the level of security provided are paramount considerations for the Group.
70. The Group uses an affordability model to assess residential property owner occupier applicants' ongoing ability to service the requested mortgage advance. This includes expenditure data from the Office of National Statistics (ONS) which takes into account the size of the household unit and the spending patterns of households with similar incomes. In addition to ONS data, the Group also collects specific information on ongoing financial commitments in order to assess the ability of the applicant to meet mortgage repayments at appropriate interest rates.
71. Regular reviews are undertaken to assess the performance of loans and the suitability of the affordability model with a view to ensuring that the parameters set within the model are consistent with Group risk appetite.
72. In all cases, the Group requires a report prepared by a suitably qualified person, on the value of the security for mortgage purposes. The exception to this, is for further advances where the loan is fully secured on residential property and the new total borrowing does not exceed 60% of the existing valuation.
73. For residential buy-to-let lending, affordability is assessed with reference to the rental value of the property which will secure the mortgage. For loans to non-individual limited liability companies, personal guarantees are also obtained from the Directors for higher-LTV loans and, for larger portfolios of buy-to-let loans to a single borrower, each individual property is available to cross-collateralise other loans within the same portfolio. For certain specialist mortgages monies placed on deposit with the Society also act as further security on a mortgage.
74. The Group regards as 'past due' any mortgage or loan account which, at the accounting date, is more than three months in arrears. Arrears of mortgage repayments are monitored very closely and the Group has performed favourably in comparison with national arrears statistics. Past due assets are reported under the "In default" exposure class. The only material exposures in this class relate to loans secured on property.
75. Arrears are evidence of loan impairment. Impaired loans will be reviewed, with provisions made against any potential losses in the loan book.
76. A loan is considered "impaired" where there is objective evidence of one or more impairment events after the initial recognition of the loan. Impairment events can be on an individual loan-by-loan basis, for example where the mortgaged property is taken into possession, or on a collective basis for groups of loans with similar characteristics.
77. The Group's accounting policy in relation to impairment provisions for loans and advances is set out in full in **Note 1.11 of the Annual Report and Accounts 2023.**
78. Full details of the movements on impairment provisions for loans and advances are shown in **Note 10 of the Annual Report and Accounts 2023.**

79. A reconciliation of the regulatory own funds to the **Statement of Financial Position in the Annual Report and Accounts 2023** is provided in **Table 10** below**.**

Table 10: UK CC2 - reconciliation of regulatory own funds to balance sheet in the audited financial statements			
As year-ended 31 December 2023	a	b	c
	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
	Dec-23	Dec-23	
Assets			
Cash in hand and balances with the Bank of England	280,998	280,998	A1
Loans and advances to credit institutions	4,031	3,529	A2
Debt securities	132,976	132,976	A3
Derivative financial instruments	53,928	53,928	A4
Loans and advances to customers	1,986,665	1,986,665	A5
Investment in subsidiary undertakings	-	13,423	A6
Property, plant and equipment	7,372	7,107	A7
Intangible assets	1,293	464	A8
Investment property	11,073	-	A9
Other assets	2,042	1,953	A10
Total assets	**2,480,378**	**2,481,043**	
Liabilities			
Shares	1,818,805	1,818,805	L1
Amounts owed to credit institutions	249,876	249,876	L2
Amounts owed to other customers	79,515	79,515	L3
Debt securities in issue	74,527	74,527	L4
Derivative financial instruments	41,129	41,129	L5

Deferred tax	336	336	L6
Other liabilities	46,076	45,441	L7
Retirement benefit obligation	667	667	L8
Total liabilities	**2,310,931**	**2,310,297**	
Reserves			
General reserves	168,612	169,911	R1
Available-for-sale reserve	835	835	R2
Total reserves	**169,447**	**170,746**	
Total reserves and liabilities	**2,480,378**	**2,481,043**	

80. Individual impairment provisions are utilised to reduce the value of residential exposures in the capital adequacy calculations. For capital adequacy purposes, collective impairment provisions are regarded as Tier 2 capital (see **Table 8** above).

