Saffron Building Society

Pillar 3 Disclosure
31st December 2020

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Executive summary

This document presents the consolidated Pillar 3 disclosures of Saffron Building Society as at 31 December 2020.

The table below provides an overview of the key metrics on capital adequacy and liquidity:

	31 December 2020	31 December 2019
Key figures	**£m**	**£m**
Total Common Equity Tier 1	45.6	47.6
Total Tier 2 capital	10.5	10.3
Total capital	56.1	57.9
Total asset exposure	1,207.1	1,070.2
Total risk weighted assets (RWAs)	407.7	369.0
Key ratios		
Common Equity Tier 1 ratio	11.2%	12.9%
Tier 1 ratio	11.2%	12.9%
Total capital ratio	13.7%	15.7%
Total capital and buffer requirement	10.5%	13.5%
Leverage ratio *	4.3%	4.4%
UK leverage ratio*	4.3%	4.8%
Liquidity Coverage Ratio	304%	248%
Net Stable Funding Ratio	162%	138%

** Leverage Ratio/UK Leverage Ratio – see section 3.5 for further details*

1. Introduction

The Society operates under the legislative framework known as CRD IV. This regulation was implemented across the European Union through the Capital Requirements Regulation (CRR) and nationally in the United Kingdom through the Capital Requirements Directive (CRD) from 1st January 2014.

This directive continues to govern how much capital all banks and building societies must hold to protect their Members, depositors and shareholders.

In the UK this is implemented by our regulator, the Prudential Regulation Authority (PRA).

The revisions introduced by CRD IV seek to strengthen the capital position of the sector and make it more resilient to financial and economic shocks. The European Banking Authority (EBA) published Capital Requirements Regulation and Directive part 8 in December 2016 (EBA/GL/2016/11 version 2) covering Pillar 3 disclosures, this followed revised BCBS requirements issued in January 2015.

Saffron Building Society's (and its subsidiaries: the Group) aim is to ensure that it protects its Members' savings by having sufficient capital at all times (including during a significant economic downturn).

1.1. Framework

The CRD determines a framework which in addition to capital requirements also requires disclosure of key pieces of information, such as risk exposures and risk assessment processes.

Below are the three main 'Pillars' which make up the CRD:

Pillar 1	Minimum capital requirements using defined formula;
Pillar 2	Assessment of capital requirements by the Firm (Internal Capital Adequacy Assessment Process, "ICAAP") and PRA (Supervisory Review and Evaluation Process, "SREP") to determine whether additional capital should be held for those risks not covered under Pillar 1;
Pillar 3	Disclosure of key information on capital, risk exposures and risk management processes.

The Pillar 1 assessment is based on a formulaic, risk based, capital calculation focussing particularly on credit and operational risks to determine the Capital Resources Requirement (CRR).

CRD IV introduced additional capital buffers on top of the minimum requirements:

- *Capital conservation buffer* which was phased in and amounts to 2.5% of RWAs from 1 January 2019.
- *Countercyclical buffer* set by the Bank of England where it observes systemic risks in the market. The requirement was reduced to 0% in March 2020 to support the provision of financial services following the COVID19 outbreak.

Through the ICAAP, the Group's Board has then undertaken a detailed assessment of all of the risks facing the Group and has established extra capital to be held under Pillar 2. As part of this assessment, the Group has undertaken stress tests to determine whether it could maintain adequate capital under stressed conditions (including in a severe economic downturn). Section 6 of this document contains additional information on the ICAAP.

This policy document deals with the requirements laid down for Pillar 3 (disclosure) and information provided is in accordance with the rules laid out in the PRA/FCA combined view handbook BIPRU Chapter 11.

1.2. Pillar 3 Disclosure

This disclosure document applies to the following principal trading entities on a fully consolidated basis:

Saffron Building Society	PRA Number 100015
Crocus Home Loans Ltd	PRA Number 305200

Crocus Home Loans Limited (CHL) is a wholly owned subsidiary of Saffron Building Society and all funding comes from the Group. CHL holds historical residential mortgage books, previously purchased to complement Group origination. Consolidation of the Group position for regulatory capital purposes is aligned with the statutory consolidated Group position within the Annual Report and Accounts.

