Pillar 3 Disclosures

31 December 2018

Contents

1. Introduction

Background

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

This document sets out the 2018 Pillar 3 Disclosures for Tipton & Coseley Building Society. The sole purpose of these disclosures is to give information on the basis of calculating Basel III capital requirements and on the management of risks faced by the Society. This is in accordance with the rules laid out in the Capital Requirements Regulation (Part Eight). Unless otherwise stated, all figures are as at 31 December 2018, the Society's financial year-end, with comparative figures for 31 December 2017 where relevant. Pillar 3 Disclosures are published annually with the Annual Report and Accounts in accordance with regulatory guidelines.

The CRD consists of 3 'Pillars' which encompass the key principles of the new regime, these can be summarised as follows:

Pillar 1 — Minimum capital requirements under Basel III. This covers the calculation of a basic minimum capital figure and is carried out by the Society.

Pillar 2 — Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation Process (SREP). The Society has made an assessment of all of the key risks facing the business for which capital has not been provided under Pillar 1. The results of this assessment are subject to review by the Regulator under their SREP arrangements.

Pillar 3 — Sets out the disclosure requirements for firms to publish key information about their underlying risks, capital and risk management. These are aimed at promoting market discipline and designed to raise standards through greater transparency complementing Pillar 1 and Pillar 2. The disclosure in this document meet the Society's obligation under Pillar 3 and are based on the new CRD IV rules.

Location & Verification

The Society's Board reviews and approves the Society's ICAAP on an annual basis. The main Pillar 3 disclosures are not subject to audit, however, some of the information within the disclosures also appears in the Society's Annual Report & Accounts. This document is published on the Society website (www.thetipton.co.uk).

Basis & Frequency

The figures in this disclosure document relate to the Tipton & Coseley Building Society, in previous years the Society prepared Group numbers which included its wholly owned subsidiary Tipton & Coseley Financial Services Ltd, this entity was closed in 2017. The figures have been drawn from the Society's Annual Report and Accounts as at 31 December 2018 unless otherwise stated.

These disclosures will be updated on an annual basis, following publication of the Annual Report & Accounts.

2. Risk Management Objectives and Policies

Introduction

The Society operates in an environment where financial risks arise as a natural consequence of its business activities. To mitigate these risks the Society operates a formal structure for managing risk which is closely monitored and controlled by the Board, supported by the Audit & Compliance, Risk Committee, Nominations and Remuneration Committees.

Risk Management Framework

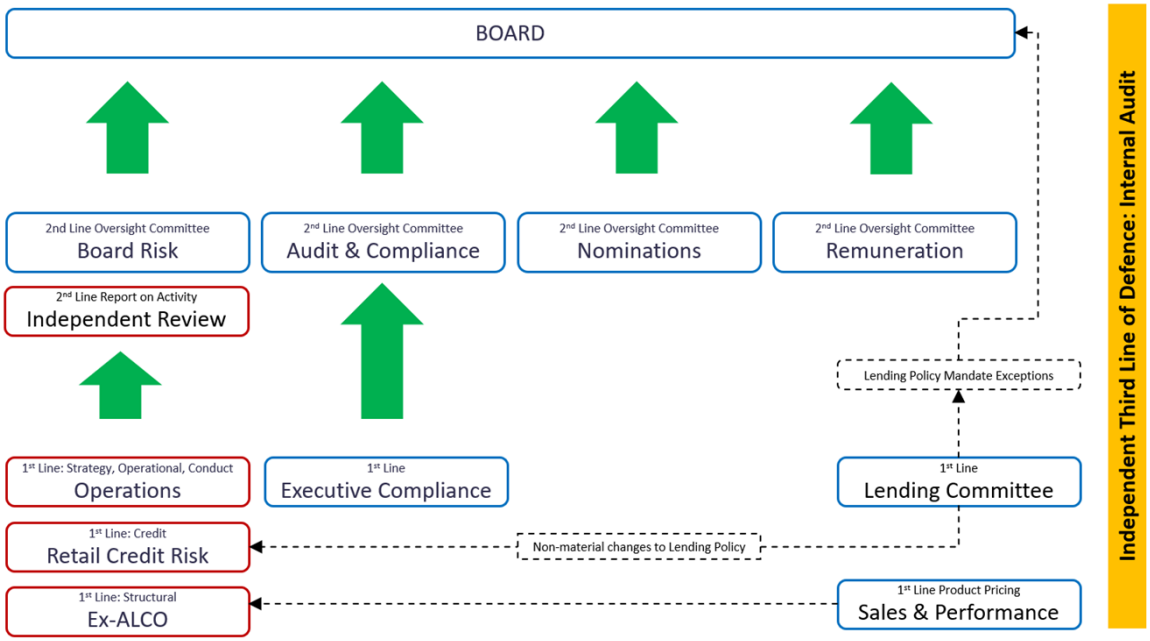
The Board has overall accountability for risk management process and for ensuring that the approach is aligned to business strategy and objectives. The Board has put in place a formal risk management framework, which includes a Risk Committee comprising three Non-Executive Directors, risk policy and risk appetite statements, exposure limits, mandates and reporting lines, and an active risk review process. Risks are monitored, assessed and are the subject of strategic policies approved by the Board.