81. The Group's residential mortgage loan portfolio includes a pool of lifetime mortgage loans. If the amount received on the sale of the property on redemption of the loan is, in certain circumstances, less than the value of the contractual loan balance due, the Group cannot pursue the borrower or the estate for the shortfall. This No Negative Equity Guarantee (NNEG) represents an exposure that the balance of lifetime loans may not be fully recovered and is presented as an embedded derivative liability on the Group's statement of financial position. The NNEG derivative liability is also applied to adjust downwards the value of residential risk-weighted assets in the capital adequacy calculations.

82. The key determinants of the value of the NNEG are assumed House Price Inflation (HPI) and HPI volatility. A lower HPI assumption increases the projected shortfall of property values against outstanding loans and therefore increase the NNEG liability. The Group HPI assumption is determined with reference to historical 20-year HPI growth. Volatility refers to the probability that any one house price will be above or below the average HPI assumption at any one moment in time, with a higher volatility assumption leading to an increased risk and therefore cost which is reflected in a higher NNEG liability.

83. Each year, the Society performs a detailed analysis of historical HPI data and the assumptions adopted by comparative peers. At 31 December 2023, based on the analysis performed, the Group decided to maintain the volatility assumption used in the NNEG valuation at 10%. The Group will continue to monitor the market and guidance from the PRA and update the assumption used in the NNEG valuation accordingly.

Credit Risk – Wholesale Lending

84. **Risk management objectives and relevant policies related to CCR (Article 431 (3) and (4) CRR):** counterparty risks relate to the potential for loss from the actions or performance of a counterparty, in particular the failure of a counterparty to repay deposits or investments due and the failure of a counterparty to perform under the terms of derivative transactions.

85. Investments other than those in UK gilts or Treasury bills are spread to the extent practical to prevent undue concentration in particular market sectors, geographical areas, maturity profile or institutions. The spread is managed through the setting of exposure limits expressed as absolute limits with reference to the Group's and the counterparty's free capital.

86. Counterparty credit limits are formally reviewed and agreed by the Board annually. ALCO formally reviews the limits on a quarterly basis but can address any required changes on an on-going basis.

87. All derivative contracts are with a central counterparty clearing house or covered by bilateral credit support agreements, from which collateral is pledged or held in the form of listed debt securities (usually UK gilts) or cash deposits to provide protection to both the Group and its counterparties against default Collateralisation of derivatives introduces two material changes in credit exposure, namely:

    • The posting of collateral reduces the impact of the current market value to the difference between the market value of the derivatives and the value of the collateral. This difference is limited by the operational use of 'thresholds' and 'minimum transfer amounts', which set criteria to avoid the movement of small amounts of collateral; and

    • If the counterparty fails to post additional collateral required, a default can be enforced within a very short timeframe resulting in a substantial reduction in the potential future increases in credit exposure. This rapid default enforcement shortens the timescale within which future changes in interest rates may occur, which would affect the value of the exposure.

88. Details of the Groups exposure values on derivatives are given in **Table 10**. Further details on the value and type of derivatives held can be found in the **Annual Report and Accounts 2023, Note 30, Financial Instruments**.

Equity Exposures

89. The Group has equity exposures to SMP and F&A, which are held at cost of £57k and £50 respectively on the Society's Statement of Financial Position. There have been no disposals or unrealised gains or losses on these investments during 2023.

90. The investment in F&A allows the Group to control a strategic investment in residential property purchases. The ownership of SMP is held for both strategic reasons and potential capital gain. Neither of these instruments are publicly traded.

91. In addition, the Society has a Corporate loan exposure to SMP of £3.04m and a mortgage loan exposure secured on residential property of £9.4m to F&A.

External Credit Assessment Institutions

92. The Group has nominated Moody's Investors Services as its external credit assessment institution.

93. Moody's ratings are applied to non-cash liquidity exposures to central governments / banks, multilateral development banks and institutions, to establish the risk-weighted value of those exposures for capital adequacy purposes.

