BUCKINGHAMSHIRE
BUILDING SOCIETY

Pillar 3 Disclosure

Year ended 31 December 2023

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1 Overview

1.1 Background

The Capital Requirements Directive (CRD) and Capital Requirements Regulation (CRR) came into force on 1 January 2014. Collectively CRD and CRR are known as CRD IV, and is the regulatory framework governing the amount and nature of capital financial institutions are required to maintain in order to protect their shareholders and depositors. The Prudential Regulatory Authority (PRA) oversees CRD IV implementation in the United Kingdom.

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

- **Pillar 1** - sets out the minimum levels of capital that have to be maintained for credit, market and operational risks. To meet the minimum capital requirements the Society operates under the Standardised approach that uses prescribed risk weightings as set out in the CRD for credit risk, and the basic indicator approach for operational risk;
- **Pillar 2** - an internal assessment of additional capital requirements for risks not fully covered by or not within the scope of Pillar 1. The Society's Internal Capital Adequacy Assessment (ICAAP) documents the Pillar 2 assessment. The Board approve it annually and it is subject to review by the PRA as part of their Supervisory Review and Evaluation process (SREP).
- **Pillar 3** - covers the disclosure requirements of the CRD covering key information about risk exposures and risk management processes.

1.2 Basis, frequency and scope of disclosure

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

This Pillar 3 Disclosure document should also be read in conjunction with the Society's Annual Report and Accounts for the year ended 31 December 2023.

The Society satisfies the criteria for being a "small and non-complex" institution under Article 433b of the CRR as contained in the PRA Rulebook. As such, these disclosures comply with the requirements of the derogation for small and non-complex institutions as set out in Article 433b.

Unless otherwise stated, all financial information contained within this document has been drawn from the Society's Annual Report and Accounts as at 31 December 2023. The Pillar 3 disclosures are issued on an annual basis and are not subject to external audit, except those figures drawn from the Society's audited financial statements for the year ended 31 December 2023. The disclosures within this document do not constitute any form of financial statement and must not be relied upon in making any judgement on the Society.

Row numbers in the standardised templates and tables within the document relate to PRA prescribed references. Where rows are not relevant to the Society they have in some circumstances been excluded for the purposes of enhancing the readability and understandability of these disclosures in line with Article 432.

This disclosure document is available on the Society's website (www.bucksbs.co.uk) along with the Annual Report and Accounts.

1.3 Attestation

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

Approved by the Buckinghamshire Building Society and signed on its behalf by:

Scott Morton

Finance Director

1.4 Summary of key disclosures

The table below provides an overview of the Society's prudential regulatory key metrics.

Table 1: UK KM1 Key Metrics

		2023 £000	2022 £000
	Available own funds (amounts)		
1	Common Equity Tier 1 (CET1) capital	29,429	27,225
2	Tier 1 capital	29,429	27,225
3	Total capital	29,700	27,401
	Risk-weighted exposure amounts		
4	Total risk-weighted exposure amount	129,792	121,145
	Capital ratios (as a percentage of risk-weighted exposure amount)		
5	Common Equity Tier 1 ratio (%)	22.67%	22.47%
6	Tier 1 ratio (%)	22.67%	22.47%
7	Total capital ratio (%)	22.88%	22.62%
	Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)		
UK 7a	Additional CET1 SREP requirements (%)	0.00%	0.00%
UK 7d	Total SREP own funds requirements (%)	8.00%	8.00%
	Combined buffer requirement (as a percentage of risk-weighted exposure amount)		
8	Capital conservation buffer (%)	2.50%	2.50%
9	Institution specific countercyclical capital buffer (%)[1]	1.94%	1.00%
11	Combined buffer requirement (%)	4.44%	3.50%
UK 11a	Overall capital requirements (%)	12.44%	11.50%
12	CET1 available after meeting the total SREP own funds requirements (%)	14.67%	14.47%
	Leverage ratio		
13	Total exposure measure excluding claims on central banks	357,812	329,637
14	Leverage ratio excluding claims on central banks(%)	8.22%	8.26%
	Liquidity Coverage Ratio		
15	Total high-quality liquid assets (HQLA) (Weighted value - Average)	56,242	57,877
UK 16a	Cash outflows - Total weighted value	17,554	16,775
UK 16b	Cash inflows - Total weighted value	11,598	10,146
16	Total net cash outflows (adjusted value)	5,957	6,629
17	Liquidity coverage ratio (%)	944%	873%
	Net Stable Funding Ratio		
18	Total available stable funding	342,088	311,606
19	Total required stable funding	219,352	196,425
20	NSFR ratio (%)	156%	159%

Note

[1] The institution specific countercyclical capital buffer requirement is based on the weighted average of the buffer rates in effect for the countries in which institutions have exposures. As at 31 December 2023, the institution specific countercyclical buffer (CCyB) has increased to 1.94% (31 December 2022: 1.00%) due to the UK CCyB rate increase from 1% to 2% effective from the 5 July 2023.

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1.5 Overview of Risk Weighted Exposure Amounts (RWEAs)

The Risk weighted exposure amounts (RWEAs) and credit risk exposures related to the standardised approach for the Society are as below.