The Society operates a 'three lines of defence' approach to the allocation of responsibilities for risk identification and management. This is illustrated below:

Line of Defence	Responsibility
First Line	Day to day ownership of risk
Second Line	Oversees the implementation of the Risk Management Framework
Third Line – Internal Audit	Assurance and Validation

Risk Management Structure

The Board has delegated responsibility for risk management to the Risk Committee. The Board has delegated responsibility for the systems of internal control to the Audit & Compliance Committee and on a day to day basis authority is delegated to the Senior Leadership Team (SLT) to establish, operate and monitor the systems. An Internal Audit function is in place to carry out checks in order to provide assurance about the adequacy and effectiveness of internal controls.



Detailed below are the Board and management level risk committees along with a summary of their respective responsibilities:

Board	
Membership	All Board members
Responsibilities	Primary responsibility is to determine the Society's strategy, set risk appetite and to oversee implementation by the Senior Leadership Team. In particular it is responsible for: • Approval of the corporate plan, strategy and long term objectives • Approve the ICAAP, ILAAP, Recovery Plan and Treasury Policy • Approve extension of activities into new business or geographic areas • Approve lending policy • Approve new product proposals.
Frequency	At least 10 times a year

Risk Committee	
Membership	3 Non-Executive Directors
Responsibilities	Primary responsibility is oversight of risk management across the Society In particular it is responsible for: • Development of the Risk Management Framework • Review of risk status and risk metrics against the corporate plan and Board risk appetite. • Review and assessment of new and emerging risks • Detailed review of risks and assessment included within the ICAAP, ILAAP and Recovery Plan. • Review the results of mortgage book stress testing
Frequency	Quarterly

Audit & Compliance Committee	
Membership	3 Non-Executive Directors
Responsibilities	Primary responsibility is oversight to ensure the interest of members and other key stakeholders are adequately protected in relation to financial reporting, internal controls and regulatory compliance and conduct. In particular it is responsible for: • Review Annual Report and Accounts and Summary Financial Statement • Monitoring the adequacy of the Society's accounting records and controls • Monitoring the adequacy of the Society's systems of business and financial control • Monitor and review the overall effectiveness of Internal Audit • Ensuring the Society runs compliantly in accordance with the requirements and standards of the regulatory system
Frequency	Quarterly

Remuneration Committee	
Membership	3 Non-Executive Directors
Responsibilities	Primary responsibility is ensuring remuneration arrangements support the corporate plan and enable the recruitment and retention of Executive Directors and members of the Senior Leadership Team. In particular it is responsible for: • Making recommendations on levels of remuneration of the Executive Directors • Approval of Executive and staff incentive schemes
Frequency	At least three times a year

Nominations Committee	
Membership	Chairman, Vice-Chairman and Chief Executive
Responsibilities	Primary responsibility is the oversight of Director governance and succession. In particular it is responsible for: • Review and make recommendations to the Board at least annually on the Governance of the Board • Evaluate the balance of skills, knowledge, diversity, time commitment and current experience on the Board • Review and make recommendations to the Board on the suitability of new directors
Frequency	At least twice a year

Executive Assets and Liabilities Committee (ALCO)	
Membership	Finance Director, Chief Executive, Risk & Compliance Executive and Finance Manager
Responsibilities	Primary responsibility is for the implementation and oversight of the Prudential risk framework for the Society's entire balance sheet including liquidity and funding risk, interest rate risk and basis risk.
Frequency	Monthly

Executive Retail Credit Risk Committee (RCRC)	
Membership	Operations Director, Finance Director, Chief Executive, Sales & Marketing Executive and Risk & Compliance Executive
Responsibilities	Primary responsibility is the monitoring and oversight of the Society's exposures to and control of retail credit risk in line with Credit Risk Appetite, and challenging lending strategy.
Frequency	Quarterly