94. Risk-weighted asset values under the standardised approach are calculated by reference to six credit quality steps set out in Article 120 of the CRR and are dependent upon whether they are exposures for up to 3-months, or longer. **Table 11** maps the Group's application of Moody's ratings to the CRR credit quality steps, together with the risk weightings applicable according to counterparty type.

TABLE 11
Matrix of risk weightings by credit quality step and Moody's ratings

Credit quality step	1	2	3	4	5	6
Moody's short-term ratings	P-1	P-2	P-3	NP		
Risk weighting	20%	50%	100%	150%		
Moody's long-term ratings	Aaa - Aa3	A1 - A3	Baa1 - Baa3	Ba1 - Ba3	B1 - B3	<= Caa1
Central Govt & Banks	0%	20%	50%	100%	100%	150%
Institutions: <= 3 months	20%	20%	20%	50%	50%	150%
Institutions: > 3 months	20%	50%	50%	100%	100%	150%
Corporates	20%	50%	100%	100%	150%	150%

95. As is clearly demonstrated from the Moody's ratings attached to each credit quality step, step 1 represents the highest credit quality and step 6, the lowest.

96. The Group does not invest with counterparties within credit quality steps 4 to 6.

97. Unrated institutions have the same credit quality step as the central government of the jurisdiction in which it is incorporated and, in the case of UK institutions attract a 20% risk weighting.

Market Risk

98. Market risk incudes interest rate risk and basis risk as defined under paragraph 37 of this disclosure document.

99. The main activities undertaken by the Group that give rise to interest rate risk are as follows:

- Management of the investment of capital and other non-interest bearing liabilities.
- Issue of fixed rate savings products.
- Fixed rate wholesale funding taken by the Treasury department.
- Fixed and capped rate mortgage and other lending; and,
- Fixed rate investments held by the Treasury department.

100. Interest rate risk is managed by utilising natural hedges on the balance sheet and by transacting interest rate swaps with external counterparties.

101. The interest rate risk on savings and mortgage products is reviewed on a weekly basis and hedging action taken as appropriate. The Group balance sheet is tested quarterly against the supervisory limits and monthly for the Board limits for the effects of a 2% parallel shift in interest rates, after the appropriate adjustment for interest rate floors.

102. Interest rate risk limits are an expression of the Board's risk appetite and are reviewed annually as an integral part of updating the Group financial risk management policy and ICAAP.

103. Basis risk is managed within limits and is monitored monthly with the results being reported to ALCO.

104. The valuation of pension fund liabilities is subject to changes in interest rates. The Board takes account of this liability when considering an appropriate interest rate risk appetite.

Material Credit Risk Mitigation Techniques

105. As indicated earlier in this disclosure document, credit risks are managed through adherence to Board-approved policies, which provide for a range of limits that are regularly monitored.

106. The Treasury department maintains a regular review of active counterparties and recommends action to ALCO to restrict exposures in those cases where the risk of default is considered to have increased beyond the Group risk appetite.

107. Counterparty risk may become significant in relation to the market value of interest rate swaps transacted with major banks as interest rates fluctuate. The Group mitigates this risk through collateral agreements with all interest rate swap counterparties, which protect against counterparty default by means of collateral requirements based on movements in the market values of the instruments involved. The collateral is pledged or received in the form of cash or securities. Some swaps are transacted through a central counterparty clearing house which guarantees performance of the collateral requirements, whilst the remainder are covered by industry-standard bilateral credit support agreements.

108. The Group also uses repos and reverse repos, which are effectively secured borrowing and lending, in its liquidity management operations. The Group’s repos and reverse repos are covered by Global Master Repurchase Agreements.