Table 2: UK OV1 – Overview of risk weighted exposure amounts

		Risk weighted exposure amounts (RWEAs)		Total own funds requirements
		2023 £000	2022 £000	2023 £000
1	Credit risk (excluding CCR)	116,843	108,150	9,347
2	Of which the standardised approach	116,843	108,150	9,347
6	Counterparty credit risk - CCR	461	1,845	36
7	Of which the standardised approach	461	1,845	36
UK 8b	Of which credit valuation adjustment - CVA	289	1,251	23
9	Of which other CCR	-	-	-
15	Settlement risk	-	-	-
UK 22a	Large exposures	-	-	-
23	Operational risk	12,488	11,150	999
UK 23a	Of which basic indicator approach	12,488	11,150	999
UK 23b	Of which standardised approach	-	-	-
UK 23c	Of which advanced measurement approach	-	-	-
24	Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)	-	-	-
29	**Total**	**129,792**	**121,145**	**10,382**

2 Risk Management Policies and Objectives

Buckinghamshire Building Society is a mutual organisation with no equity shareholders. The purpose as defined today in the Society strategy is “to help people achieve financial security, provide a safe home for savings and enable home ownership”.

The Society’s risk management process is a continuous cycle of identifying, assessing, controlling, monitoring and reporting of risk. This process allows the Society to be aware of risks at an early stage and to mitigate these risks appropriately. The ability to properly identify, measure, monitor, control and report risk is vital in ensuring financial strength, appropriate member outcomes and the ongoing security of Members’ funds.

Risks arise naturally while trying to achieve our strategic objectives and while doing business in the financial services sector. To mitigate these risks to acceptable levels the Board has put in place a Risk Management Framework and Appetite Statement that covers all aspects of the Society’s operations.

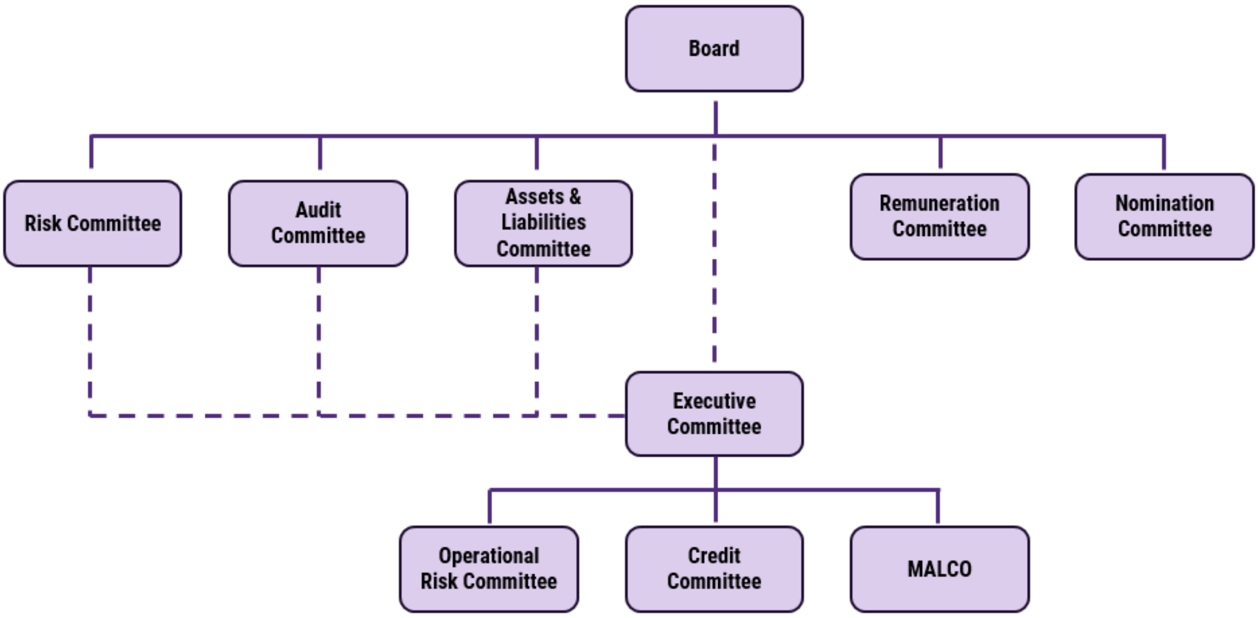
2.1 Risk governance structure

The Board has overall responsibility for risk management and ensures that the Society’s policies, procedures and conduct are consistent with its risk appetite, business strategy and objectives. It has put in place the Risk Management Framework and Appetite Statement that describe the high-level approach taken to risk management across the Society and the key risk indicators used to monitor all categories of risk.

The Board has delegated specific responsibilities, including establishing the risk management framework, overseeing risk management across the business and ensuring a strong culture of risk awareness and ownership, to the Risk Committee. The Risk Committee review every material aspect of the risk management framework, including the Society's risk appetite and tolerances, and ensure relevant management information is provided to both the Board and the Executive to manage the Society’s risks.

The Society records the key risks that it is exposed to in its Risk Register, along with an assessment of their likelihood and impact. The Risk Register is the basis for identifying the risks that are included in the ICAAP under Pillar 2.