Executive Operations Committee	
Membership	Chief Executive, Finance Director, Operations Director, Risk and Compliance Executive, Director of Sales & Marketing and Director of IT.
Responsibilities	Primary responsibility is for the implementation of the Risk Management Framework ensuring there is a comprehensive understanding of the strategic, operational and conduct risks facing the Society, the assessment of the probability and the impact of risks materialising, and ensuring appropriate mitigating controls are in place,
Frequency	Quarterly

Principal Risks

The principal business and financial risks that the Society is exposed to are credit, interest rate, liquidity, operational and conduct risk. The ways in which the Society manages these risks include using forecasting and stress testing models to help guide business strategies; producing key risk information and indicators to measure and monitor performance; and using management and Board committees to monitor and control specific risks.

Credit Risk

Credit risk is the risk that customers or counterparties will not meet their financial obligations to the Society as they fall due. This risk is most likely to arise in the potential inability of customers to make repayments on their mortgage, and of treasury counterparties to repay loan commitments.

The Board has established a treasury policy framework which limits treasury exposures to only those institutions considered highly credit worthy along with limits in place to restrict the amount of exposure that can be taken in relation to any one counterparty, industry sector and geographic region. Monitoring and oversight of treasury positions is performed by ALCO with further oversight provided by the Risk Committee.

Mortgage Credit risk is managed through the Society's underwriting process which seeks to ensure that customers only assume a debt that they can afford to repay. All mortgage applications are rigorously assessed with reference to the Society's lending policy; changes to policy are approved by the Board and the approval of mortgage applications is mandated. No matter how prudent our lending policy is, a change in circumstances may lead to some customers getting into financial difficulties. The Society is highly proactive in providing support which can include working with customers to clear arrears, making arrangements, or forbearance. Exposure to retail credit risk is monitored by the RCRC with further oversight provided by the Risk Committee.

Interest Rate Risk (including Basis Risk)

Interest rate risk is the risk that the income and expenditure, arising from the Society's assets and liabilities, may change adversely as a result of changes in interest rates. One particular type of interest risk is basis risk, this is the risk that assets and liabilities that are linked to different variable indices (such as Base Rate or LIBOR) may not move in accordance with each other. The Society is exposed to movements in interest rates and manages this exposure on a continuous basis, within limits set by the Board. Monitoring and oversight of interest rate risk is performed by ALCO with further oversight provided by the Risk Committee.

Liquidity Risk

Liquidity and Cash Flow risk is the risk that the Society is unable to meet its financial obligations as they fall due, or can only do so at excessive cost. The Board approved liquidity policy is to maintain sufficient liquid resources both as to amount and quality to cover cash flow imbalances and fluctuations in funding, to maintain full public confidence in the solvency of the Society and to meet its financial obligations as they fall due. In addition, regular stress testing is performed to confirm the level of liquid resources is adequate under adverse scenarios.

The Society maintains a level of liquid assets in line with the Board approved treasury policy. Adherence to these limits are monitored by the Finance Director on a day to day basis with further oversight provided by ALCO and the Risk Committee.

Operational Risk (including cyber risk)

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. The Society mitigates this risk through having a strong and effective internal control environment in which risks are monitored and controlled on a regular and timely basis by the Risk and Compliance team. In addition, insurance is used to transfer some risks. Controls have been established and are maintained which appropriately address the risks identified and ensure prudent conduct of the business in accordance with Society policies and risk appetite, and compliance with relevant laws, regulations and rules.

The threat of cyber risk continues to increase with a number of high profile attacks reported in the media during the year. Protecting our systems against potential cyber attacks remains an ongoing focus of our risk management with further investment made during 2018 on additional safeguarding measures to increase resilience.

Exposure to operational risk is monitored by the Executive Operations Committee with further oversight provided by the Risk Committee.

Conduct Risk

Conduct risk is the risk that the Society's behaviour leads to poor customer outcomes. Our Conduct Risk Policy sets out in detail the manner in which the Society should conduct business with its customers to ensure this does not lead to poor outcomes for them. On a day-to-day basis the Compliance team are responsible for monitoring conduct risk and assessing the controls in place to manage the risk. Further monitoring of conduct risk is carried out by the Executive Compliance Committee with further oversight provided by the Audit & Compliance Committee.

Other Material Risks

Business Risk & Reputation Risk

Business risk is the risk of loss or reduction in profitability which arises from changes in business or economic conditions, including the failure to deliver business objectives within the corporate plan or implement the required strategy. The Society manages this with a long-term focus on ensuring a sustainable business model, encompassing carefully developed and detailed business plans and policies, which include maintaining a diverse product portfolio.