Remuneration

INFORMATION RELATING TO BODY THAT OVERSEES REMUNERATION

109. The Board has established a Remuneration Committee (REMCO) which comprises of three Non-executive Directors. The Remuneration Committee is responsible for setting the remuneration of the Executive Directors. The Committee also sets the additional payments for the Chair of the Board, the Chairs of the Group Audit, Remuneration and Board Risk Committees and the Senior Independent Director, with Committee members not taking part in discussions concerning their own remuneration.

110. The Remuneration Committee is also responsible for oversight of the remuneration and reward structure for the Society as a whole. The Committee's Terms of Reference are published on the Society's website and include the following.

    - To attract and retain staff with the appropriate skills, behaviour and motivation.
    - To reward staff fairly, paying due regard to the statutory duties of equality and non-discrimination.
    - To benchmark salaries and benefits against prevailing industry/sector/role norms.
    - To take account of prevailing economic and employment trends.
    - To prevent inappropriate risk-taking with the potential to damage the interests of the Society's stakeholders and the viability of the business.
    - To ensure that remuneration is aligned with the Society's strategy, purpose and values and is linked to successful delivery of that strategy.

111. All members of the Remuneration Committee are independent Non-executive Directors. They rely on both performance assessment and independently verifiable information about the Society's performance and market information to make determinations of remuneration policy and outcomes. The Committee may consult external advisers on pay and rewards and a benchmarking exercise was conducted in 2023 for Non-executive Directors pay and 2022 for Executive Directors pay.

112. The Annual Report and Accounts of the Society includes a Report on Remuneration. The Society's Members have the opportunity to approve this report at the Annual General Meeting.

REMUNERATION POLICY

113. The Society has adopted a Remuneration Policy, which describes how the Society complies with the relevant sections of both the Prudential Regulation Authority's and the Financial Conduct Authority's Remuneration Code. This Policy is reviewed periodically by the Remuneration Committee and is published

on the Society's website. Other than benchmarking Executive and Non-Executive Directors pay, no external consultants have been used in the year for the determination of the remuneration policy.

114. The aim of the Group's Remuneration Policy is to achieve a fair level of financial reward for the Society's staff whilst ensuring primacy of members' interests and avoiding incentives to take inappropriate levels of risk. An objective of the Society is to attract and retain staff with the requisite skills, attitude and motivation to perform its operations to the highest standards in line with its business strategy, risk appetite and long-term objectives.

115. In keeping with its values, the Society also seeks to provide its staff with fair financial reward for their contributions commensurate with the level, nature and demands of their roles and their individual achievements.

POLICY OVERSIGHT AND IMPLEMENTATION

116. Responsibility for policy oversight and implementation resides with the Remuneration Committee in respect of the remuneration of the Executive Directors and their immediate subordinates.

117. During 2023 the Remuneration Committee met four times. The terms of reference of the Committee can be found on the Society's website, www.ncbs.co.uk. In setting remuneration, the Committee takes account of salaries, benefits and fees payable to executives and senior managers within similarly sized building societies and other relevant organisations. Feedback on the deliberations of the Remuneration Committee is provided to the Society's Board by way of its meeting minutes, and its recommendations are considered and endorsed or rejected as appropriate. For additional independent oversight, a review of the Executive Directors' remuneration is commissioned periodically from external consultants to ensure that the Society's rewards remain fair, competitive and in line with industry norms.

118. Further information on the mandate of the Remuneration Committee and its decision-making process in determining the remuneration policy for the Executive Directors is included in the Report on Remuneration within the Group's Annual Report and Accounts, which is published each year on the Society's website.

119. Responsibility for policy oversight and implementation in respect of the remuneration of all other staff resides with the Executive Directors, with Board approval being required for the budgets for the annual review of staff salaries and for performance linked awards. Any significant changes in staff benefits are also reviewed and agreed by the Board, as is the introduction and construction of any staff and executive performance related pay schemes that may be deemed appropriate from time to time.

MATERIAL RISK TAKERS (MRTs)

120. REMCO has determined that there are 22 individuals (22 roles) who are material risk takers and whose professional activities have a material impact on the Society's risk profile.