The governance structure the Society has in place to identify, monitor and review its principal risks is as follows:



Risk Committee (RC)

The RC is a Board Committee whose purpose is to ensure that the approach to identification and management of risk is adequate, cost effective and integrated. Oversight includes ensuring operation within Risk Appetite; ensuring effective stress and scenario testing is carried out; assessing and recommending to the Board for approval, the ICAAP, Risk Management Framework & Appetite and a number of Policies; ensuring Audit Committee adequately review and respond to breaches incidents and issues tracking; ensuring Remuneration Committee adequately consider conduct risk, capital and timing of variable remuneration schemes; and facilitating identification of emerging risks within a supportive, risk aware culture. RC is constituted by four Non-Executive Directors (NEDs) with Chief Executive (CEO), Finance Director (FD) and Chief Risk Officer (CRO) in attendance. Outsourced Internal Audit provide independent advice where required.

Audit Committee (AC)

The Audit Committee is a Board Committee responsible for ensuring the integrity of the Society's financial statements; ensuring accounting and reporting systems provide accurate information; ensuring that systems and controls continue to operate effectively; and ensuring the Combined Assurance Plan allocates adequate resources to assess the controls in the first line of defence and to ensure compliance with regulatory requirements. Committee constituted by three NEDs with CEO, FD & CRO in attendance. Outsourced Internal and External Audit provide independent advice where required.

Remuneration Committee (RemCo)

RemCo is a Board Committee responsible for determining remuneration policy across the Society. Committee constituted by four NEDs.

Nomination Committee (NomCo)

NomCo is a Board Committee responsible for ensuring the Directors and senior management have appropriate skills, experience, and competencies to perform their roles; to develop and consider succession plans for Board and key management roles; to make recommendations to the Board for the selection of new Directors and senior managers; and to make recommendations regarding Governance requirements. Committee constituted by all Directors.

Assets & Liabilities Committee (ALCO)

ALCO is a Board Committee responsible for ensuring liquidity and funding adequacy; suitability of interest rate basis risk and maturity mismatch controls; and ensuring suitability of Treasury investments and controls. ALCO recommends the ILAAP and Financial Risk Management Policy to the Board and sets the parameters within which the Executive can price products. Committee constituted by five members, three NEDs, CEO and FD, with CRO in attendance.

Executive Committee (ExCo)

ExCo is a management committee focusing on Strategic and Business Risks, supporting the CEO in directing and coordinating the day-to-day management of the business:

- Monitoring, managing and communicating progress and actions to drive Strategy;
- Allocating and prioritising resources; human, physical and financial (Capacity and Capability);
- Developing, pricing, launching and managing products and services (proposition);
- Establishing and maintaining effective internal and external relationships (third-party management); and

- Promoting the business and maintaining its reputation.

The Committee has 8 members, comprising the CEO, FD, CRO, Society Secretary, Head of Mortgage Sales, Head of Operations, Head of IT and Human Resources Manager to ensure adequate representation of all parts of the business.

Management Assets & Liabilities Committee (MALCO)

MALCO is a management committee focusing on Assets & Liability risk management, in particular business flows and risk-adjusted pricing on both sides of the balance sheet. This Committee focuses on Liquidity, Funding (including concentration), Interest Rate, Basis, and Treasury Credit Risk. The Committee has nine members, comprising the CEO, FD, CRO, Head of Mortgage Sales, Head of Operations, Financial Controller – MI, Head of Finance, Head of Savings and Savings Product Manager.

Credit Committee (CC)

The CC is a management committee that has been established to:

- Provide a platform to discuss, approve or recommend papers across the relevant breadth of the credit arena, in relation to our credit risk appetite.
- Strengthen the governance around Mortgage Underwriting processes and support the Underwriting Team in achieving high quality lending.
- Facilitate discussion and challenge on certain pre-offer cases that underwriters would value additional perspective as part of their decision-making responsibilities.
- Report and review key mortgage portfolio MI.

There are quarterly rotational themes on Arrears Management, Loss Provisions and Third-Parties.

Its core focus is Mortgage Credit Risk (including Mortgage Concentration) but also covers the financial risk of climate change. The CC has five members, comprising the CEO, FD, CRO, Head of Underwriting and Head of Risk and Compliance. The Society's approach to mortgage lending is set out in the Board approved Lending Policy with the underlying Lending Guidelines a management tool for implementing best practice.

Operational Risk Committee (ORC)

The ORC has been established to assist the Executive Committee in fulfilling its management responsibilities relating to the operational risk management framework, policies, procedures, and practices of the Society. The Committee focuses on all Operational Risk categories; IT, People, Financial Crime, Change, Regulatory Compliance, and Conduct/Consumer Duty Risks. The Committee has nine members, comprising the CEO, CRO, FD, Head of Operations, Head of IT, Society Secretary, Head of Mortgage Sales, HR Manager and Head of Risk and Compliance. There are quarterly rotational themes on Operational Resilience / Business Continuity, Technology and Regulatory / Compliance.

2.2 Three lines of defence approach

At an operational level, risk is managed through the three lines of defence structure, which is defined below.

First line of defence - Operate key controls

The Society has an Internal Control Framework designed by each Department to identify, measure and manage risk within risk appetite. Risk Owners maintain adequate key control documentation to evaluate how key controls are operating. Key responsibilities include:

- Assessing and Managing Risks within Regulatory requirements as they change;
- Prompt reporting, managing and learning from incidents/events;
- Embedding controls in policies, procedures and training;
- Implementing Control Checks and Monitoring; and
- Validating that controls are operational and effective.