Included within Business risk is the risk of change. Investment in processes and technology is important for the growth of the Society and for enhancing the ways in which customers do business with us. As the strategic investment programme evolves it is important that risks are managed and resources prioritised to ensure maximum benefit whilst protecting members' interests.

Reputation risk can materialise from business risk as well as other operational events and is the risk of damage to the Society's business as a result of a loss of confidence in the Society following poor performance and/or adverse publicity. The Society manages these risks with a long term focus which encompasses carefully developed and detailed business plans and policies including a detailed short term plan covering a one year time horizon, a medium term plan covering a three year time horizon, and detailed financial forecast scenarios.

Claims on the Financial Services Compensation Scheme (FSCS)

Along with other deposit takers, the Society is liable to claims on the FSCS. Further details, including the provision held for this, are provided in Note 23 of the Society's Annual Report & Accounts 2018.

Insurance Risk

This is the risk that there may be gaps in the risks covered by the Society's own insurance policies, that there is insufficient cover in place, or that the covenant of the insurers is defective. The Society reviews its insurance cover on an annual basis, including reviewing policy wording and conditions, to ensure the Society's insurance arrangements are robust.

Remuneration Risk

This is principally concerned with the risks created by the way remuneration arrangements are structured. Details of the Society's remuneration policies and practices are set out in section 10 of this document.

Residual Risk

The Board recognises that there are residual risks inherent in any business which may not be identified separately. Adequate provision has been made for general residual risks in the ICAAP by applying a buffer to the minimum capital requirement.

3. Capital Resources

As at 31 December 2018 the Society had total capital resources of £41.0m; this is predominantly made up of Core Equity Tier 1 (CET1) capital which consists of the Society's general reserves. Tier 2 capital is limited to the collective impairment provision.

Tier 1 and 2 Capital Resources

	2018	2017
Common Equity Tier 1 (CET 1) Capital	£000	£000
General Reserves	39,757	38,409
CET 1 capital before regulatory adjustments	**39,757**	**38,409**
CET 1 Regulatory Adjustments		
Intangible assets	(165)	(98)
Total Regulatory Adjustments	**(165)**	**(98)**
CET 1 Capital	**39,592**	**38,311**
Total Tier 1 Capital	**39,592**	**38,311**
Tier 2 Capital		
Credit Risk Adjustments - Collective impairment provision	1,395	1,520
Total Tier 2 Capital	**1,395**	**1,520**
Total Capital	**40,987**	**39,831**
Total Risk Weighted Assets (RWA)	**129,709**	**130,028**
Capital Ratios and buffers		
CET 1 Ratio (as a % of RWA)	**30.5%**	**29.4%**
Tier 1 Ratio (as a % of RWA)	**30.5%**	**29.4%**
Total Capital (as a % of RWA)	**31.6%**	**30.6%**

The Society does not hold any Additional Tier 1 instruments and no transitional provisions apply in the current or prior periods.

Reconciliation of Regulatory Capital

The table shows the reconciliation between Total Reserves in the balance sheet and regulatory capital in the table above.

	2018	2017
	£000	£000
General reserves	39,757	38,409
Intangible assets	(165)	(98)
Collective impairment provision	1,395	1,520
Total Regulatory Capital	**40,987**	**39,831**

4. Capital Adequacy Assessment & Resources Requirement

4.1 Capital Management

The Society has a policy to hold sufficient capital to safeguard the assets of membership, maintain the confidence of the regulator and to achieve the targets set out in the corporate plan. The Society maintains a 3 year strategic planning framework which is reviewed by the Board on an annual basis and takes into account current and changing economic conditions. This review results in the production of a 3 year corporate plan including detailed budgets for the forthcoming year. The corporate plan is supported by the ICAAP document which assesses the level of capital required to meet current and future business activities whilst remaining within Board risk appetite. The ICAAP ensures that the Society meets regulatory capital requirements under business as usual and stressed environments.

The ICAAP sets-out the minimum Pillar 1 capital requirements for the Society. The Society has adopted the standardised approach to credit risk and the basic indicator approach to operational risk. The Society applies a risk weighting of 8% to the risk weighted asset values to determine the minimum capital requirement for credit risk. The Society calculates its average net income over the previous 3 years and provides 15% of this average as the minimum capital requirement for operational risk.

4.2 Capital Requirement

The Society is provided with Individual Capital Guidance (ICG) by the PRA, with its latest issued ICG set at 9.72% of risk weighted assets. The table below sets out a summary of the Society's minimum capital requirements and ICG.