121. The category of the employees cover all members of the Society's Board (the Management body broken into its supervisory function – Non-Executive Directors and the Chair, and its management function – the Executive Directors), senior leadership team and those receiving remuneration that takes them into the

same remuneration bracket as senior managers and perform a professional activity within a material business unit of a kind that has a significant impact on the relevant business unit's risk profile.

122. In the case of the Executive Directors and the Senior Managers, fixed remuneration includes pension contributions made by the Society on behalf of the employees, and the value of taxable benefits.

123. In order to determine the policy for Executive Director remuneration and remuneration of senior management, the Remuneration Committee undertakes a review of the overall remuneration and incentive packages for the workforce of the Society as a whole.

124. The provision of performance related pay schemes for Executive Directors and staff relating to financial and business performance is generally considered an appropriate part of a balanced remuneration package. Where such schemes are felt to be justified, the potential rewards are geared to the attainment of corporate targets of key and tangible benefit to the organisation and are set at modest levels, being mindful of the context of the organisation's operating environment, its status as a mutual organisation and the need for robust risk management to ensure that the outcomes achieved are beneficial to the organisation over the immediate and the long term. The Society has a variable pay scheme based on both the performance of the Society and the individual. All staff except the Mortgage Adviser team and the Business Development Managers are eligible for bonuses under this scheme.

125. Tables **12 to 14** give details of the variable remuneration to 'material risk' staff in 2023. All variable remuneration is in the form of cash.

IDENTIFIED STAFF

126. The Mortgage Adviser team has a separate bonus structure based on their performance across a variety of categories including the quality of calls made, customer feedback and compliance.

127. The Business Development Managers receive commission based on the number of mortgage applications received from brokers which turn into completions.

128. Executive Directors are eligible to participate in an incentive scheme based on their own and the Society's performance. Awards are limited to a maximum of 25% of base pay. In addition, there is a medium-term incentive plan based on performance over a three year period measured by five performance indicators: customer satisfaction, capital growth, maintaining profit, loan growth and culture. The scheme is designed such that an 'on-target' performance would be equivalent to 65% of base salary earned over three years. However, if there were significant over-achievements on each of the five performance indicators to the maximum extent possible, it is theoretically possible to achieve 130% which would be equivalent to 43% per annum. However, the probability of doing so is remote. No payment is made until the end of the three-year period, with 50% of the payment deferred for a further year. The incentive scheme is subject to detailed rules which permit clawback in the event of unforeseen circumstances or evidence of inappropriate conduct in full compliance with the Remuneration Rules set by the PRA. The incentive plan lapses if the Director leaves in the scheme period otherwise than through redundancy or other similar circumstances that make the Director a good leaver and is subject to an overriding discretion of the Remuneration Committee.

129. Apart from employees of Smart Money People Limited, all Group employees are employed by the Society. The aggregate quantitative remuneration was £14,892k.

130. No individuals were remunerated €1 million or more in the financial year.

131. As set out in the Remuneration Policy the Society has determined those members of staff whose professional activities have a material impact on the Society's risk profile in accordance with the CRD. **Tables 12 to 14** sets out the aggregate quantitative remuneration for these staff in respect of the period 1 January 2023 to 31 December 2023.

Table 12: UK REM1 - Remuneration awarded for the financial year

			a	b	c	d
			MB Supervisory function	MB Management function	Other senior management	Other identified staff
1	Fixed remuneration	Number of identified staff	6	2	14	-
2		Total fixed remuneration	310,896	657,386	1,752,571	-
3		Of which: cash-based	310,896	657,386	1,752,571	-
UK-4a		Of which: shares or equivalent ownership interests	-	-	-	-
5		Of which: share-linked instruments or equivalent non-cash instruments	-	-	-	-
UK-5x		Of which: other instruments	-	-	-	-
7		Of which: other forms				
9	Variable remuneration	Number of identified staff	-	2	14	-
10		Total variable remuneration	-	234,286	530,995	-
11		Of which: cash-based	-	234,286	530,995	-
12		Of which: deferred	-		-	-
UK-13a		Of which: shares or equivalent ownership interests	-	-	-	-
UK-14a		Of which: deferred	-	-	-	-
UK-13b		Of which: share-linked instruments or equivalent non-cash instruments	-	-	-	-
UK-14b		Of which: deferred	-	-	-	-
UK-14x		Of which: other instruments	-	-	-	-
UK-14y		Of which: deferred	-	-	-	-
15		Of which: other forms	-	-	-	-
16		Of which: deferred	-	-	-	-