Second line of defence - Key control reviews

The Risk & Compliance function provides risk management expertise, independent challenge and support for the Board, management and staff. Oversight involves review of all key controls and the associated documentary evidence of how they are operating on an annual basis. Other independent assurance work is carried out in accordance with the risk based Combined Assurance Plan as approved by the Audit Committee. The CRO has a direct reporting line to the CEO with a dotted line to the Board Chairman and the Chair of the Risk Committee. Key responsibilities include:

- Creation and maintenance of Risk Management Framework & Appetite Statement;
- Balance challenge and support of the first line of defence;
- Provide oversight and leadership on risk matters; and
- Report to the Board and its Committees.

Third line of defence - Audit

The Internal Audit function is responsible for independently reviewing the effectiveness of the internal control environment utilising a risk-based work programme. Internal Audit provides advice, benchmarking and training to assist in the continuous improvement of the control framework. To ensure further independence this function has been outsourced to RSM Risk Assurance Services LLP.

2.3 Risk Management Declaration

The Board establish assurance over the adequacy of the risk management arrangements in the following core ways:

- Oversight and approval of the risk governance structure.
- Annual Internal Audit opinion of the risk and control framework.
- Statement of going concern approved by External Audit; and
- Declaration of assurance from second line achieved via the combined assurance plan.

The Board declares that the risk governance structure and three lines of defence approach in combination are adequate in providing assurance given the Society's profile and strategy.

3 Principal risks

The Society's Risk Appetite is designed to promote sound decision making that recognises the consequential impact. The Board debates, refines and approves a set of parameters consistent with achieving the Strategic Plan. Management operates within these limits and reports performance in relation to the key risk indicators, trends and management actions where needed. The Risk Appetite Statement is reviewed when significant changes occur within the business or the external environment. The Risk Appetite Statement is refreshed at least annually.

The principal risks to which the Society is exposed, and that are continually assessed and managed by the Board and Management, are as listed below.

3.1 Credit risk

Credit risk arises from two main areas:

- if mortgage holders are unable to meet payments on their mortgage and ultimately default on their loan; and
- if a treasury counterparty is unable to settle its financial or contractual obligations to the Society.

The Board has set a Risk Appetite designed to minimise losses by targeting a balanced portfolio of assets that match expertise and experience of underwriters. At an operational level, mortgage credit risk is managed through a combination of adherence to the Society's Lending Policy and strict underwriting procedures. The Society's Lending Policy contains detailed limits as to the amount and type of lending the Society can undertake in both the current year as well as the overall mortgage book. These limits ensure the structure of the mortgage book is consistent with the Society's risk appetite. The Society is on the Limited Approach to Lending with an extension to enable more business to be written in certain niches. The Limited Approach to Lending is defined in PRA Supervisory Statement SS20/15 'Supervising building societies' treasury and lending activities'.

Credit Committee, ExCo and Risk Committee manage ongoing review and control of credit risk. The Risk Committee will report any relevant matters to the Board. These Committees receive detailed information focusing on:

- Arrears and forbearance;
- Loss provisions and stress testing;
- Proportion of the overall book and 12 months rolling lending in each of niches including owner occupied, buy to let (BTL) and commercial lending;
- Indexed loan to value;
- Affordability; and
- Repayment type.

In addition to the above, the Risk and Compliance function will perform credit reviews focussing on various aspects of recent and back book lending, in addition to a wide range of management information.

Treasury counterparty risk is managed by only investing in counterparties with high credit ratings, in other building societies and in regulated UK banks following a detailed individual risk assessment by ALCO. In addition, the Society limits exposures to particular counterparties, types of investment or countries. The Society's ILAAP documents these limits, together with a range of other mitigating processes and controls.

ExCo, MALCO and ALCO manage ongoing review and control of treasury credit risk using detailed information focusing on:

- Approved counterparty list;
- Exposures to approved counterparties;
- Credit ratings of approved counterparties; and
- Country exposures.

3.2 Capital risk

This is the risk that the Society has insufficient capital to cover stressed losses or to meet regulatory requirements. The Society conducts an assessment of capital adequacy which determines the level of capital required to support current and future risks in the business, including any changes in business volumes, mix of assets and multiple stress scenarios as approved by Board. The Board assess this risk by monitoring the outputs from this process via capital at risk appetite on a quarterly basis. In addition, the annual ICAAP summarises all the work in relation to capital risk, This assessment is utilised by the regulators to set the Society's capital requirements as Total Capital Requirement (TCR) previously referred to as Individual Capital Guidance. Currently, the Society has capital that significantly exceeds the regulatory requirements.

3.3 Market risk including interest rate risk

Interest rate risk is the Society's primary market risk and is the risk of fluctuation in financial markets, which could affect the value of the Society's assets and liabilities, primarily because of movements in interest rates. The Society is on the "Matched" Treasury approach under PRA Supervisory Statement SS20/15 guidelines. This means that it has to match the interest rate profile of both its assets and liabilities, and can only take limited interest rate risk subject to tight limits set by the Board, and only then to the extent that the PRA is satisfied that the Society has the requisite risk management capability. In addition to interest rate risk, the PRA Supervisory Statement also provides guidance on treasury management, discussed under paragraph 3.4 below. Management of interest rate risk is predominantly set out in the Society's Financial Risk Management Policy.

ExCo, MALCO and ALCO control and manage interest rate risk exposure by receiving information focused on:

- Proportion of both assets and liabilities on fixed rates;
- Matching reports both static and forward looking;
- Report highlighting exposure to various basis categories for example base rate, SONIA, fixed and administered; and
- Sensitivity analysis highlighting the impact of changing interest rates.