	2018	2017
	£000	£000
Credit Risk	9,422	9,452
Operational Risk	956	957
Pillar 1 Minimum Capital Requirement	**10,378**	**10,409**
Pillar 2A Capital Requirement	2,231	2,238
Individual Capital Guidance (ICG)	**12,609**	**12,647**
Capital Resources	40,987	39,831
Excess over ICG	**28,378**	**27,184**

The table below sets out the Society's Pillar 1 capital requirement for credit risk as at 31 December 2018 by asset class.

Standardised Exposure Class	Exposure	Risk Weighted Assets	Minimum Capital Required
	£000	£000	£000
Central government and Bank of England	58,565	-	-
Credit institutions	9,750	2,135	171
Total Treasury exposures	**68,315**	**2,135**	**171**
Residential performing loans	298,100	109,220	8,738
Residential past due loans	710	634	51
Non-residential performing loans	2,538	1,934	155
Non-residential past due loans	-	-	-
Total loans and advances to customers	**301,348**	**111,788**	**8,944**
Fixed and other assets	2,464	2,464	197
Total on balance sheet exposures	**372,127**	**116,387**	**9,312**
Mortgage pipeline	17,215	1,250	100
Derivative credit variation adjustment	377	122	10
Total off-balance sheet exposures	**17,592**	**1,372**	**110**
Total Credit risk exposure	**389,719**	**117,759**	**9,422**

The difference between the total credit risk exposure measure above and the total assets as per the Society's Statement of Financial Position in the Annual Report and Accounts is as follows:

Reconciliation	2018
Total gross credit risk exposure (as per table above)	**389,719**
Less: allowance for impairment	(1,469)
Less: Off-balance sheet commitments	(17,215)
Less: Off-balance sheet derivatives	(321)
Total assets per the Society's Statement of Financial Position	**370,714**

4.3 Capital Buffers

The Society is required to calculate a Countercyclical buffer (CCYB) requirement depending on the geographical breakdown of its assets. The CCYB is set by individual country and for some, by individual firm and is designed to limit excessive credit growth in a particular market or by an individual firm. The requirement is calculated by multiplying the total credit risk exposure by the buffer rate for that country and totalling the result.

The Society is not required to hold a firm specific element.

The Society's assets are wholly located in the UK. The UK element of the CCYB is set by the Financial Policy Committee (FPC) and as at 31 December 2018 was 1.0%.

4.4 Leverage Ratio

The leverage ratio is a simple, transparent, non-risk based measure that allows a comparison between firms. It is calculated as Tier 1 Capital divided by the adjusted balance sheet exposures.

CRD IV requires a minimum leverage ratio of 3% and at the 31 December 2018 the Society had a leverage ratio of 10.6% (2017: 10.5%).

Table LRSum: Summary reconciliation of accounting assets and leverage ratio exposures	2018	2017
	£000	£000
Total assets as per published financial statements	370,714	363,896
Adjustments for derivative financial instruments	321	133
Adjustments for off-balance sheet items	3,443	2,601
Other adjustments	(165)	(98)
Leverage ratio total exposure measure	**374,313**	**366,532**

Table LRCom: Leverage ratio common disclosure	2018	2017
	£000	£000
On-balance sheet items (excluding derivatives and SFT's but including collateral)	370,658	363,841
Asset amounts deducted in determining Tier 1 Capital	(165)	(98)
Total on-balance sheet exposures (excluding derivatives and SFT's)	**370,493**	**363,743**
Replacement cost associated with derivatives transactions	56	55
Add-on amounts for PFE associated with derivatives transactions	321	133
Total derivative exposures	**377**	**188**
Off-balance sheet exposures at gross notional amount	17,215	13,004
Adjustments for conversion to credit equivalent amounts	(13,772)	(10,403)
Total off-balance sheet exposures	**3,443**	**2,601**
Tier 1 capital	39,592	38,311
Total exposures	374,313	366,532
Leverage ratio	**10.6%**	**10.5%**

Table LRSpl: Split-up of on balance sheet exposures (excluding derivatives)		2018	2017
		£000	£000
Total on-balance sheet exposures (excluding derivatives)		**370,658**	**363,841**
Total Trading book exposures		-	-
Total Banking book exposures		**370,658**	**363,841**
Of which:			
	Exposures treated as sovereigns	58,565	63,585
	Institutions	9,750	11,969
	Secured by mortgages of immovable properties	300,638	286,931
	Exposures in default	710	410
	Other exposures	995	946

5. Credit Risk

5.1 Counterparty and Treasury Credit Risk

The Society's Treasury Policy statements (which contain the liquidity policy and financial risk management policy) are used to manage the credit risk arising from the Society's treasury counterparties. One aspect of this risk management is through the setting of counterparty exposure limits which limit the risk that can be taken in relation to one counterparty or group of counterparties. The Society's Liquidity policy only permits lending to banks and building societies.