17	Total remuneration (2 + 10)	310,896	891,672	2,283,566	-

	Table 13: UK REM2 - Special payments to staff whose professional activities have a material impact on institutions’ risk profile (identified staff)				
		a	b	c	d
		MB Supervisory function	MB Management function	Other senior management	Other identified staff
	Guaranteed variable remuneration awards				
1	Guaranteed variable remuneration awards - Number of identified staff	-	-		-
2	Guaranteed variable remuneration awards -Total amount	-	-	-	-
3	Of which guaranteed variable remuneration awards paid during the financial year, that are not taken into account in the bonus cap	-	-	-	-
	Severance payments awarded in previous periods, that have been paid out during the financial year				
4	Severance payments awarded in previous periods, that have been paid out during the financial year - Number of identified staff	-	-	-	-
5	Severance payments awarded in previous periods, that have been paid out during the financial year - Total amount	-	-	-	-
	Severance payments awarded during the financial year				
6	Severance payments awarded during the financial year - Number of identified staff	-		-	-
7	Severance payments awarded during the financial year - Total amount	-		-	-
8	Of which paid during the financial year	-	-	-	-
9	Of which deferred	-	-	-	-

10	Of which severance payments paid during the financial year, that are not taken into account in the bonus cap	-	-	-	-
11	Of which highest payment that has been awarded to a single person	-	-	-	-

132. In addition to the remuneration detailed above, no other severance or sign-on payments were made or awarded to a 'material risk' employee.

Table 14: UK REM5 - Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff)

		a	b	c	d	e	f	g	h	i	j
		Management body remuneration			Business areas						
		MB Supervisory function	MB Management function	Total MB	Investment banking	Retail banking	Asset management	Corporate functions	Independent internal control functions	All other	Total
1	**Total number of identified staff**										**22**
2	**Of which: members of the MB**	6	2	8							
3	**Of which: other senior management**							14			
4	**Of which: other identified staff**										
5	**Total remuneration of identified staff**	310,896	891,672	1,202,568				2,283,566			
6	**Of which: variable remuneration**	-	234,286	234,286				530,995			
7	**Of which: fixed remuneration**	310,896	657,386	968,282				1,752,571			

The Society has allocated the management remuneration of all business areas to corporate functions column, as this is considered to be the most appropriate column based on the Society's products and structure.

Conclusion

133. The Board has set a business strategy for the Group to originate low-risk mortgages whilst managing the risks associated with the legacy portfolios of lifetime mortgages.

134. The Board has defined risk tolerances in line with the above strategy and the Group's overall risk profile is proactively managed to be within these tolerances.

135. In the Board's opinion the risk management arrangements and reporting systems in place are adequate with regard to the Group's risk profile and strategy.

136. This disclosure document has been prepared in accordance with the requirements of the Disclosure (CRR) Part of the PRA Rulebook, as interpreted for a group of firms of the size and complexity of the Group.

137. In the event that a user of this disclosure document should require further explanation on the disclosures given, application should be made, in writing, to the **Group Finance Director at National Counties Building Society, Ebbisham House, 30 Church Street, Epsom, Surrey, KT17 4NL**.

Attestation

138. The Directors confirm that to the best of their knowledge that these Pillar 3 disclosures have been prepared in accordance with Group Pillar 3 Disclosure Policy.

Signed on behalf of the Board by

Andrew Barnard

Finance Director