3.4 Liquidity and funding risk

Liquidity and funding risk is the risk that the Society is unable to meet its current and future payment obligations when they fall due or can only secure such resource at excessive cost. Payment obligations arise in respect of repayments due to depositors and commitments to lend, in addition to repayment of other borrowings and overhead costs.

ExCo, MALCO and ALCO control and manage liquidity and funding risk exposure by receiving information focused on:

- Quantity of high quality liquid assets (HQLA);
- Level of liquidity coverage ratio (LCR);
- Level of on and off balance sheet treasury assets compared to overall funding balance;
- Maturity profile of funding book; and
- Results of cash flow stress tests.

In addition to LCR, the regulator provides further guidance through the PRA Supervisory Statement SS20/15. The Society operates under the "Matched" Treasury approach and complies with the guidance regarding the type and volume of treasury deposits and wholesale borrowing.

3.5 Operational risk

This relates to the risk of loss arising from inadequate or failed internal processes or systems, human error or external events. The management of operational risk is set out within the Society's various policies and procedures with management oversight from the Operational Risk Committee, where its focus and coverage is detailed in section 2.1. All such risks are identified, assessed and closely monitored. It is the responsibility of each business area, supported by the Risk Department, to understand how operational risk affects them and to put in place appropriate controls or take other mitigating actions.

3.6 Business risk

This is the risk to the Society of failing to achieve sufficient long-term profitability to maintain sustainable capital adequacy. The Society mitigates this risk by preparing a business plan that it believes to be robust and achievable and then by stress testing this plan to assess the impact of various adverse market conditions. The business plan for the forthcoming year has agreed review points where the Board can assess actual performance and decide if any actions are required. The key indicators the Board use to assess business risk are as follows:

- Capital and liquidity adequacy;
- Net interest margin;
- Management expense and cost income ratios;
- Profit before tax;
- Mortgage book growth;
- Total asset growth; and
- Funding growth and mix.

3.7 Concentration risk

Concentration risk is the risk arising from the lack of diversification in the Society's business. As a regional building society, the business is concentrated in residential mortgage lending funded by retail savings, and this represents product concentration. Concentration risk can also occur due to large exposure to an individual or group of connected individuals affected by a common issue (e.g. geographical location). The Society's mortgage business is sourced from throughout England and Wales, with 54% of total being in London and the South East. On our savings business, approximately 31% of our savings are sourced from members living in local postcodes.

Concentration risks are managed through the application of Board approved lending and financial risk management policies, containing limits suitable for the current economic climate. The policies and limits are regularly reviewed and monitored to ensure they remain in line with the Society objectives.

3.8 Conduct risk

Consumer Duty – as per Principle 12 of the FCA Handbook - is a new way of considering the risk of detrimental outcomes to customers derived from our interaction with customers throughout the product lifecycle. The risk to the Society is that we suffer reputational damage, a loss or do not benefit from an opportunity because of consumer detriment.

By striving to deliver good customer outcomes, we will build our brand and make our relationship with members a source of competitive advantage. The Society's Consumer Duty Policy is the key policy, approved via Risk Committee, which includes the Board Consumer Duty Champion. The Operational Risk Committee oversees Conduct Risk and Consumer Duty, with the monthly management information on the standard agenda.

3.9 Pension obligation risk

Pension risk arises from a potential pension liability. The Society does not provide a defined benefit scheme for staff so there is no risk in this category.

3.10 Legal and regulatory risk

This is the risk to the Society of fines, public censure, limitations on business or restitution costs arising from failing to understand, interpret, implement and comply with UK and EU legal and regulatory requirements. The Society monitors these risks through the Risk Committee and the Audit Committee.

3.11 Climate change risk

Climate change risk covers areas such as the credit risk relating to the value and saleability of properties taken as security for mortgages; reputational risks primarily relating to how we compare with other similar firms (e.g. members selecting firms that match their values and ethos, government incentives or fines penalizing certain behaviours); and operational risks primarily relating to our own security, resilience, continuity, costs and impact on the environment. The Society recognises that rising global temperatures are expected to create more extreme weather conditions causing physical risk to property, for example, through floods, coastal erosion and subsidence, and transition risks arising from changing regulatory and borrower behaviour and expectations around areas such as energy efficiency. The financial implications for the Society are likely to manifest primarily in the impact on value of houses taken as security for mortgage loans.

The Society has embedded climate change risk management in the way we work and developed a strategy to deliver support for the changing needs of our members to adapt to the requirements of climate change. The Board have responsibility for managing all risks associated with climate change. The CRO is the Senior Manager responsible for climate related financial risk and provides the Board with quarterly reports which include trend analysis in relation to our defined risk appetite and other advisory indicators.

The Society has established an Environment, Social and Governance Forum, which reviews ways the Society can reduce its own impact on the environment.

Further detail can be found in the Directors' Report contained in the Society's Annual Report and Accounts for the year ended 31 December 2023.

4 Capital Resources

4.1 Capital composition (own funds)

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

Common Equity Tier 1 and Tier 1 Capital

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

Tier 2 Capital

This is the collective impairment provision of the Society which represents expected losses arising from the Society's portfolio of secured advances. Individual impairment provisions (£64k at 31 December 2023) are not allowable as Tier 2 Capital. The Society does not hold any alternative Tier 1 instruments nor have any Tier 3 capital resources.