In setting the counterparty limits consideration is given to the background rating information, balance sheet data and general market intelligence relevant to the counterparty. In addition, every bank must have a minimum rating of 'A-' from an External Credit Assessment Institution (ECAI).

The Society has nominated Fitch Ratings (Fitch) as its ECAI for the 'Institutions' exposure class, and in particular, for the assessment of rated counterparty credit ratings.

The SLT may delete counterparties from the approved list without reference to the Assets & Liabilities Committee (ALCO) or the Board; new counterparties cannot be added to the list without ALCO approval. Where appropriate, exposure to counterparties is monitored on a group basis.

The table below details the Society's liquidity exposures as at 31 December 2018 by maturity and rating. None of these exposures are impaired or past due and all are with UK institutions. Unrated exposures are restricted to unrated building societies.

Fitch Rating	Credit Quality Step (£000)	Less than 3 months (£000)	3 months to 1 year (£000)	1 to 5 years (£000)	Total (£000)	Risk weighted asset value (£000)
AAA to AA-	1	58,565	-	-	58,565	-
A+ to A-	2	4,744	-	-	4,744	1,134
Unrated	-	5,006	-	-	5,006	1,001
Total		**68,315**	**-**	**-**	**68,315**	**2,135**

In addition to the exposures above, Treasury credit risk exposures also arise from counterparties in respect of derivative financial instruments. Derivative financial instruments are used to hedge exposure to interest rate risk. Note 27 in the Society's Annual Report & Accounts 2018 provides full details on the Society's use of off-balance sheet instruments including the fair value of financial instruments. All the Society's derivative financial instruments are bilateral in nature and transacted Over-the-Counter (OTC).

All the Society's derivative transactions are governed by agreements based on the International Swaps and Derivatives Association (ISDA) documentation which are supported by a Credit Support Annex (CSA). The CSA governs the process of mitigating credit risk by detailing the frequency and movement of collateral between the Society and the swap counterparty.

Derivative exposures are calculated using the mark to market method as described in the CRR; counterparty limits are inclusive of any such exposures.

Table: CCR1	Replacement cost (£000)	Potential Future Exposure (£000)	Exposure at default (£000)	Risk weighted assets (£000)
Mark to market	56	321	377	122

The Society does not currently centrally clear its derivatives and therefore the risk weighting includes a credit valuation adjustment to reflect this.

Table CCR2: CVA capital charge	**2018**	**2017**
	£000	£000
All portfolios subject to the standardised method	377	188
Total subject to the CVA capital charge	**377**	**188**

5.2 Loans and Advances to Customers

The Society is a lender of primarily residential mortgages throughout England and Wales. Lending is controlled through the Board Risk appetite and the Society's lending policy which requires all applications to be individually underwritten.

Credit risk arises primarily from the failure of borrowers to meet their ongoing financial obligations to repay their mortgage to the Society. Allowance for impairment is reviewed at least annually or where the SLT become aware of a loss event to suggest that a loan is impaired. An individual impairment provision is made against those loans and advances where there is objective evidence of impairment. This may include:

- Significant financial difficulty of the borrower;
- Default by a borrower;
- Restructuring of a loan by the Society on terms that it would not consider otherwise;
- Indications that a borrower has or will enter bankruptcy;
- Observable data relating to a group of assets such as the adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

A further collective provision is held to cover losses, which although not yet incurred, are likely to exist within the Society's loan book. The Annual Report & Accounts 2018 provide full details of the provisioning methodology in Note 1 along with the movement on provisions for bad and doubtful debts in Note 14.

The residual maturity analysis for loans and advances to customers is also provided in Note 13 of the Society's Annual Report & Accounts 2018 and is on the basis that loans and advances run for their full contractual term and does not take into account any instalments receivable over the life of the exposure.