The Society's total capital resources at 31 December 2023, including the audited profits of 2023, stood at £29,700k and are broken down in the table below.

Table 3: CC1 – Composition of regulatory own funds

		2023 £000
Common Equity Tier 1 (CET1) capital: instruments and reserves		
2	Retained earnings	29,129
3	Accumulated other comprehensive income (and other reserves)	420
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**29,549**
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
8	Intangible assets (net of related tax liability) (negative amount)	(120)
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	(120)
29	**Common Equity Tier 1 (CET1) capital**	**29,429**
44	**Additional Tier 1 (AT1) capital**	**-**
45	**Tier 1 capital (T1 = CET1 + AT1)**	**29,429**
Tier 2 (T2) capital: instruments		
50	Credit risk adjustments	271
58	**Tier 2 (T2) capital**	**271**
59	**Total capital (TC = T1 + T2)**	**29,700**
60	**Total Risk exposure amount**	**129,792**
Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)[2]	22.67%
62	Tier 1 (as a percentage of total risk exposure amount)	22.67%
63	Total capital (as a percentage of total risk exposure amount)	22.88%
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)	8.94%
65	of which: capital conservation buffer requirement	2.50%
66	of which: countercyclical buffer requirement	1.94%
68	**Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)**	**18.17%**

Note

[2] The Common Equity Tier 1 capital ratio presented in the Annual Report and Accounts at 22.14% is based on information presented to the PRA as at 31 December 2023, which excluded the 2023 profit.

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

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

Table 4: CC2 – Reconciliation of regulatory own funds and credit risk exposures to statement of financial position in the audited financial statements

	2023 £000
Reserves per Statement of Financial Position	29,549
Less Intangible assets (Note 15)	(120)
CET1 capital	29,429
Collective impairment provision (Note 13)	271
Tier 2 capital	271
Regulatory capital	**29,700**

	2023 £000
Total assets per Statement of Financial Position	380,924
Add: collective impairment provision (Note 13)	271
Add: off balance sheet items	12,847
Less: intangible assets (Note 15)	(120)
Total credit risk exposures	**393,922**

5 Capital adequacy assessment

5.1 Overview

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

Capital is required primarily to protect the Society from losses. Losses could result if, following repossession, the property does not realise sufficient funds to cover the loan balance outstanding from a mortgage customer. However, other risks can result in losses such as a treasury counterparty default, changes in interest rates that may result in a reduction in net interest margin to a point where overheads are not covered.

The Society aims to maintain its capital strength above the Board agreed requirement, which is higher than the minimum required by the PRA. In order to do this, the Society needs to generate, and retain, profits that will add to the general reserves, the Society's main source of capital. The generation of capital is targeted to exceed an agreed return but is not aimed at maximisation.

A strong capital position also provides confidence to our members and to our regulators and supports the Society's long term objectives of sustainable growth, targeting optimum profitability generating sufficient earnings to invest in the services our customers' require.

5.2 Capital adequacy assessment process

The Society prepares an Internal Capital Adequacy Assessment Process (ICAAP), which focuses on ensuring the capital resources of the Society are sufficient to support its plan both in normal and stressed conditions. The ICAAP is aligned to the strategic plan and the combination of both ICAAP and strategic plan ensure that the Society maintains sufficient capital to support its planned business objectives.

The ICAAP process involves reviewing risks relating to the Society's assets and operations and assessing capital required to mitigate any material financial impact of those risks. A detailed assessment of the results of the Society's stress tests based on a number of economic scenarios is included in the process. Scenarios include (but are not limited to) reduced business volumes, adverse interest rate margin, negative house price inflation (HPI), and increased default rates.

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

5.3 Capital resources

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

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

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

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

	2023 £000
Amount of regulatory capital resources	**29,700**
Capital requirements:	
- Pillar 1 capital requirement	10,382
- Pillar 2A capital requirements	-
Total Capital Requirement (TCR)	
- Capital Conservation buffer	3,245
- Countercyclical buffer	2,518
Overall Capital Requirement (OCR)	**16,145**
Excess capital resources	**13,555**

5.4 Capital buffers

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

- Capital conservation buffer – this is an additional amount of capital required above the Pillar 1 capital requirement to be built up outside any periods of stress and is designed to avoid breaches of minimum capital requirements. This buffer can then be drawn upon in times when losses are incurred. As at 31 December 2023 institutions in the UK are required to hold 2.5% of risk weighted assets in this buffer.
- Countercyclical capital buffer (CCyB) – is an additional amount of capital required above the Pillar 1 capital requirement to absorb potential losses, to enhance resilience and contribute to a stable financial system. For credit exposures in the UK, the Bank of England's Financial Policy Committee (FPC) sets the rate for the CCyB within the range of 1.00% to 2.50%. As at 31 December 2023, this rate was 2.00% following the increase from 1% to 2% effective from 5 July 2023.
- Other buffers – the Society is not classed as having a globally systemic importance and therefore, does not meet the criteria for these buffers. Nor does the Society meet the criteria for the Systemic Risk Buffer. The Society's Minimum Requirement for own Funds and Eligible Liabilities (MREL) is set to be equal to regulatory capital requirements, no additional capital is required for this purpose.

6 Standardised approach

6.1 Credit risk exposure and CRM effects

Credit risk is the risk of losses arising because of the Society's borrowers failing to meet their obligations to repay. At an operational level, mortgage credit risk is managed through a combination of adherence to the Society's Lending Policy, overseen by the Chief Risk Officer and approved by the Board, and strict underwriting procedures. Underwriting mandates are strictly controlled to ensure that only those with suitable expertise are able to commit the Society to lend. The Society only operates throughout England and Wales and has no exposures to properties outside of these countries.

In the event that the personal circumstances of borrowers change, the Society applies an Arrears and Forbearance Policy to work proactively with borrowers to seek arrangements designed to enable them to resolve their difficulties.

Credit risk exposure under standardised approach in the table below are stated on two different bases (pre credit conversion factor (CCF)) and pre credit risk mitigation (CRM) and post-CCF and CRM Exposures are stated net of credit risk adjustment exposures.

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

	Exposure classes	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 (%) [3]
		2023 £000	2023 £000	2023 £000	2023 £000	2023 £000	2023 £000
1	Central governments or central banks	66,880	-	66,880	-	-	0%
2	Regional government or local authorities	-	-	-	-	-	-
3	Public sector entities	-	-	-	-	-	-
4	Multilateral development banks	-	-	-	-	-	-
5	International organisations	-	-	-	-	-	-
6	Institutions	12,531	28	12,531	28	2,512	20%
7	Corporates	-	-	-	-	-	-
8	Retail	3,204	309	3,204	68	2,454	75%
9	Secured by mortgages on immovable property	287,883	12,509	287,883	3,309	101,513	35%
10	Exposures in default	7,499	-	7,499	-	7,552	101%
11	Exposures associated with particularly high risk	-	-	-	-	-	-
12	Covered bonds	-	-	-	-	-	-
13	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
14	Collective investment undertakings	-	-	-	-	-	-
15	Equity	-	-	-	-	-	-
16	Other items	3,079	-	2,984	-	2,984	100%
17	**TOTAL**	**381,076**	**12,846**	**380,981**	**3,405**	**117,015**	

Note

[3] Total RWAs exclude credit valuation adjustment (CVA) of £289k as stated on page 6. RWA density is RWA expressed as a percentage of exposures post CCF and CRM.

6.2 Credit risk exposure by asset class

Exposures in the table below are presented on a post CRM (Credit Risk Mitigation) and post CCF (Credit Conversion Factor) basis applied in accordance with Part Three, Title II, Chapter 4 of the CRR.

The Society makes limited use of External Credit Assessment Institutions (ECAIs) assessments for its Standardised exposures. Where a credit assessment is used this must be provided by an eligible ECAI from the PRA's approved list. The appropriate risk weight to apply to the credit risk exposure is determined by assigning the exposure to the relevant credit quality step under CRD IV, based on the PRA's mapping of credit assessments to credit quality steps.

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

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

Row	Exposure classes	Risk weight						Total	Of which unrated
	£000	0%	20%	35%	75%	100%	150%		
1	Central governments or central banks	66,880	-	-	-	-	-	66,880	66,880
2	Regional government or local authorities	-	-	-	-	-	-	-	-
3	Public sector entities	-	-	-	-	-	-	-	-
4	Multilateral development banks	-	-	-	-	-	-	-	-
5	International organisations	-	-	-	-	-	-	-	-
6	Institutions	-	12,559	-	-	-	-	12,559	2,055
7	Corporates	-	-	-	-	-	-	-	-
8	Retail exposures	-	-	-	3,272	-	-	3,272	3,272
9	Exposures secured by mortgages on immovable property	-	-	288,816	-	2,376	-	291,192	291,192
10	Exposures in default	-	-	-	-	7,394	105	7,499	7,499
11	Exposures associated with particularly high risk	-	-	-	-	-	-	-	-
12	Covered bonds	-	-	-	-	-	-	-	-
13	Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-
14	Units or shares in collective investment undertakings	-	-	-	-	-	-	-	-
15	Equity exposures	-	-	-	-	-	-	-	-
16	Other items	-	-	-	-	2,984	-	2,984	2,984
17	**TOTAL**	**66,880**	**12,559**	**288,816**	**3,272**	**12,754**	**105**	**384,386**	**373,882**

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

Ratings	Credit quality step	Residual maturity				Risk weighted assets
		< 3 months	3 months to 1 year	> 1 year	Total	
		£000	£000	£000	£000	£000
AAA to AA-	1	67,685	-	-	67,685	161
A+ to A-	2	8,839	-	-	8,839	1,768
BBB+ to BBB-	3	-	-	-	-	-
Unrated institutions	-	1,027	1,026	-	2,053	411
Total exposure		**77,551**	**1,026**	**-**	**78,577**	**2,340**

7 Liquidity risk

7.1 Liquidity coverage ratio (LCR)

The Society's business model is based on long-term mortgage lending which is financed mainly by retail funding that is contractually short term. This therefore requires the Society to maintain sufficient quantity and quality of liquid assets with appropriate access characteristics.

The Society's ILAAP ensures that it always holds a highly prudent level of liquid assets so that it can meet these obligations. As well as holding relatively high levels of liquid assets, the Society also has contingency funding plans in place to cope with any sudden or extreme outflows, and carries out regular stress tests to ensure the robustness of these plans.