A summary of the residual maturity as at 31 December 2018 is shown below:

Residual maturity	**Within 1 year (£000)**	**More than 1 year but less than 5 years (£000)**	**More than 5 years (£000)**	**Total (£000)**
Loans and advances to customers	12,084	50,735	238,529	301,348

The following table provides an analysis, for capital adequacy purposes, of the Society's mortgage assets as at 31 December 2018:

Geographic region	Residential			Non-residential		
	Performing (£000)	Past Due (£000)	Total (£000)	Performing (£000)	Past Due (£000)	Total (£000)
West Midlands	183,995	710	184,705	2,516	-	2,516
East Midlands	24,091	-	24,091	22	-	22
South West	17,859	-	17,859	-	-	-
London	26,458	-	26,458	-	-	-
South East	11,449	-	11,449	-	-	-
North West	11,458	-	11,458	-	-	-
Yorkshire & Humberside	11,047	-	11,047	-	-	-
East Anglia	5,647	-	5,647	-	-	-
Wales	3,557	-	3,557	-	-	
North East	2,539	-	2,539	-	-	-
Total	**298,100**	**710**	**298,810**	**2,538**	**-**	**2,538**
Provision	1,350	74	1,424	45	-	45
Charge for the year	67	60	127	(39)	(192)	(231)

The Society also insurers its residential mortgage book against losses using Mortgage Indemnity (MIG) insurance. MIG insurance is taken out on all lending where the loan to value (LTV) exceeds 80% at origination.

6. Interest Rate Risk

Interest rate risk is referred to in section 2 and arises from the different types of assets and liabilities that the Society has, in particular fixed rate mortgages and fixed rate savings accounts which restrict the Society's ability to change interest rates on these accounts compared to accounts with variable interest rates.

In addition, basis risk, which is a type of interest rate risk, arises where assets and liabilities are subject to rates with different basis and there is a mismatch between the assets and liabilities on a particular basis. These include fixed rates, Bank of England base rate, LIBOR rates and rates administered by the Society, such as variable mortgage and savings rates.

The instruments used for risk management purposes are derivative financial instruments. The objective of the Society using derivatives is in accordance with the Building Societies Act 1986 and is to limit the extent to which the Society will be affected by changes in interest rates.

The Society manages these exposures within limits set by the Board, using a combination of on and off balance sheet instruments, and reviews its exposures on a continuous basis. The impact of a movement in interest rates is stress tested on a monthly basis and the results of this gap analysis are reported to ALCO and the Board. The stress test measures the effect of a parallel shift in interest rates of 2% against the Board limit of £875k. In addition, the Society reports its Basis risk position to ALCO and the Board on a monthly basis.

The table below shows the Society's sensitivity to this measurement (in terms of economic value):

	2% shift in interest rates (£000)	**Risk Appetite (£000)**
31 December 2018	616	875

7. Operational Risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. The Society mitigates this risk through having a strong and effective internal control environment in which risks are monitored and controlled on a regular and timely basis. In addition, insurance is used to transfer some risks.

Exposure to operational risk is monitored by the Executive Operations Committee with additional oversight provided by the Risk Committee.

7.1 Minimum Capital requirements for operational risk

The Society calculates its operational risk capital requirement using the Basic Indicator Approach (BIA). This is calculated as 15% of the Society's net income averaged over the previous 3 years.

	2018	2017
	£000	£000
Three years prior	6,075	6,665
Two years prior	6,393	6,075
Prior year	6,652	6,393
Basic Indicator (3 year average)	6,374	6,378
Own funds requirement (15% Basic Indicator)	**956**	**957**

8. Liquidity Risk

Liquidity risk is the risk that the Society is unable to meet its financial obligations as they fall due, or can only do so at excessive cost, under either normal operating conditions or a stressed environment. The Board approved liquidity policy is to maintain sufficient liquid resources both as to amount and quality to cover cash flow imbalances and fluctuations in funding, to maintain full public confidence in the solvency of the Society and to meet its financial obligations as they fall due. This is supported by monthly stress testing to confirm the level of liquid resources is adequate under adverse scenarios. Adherence to these limits is monitored by the Finance Director on a day to day basis with oversight provided by ALCO and Board Risk Committee.

The key regulatory metric to monitor short term liquidity risk is the liquidity coverage ratio (LCR) which measures the potential net cash outflow within a 30 day period under a prescribed set of assumptions as a proportion of high quality liquid assets that are held as a liquidity buffer. The regulatory requirement is that the LCR should be greater than 100%.

The table below summarises the average LCR position by quarter:

	Quarter ending 31 March 2018	Quarter ending 30 June 2018	Quarter ending 30 September 2018	Quarter ending 31 December 2018
Liquidity buffer (£000)	73,141	73,756	67,757	59,036
Total Net cash outflows (£000)	24,187	28,029	21,831	16,793
Liquidity coverage ratio (%)	302%	263%	310%	352%

3 data points are used in the calculation of the averages for each period of reporting.

The LCR at 31 December 2018 was 345% (31 December 2017: 306%).