The assessment of the appropriate balance of liquid assets, which is documented in the ILAAP, is informed by both the LCR, considered as the Pillar 1 requirement, and an internal analysis considered as the Pillar 2 requirement. In combination both the Pillar 1 and 2 assessments satisfy the overall liquidity adequacy rule that states the Society must at all times maintain liquidity resources which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due.

The LCR is calculated by dividing the value of high-quality liquid assets, held as a liquidity buffer, by the forecast net cash outflows under stress over 30 calendar days. The minimum requirement for the LCR ratio is 100%. The Society's LCR has been significantly above this level since inception and is expected to continue at this higher level.

The table below shows the Society's liquidity coverage ratio based on end-of-the-month observations over the preceding 12 months for each quarter of the year ended 31 December 2023. The LCR as at 31 December 2023 was 1,356%. As demonstrated, the Society's LCR is well above the regulatory minimum of 100%.

Table 7: LIQ1 Quantitative information of LCR

Row	£000	Quarter ended on Total weighted value (average)			
		March 2023	June 2023	September 2023	December 2023
	Number of data points used in the calculation of averages	12	12	12	12
1	Total high-quality liquid assets	58,461	57,086	54,904	56,242
16	Total cash outflows	17,776	18,527	18,008	17,554
20	Total cash inflows	10,689	11,592	11,481	11,598
22	Total net cash outflows	7,086	6,935	6,528	5,957
23	Liquidity coverage ratio	825%	823%	841%	944%

7.2 Net stable funding ratio (NSFR)

The Society calculates its NSFR on a quarterly basis. The table below shows the Society's net stable funding requirement, based on end-of-the-quarter observations over the preceding four quarters, for each quarter of the year ended 31 December 2023. The Society's NSFR are all above the regulatory limit of 100%.

Table 8: LIQ2 Net Stable Funding Ratio

Row	£000	Quarter ended on Total weighted value (average)			
		March 2023	June 2023	September 2023	December 2023
14	Total available stable funding (ASF)	322,028	330,517	336,390	342,088
33	Total required stable funding (RSF)	203,730	211,427	217,520	219,352
34	Net Stable Funding Ratio (%)	158%	156%	155%	156%

8 Remuneration

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

The Society, through its Remuneration Committee, seeks to ensure that its remuneration policies and decisions comply with both the PRA/FCA Remuneration Code and the UK Corporate Governance Code and are in line with its business strategy and long term objectives, and consistent with the Society's current and future financial position. Further information on the decision-making process, mandate, and composition and meeting frequency of the Remuneration Committee is available in the Society's Annual Report and Accounts.

The Remuneration Committee also seeks to establish an appropriate balance between the fixed and variable elements of remuneration. Variable remuneration will only be paid if the Society's current and expected future financial position is sufficiently strong. In addition to financial position and business performance, the level of variable pay is dependent on a number of measures that focus on the following:-

- Members
- Employees
- Systems and controls risk management

The performance measurements used to calculate variable remuneration are therefore adjusted to take into account current or potential risks to the business and are consistent with the need to retain a strong capital base. Guaranteed incentive payments do not form part of any remuneration package and all incentive schemes are non-contractual.

Remuneration Code staff are defined by the FCA as 'staff that have a material impact on the firm's risk profile; this includes staff that perform significant influence functions, senior managers and risk takers'. The Board has determined that Non-Executive Directors, Executive Directors, other key management and staff whose duties require them to have a relevant qualification fall within the definition of Remuneration Code staff under SYSC 19D of the PRA Handbook. Under CRD IV, these staff are identified as 'Material Risk Takers'.

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

Table 9: UK REM1 – Remuneration awarded in the 2023 financial year

			Management Body Supervisory function	**Management Body Management function**	**Other senior management**	**Other identified staff**
1	Fixed remuneration (£000)	Number of identified staff	6	3	8	5
2		Total fixed remuneration	173	367	643	191
3		Of which: cash-based	173	361	639	190
7		Of which: other forms	-	6	4	1
9	Variable remuneration (£000)	Number of identified staff	6	3	8	5
10		Total variable remuneration	-	18	42	23
11		Of which: cash-based	-	18	42	23
15		Of which: other forms	-	-	-	-
17	Total remuneration (2 + 10)		173	385	685	214

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

Table 10: UK REM2 – Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff) in the 2023 financial year

		Management Body Supervisory function	Management Body 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	-	-	-	-

No deferred remuneration payments were made in the 2023 financial year. There are no individuals currently remunerated at EUR 1 million or more per year.

Table 11: UK REM5 – Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff) awarded in the 2023 financial year

		Management Body remuneration		Business areas	
		Supervisory function	Management function	Corporate Functions[4]	Total
1	**Total number of identified staff**				22
2	Of which: members of the MB	6	3		
3	Of which: other senior management			8	
4	Of which: other identified staff			5	
5	**Total remuneration of identified staff (£000)**	173	385	899	
6	Of which: variable remuneration	-	18	65	
7	Of which: fixed remuneration	173	367	834	

Note

[4] Remuneration information for other senior management and other identified staff has been aggregated and presented within "Corporate functions" to prevent the disclosure of remuneration information for individuals that is not required to be published elsewhere.

9 Conclusion

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

In the event that a user of this disclosure document requires further explanation on the disclosures given, they should write to the Society Secretary at Buckinghamshire Building Society, High Street, Chalfont St Giles, Buckinghamshire, HP8 4QB.