9. Asset Encumbrance

The Society has pledged part of its loan book as collateral with the Bank of England, in order to participate in the Banks Sterling Monetary Framework (SMF) and Term Funding Scheme (TFS). Participation in these schemes provides the Society with a source of funding that diversifies the funding portfolio. Although the loans remain fully owned and administered by the Society, they are classified as encumbered.

Details of encumbered assets, unencumbered assets and sources of encumbrance are set out in the tables below. The tables have been produced in accordance with regulatory guidelines using median values of quarterly data during the 12 months preceding 31 December 2018, and as a result may differ from other information provided in this document.

Template A: Encumbered and unencumbered assets				
	Encumbered assets		Unencumbered assets	
	Carrying amount (£000)	Fair Value (£000)	Carrying amount (£000)	Fair Value (£000)
Assets of the reporting institution	**29,931**	**-**	**341,685**	**-**
Loans and advances other than on demand	29,931	-	262,025	-
Other assets	-	-	79,660	-

Template C: Sources of encumbrance		
	Matching liabilities, contingent liabilities or securities lent (£000)	Assets and collateral received encumbered (£000)
Carrying amount of selected financial liabilities	14,500	29,931

10. Remuneration Policies and Practices

The Board is committed to ensuring that it follows as best practice the Regulators Remuneration Code. The Remuneration Code is principally concerned with the risks created by the way remuneration arrangements are structured, not with the absolute amount of remuneration, which is generally a matter for firms' remuneration committees.

The Society will take all necessary steps to ensure that it establishes, implements and maintains remuneration policies, procedures and practices that are consistent with and promote effective risk management whilst also aiming to provide individuals with a level of income that:

- recognises the market value of each position in a competitive market;
- rewards the individual's capabilities and experience;
- recognises the performance of individuals; and
- assists in Executive and staff retention.

The Society's Remuneration Committee's main responsibilities include:

- advising on remuneration policies and practices generally;
- providing specific recommendations on remuneration packages and other terms of employment for Executive Directors and Non-Executive Directors;
- assessing the reasonableness of the remuneration proposals put forward by the Chief Executive for the Executive, including the definition of performance objectives;
- taking into account its statutory duties in relation to equal pay and non-discrimination; and
- ensuring the Society's Remuneration Policy complies with the Regulator's Remuneration Code on an annual basis or more frequently if there are Code changes.

During 2018 the Remuneration Committee comprised wholly of Non-Executive Directors and met on 3 occasions.

Full details of the Remuneration Policy and the individual components of remuneration can be found in the Annual Report and Accounts.

Executive Directors and other Executives take part in annual, non-pensionable, non-contractual performance related pay schemes which target the Society's key objectives of mortgage book growth, control of management expenses ratio, profitability, service conduct and quality of operations. The performance related pay schemes are formulated by the Remuneration Committee and approved by the Board consistent with the corporate objectives set by the Board in pursuit of sustainable, profitable performance over the long term taking into account known and potential risks to the business. Non-Executive Directors do not have service contracts and do not take part in any performance related pay schemes.

The members of staff whose professional activities have a material impact on the firm's risk profile are the Non-Executive Directors, Executive Directors and other Executives. Aggregate information relating to these categories is set out below:

	Number of beneficiaries	Fixed remuneration (£000)	Variable remuneration (£000)	Total (£000)
Non-Executive Directors	8	203	-	203
Executive Directors	2	331	37	368
Other Executives	5	390	33	423

11. Conclusion

This disclosure document has been prepared in accordance with the requirements of CRD IV as interpreted by the Society based on its size and complexity. In the event that a user of this disclosure document requires further explanation on the disclosures given then they should write to the Finance Director at Tipton & Coseley Building Society, 70 Owen Street, Tipton, West Midlands, DY4 8HG.

Appendix A: Exposure by Asset Classes and Risk Weights

Template CR5: Standardised approach											
	0%	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**250%**	**Others**	**Total**	**Unrated**
Central governments or central banks	58,565	-	-	-	-	-	-	-	-	58,565	-
Institutions	-	9,750	-	-	-	-	-	-	-	9,750	5,006
Secured by mortgages on immovable property	-	-	286,207	-	11,382	2,097	-	-	-	299,686	299,686
Exposures in default	-	-	-	-	-	710	-	-	-	710	710
Other items	-	17,215	-	377	-	3,415	-	-	-	21,007	20,630
Total	**58,565**	**26,965**	**286,207**	**377**	**11,382**	**6,222**	**-**	**-**	**-**	**389,719**	**326,032**