1.3. Basis of preparation

This Pillar 3 disclosure document has been prepared in accordance with the requirements of Capital Requirements Regulation and Directive part 8 (EBA/GL/2016/11 version 2) as interpreted for a group of firms of this size. Through these disclosures the group will demonstrate its assessment of risk and capital as well as its approach to risk management.

This document communicates the strategy the Society has put in place to manage risks, as well as provide details of the structure of the organisation and its risk management functions and is intended to provide background information on the Group's approach to risk management as it relates to maintaining and preserving the capital position of the Group. It also provides asset information and capital calculations under Pillar 1.

Confidential Information and materiality

Information is considered material if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions. No disclosures have been omitted on the basis of materiality or confidentiality.

Frequency of disclosure, media and location

The Pillar 3 disclosure document will be prepared and published on an annual basis and is available on the Society's website (www.saffronbs.co.uk). Should you require further information on this document please contact The Society Secretary, Saffron Building Society, Saffron House, 1A Market Street, Saffron Walden, Essex CB10 1HX.

Verification

The Pillar 3 disclosure document has been reviewed and approved by the Board. The disclosures are not subject to external audit; however, some of the information within the disclosures also appears in the Society's audited 2020 Annual Report and Accounts. The disclosures do not constitute any form of financial statement and must not be relied upon in making any judgement about the group. All figures within this document are correct **as of 31 December 2020** unless stated otherwise.

2. Risk management policies and objectives

2.1. Introduction

In executing the Group's strategy and in undertaking its routine business and activities, the Group is exposed to a range of risks. The primary goal of risk management is to ensure that the outcome of risk-taking activity is consistent with the Society's strategies and risk appetite and appropriate for the level and type of risks that it takes paying regard to regulatory guidance. It ensures that there is an appropriate balance between risk and reward in order to optimise Member returns and, when issues arise they are managed for the best outcome of the Society and its Members.

2.2. Risk management framework

The Society's Enterprise-wide Risk Management Framework (ERMF) provides the foundation for achieving these goals through:

- articulating the Society's risk management practices and procedures;
- documenting a consistent framework for risk management across the Society;
- establishing minimum standards around key risk management framework issues;
- articulating the Society's risk strategy and enterprise wide risk appetite; and
- directing the approach to risk governance throughout the Society.

The ERMF sets out the Society's method of managing risk via:

- Defining its Risk Appetite, which is the level of risk that Saffron is prepared to accept whilst pursuing its business strategy, recognising a range of possible outcomes as the business plan is implemented;
- Detailing the 3 Lines of Defence (3LoD) model and its operation within the Saffron Risk Management Framework;
- Determining the roles and responsibilities of the committees in place to govern risk;
- Identifying those roles responsible for the key risks and how the oversight operates together with the reporting structure to ensure independent oversight of risk decisions;
- Documenting the main risk management processes under its approach of Identify; Evaluate; Mitigate; Report; Manage and Challenge;
- Describing the key risks facing the Society and how they are managed; and
- Listing and explaining where the policies sit in the Saffron hierarchy and how they operate

The ERMF is supported by policies and procedures to embed the principles into the business.

The "Three lines of defence" model

The Society adopts a "three lines of defence" model to enable it to separate risk management activities between:

- those that own and take risk and implement controls (1st line);
- those that oversee, monitor and challenge the first line (2nd line); and
- the audit functions which provide fully independent assurance (3rd line).

2.3. Principal Risks

The table below describes the key risks faced by the Society:

Risk Summary	Description	Page
Capital Risk	Risk that the Society is unable to maintain its capital levels at sufficient level to meet operating and regulatory requirements.	15
Retail Credit Risk	Risk that a customer is unable or unwilling to honour its obligations to the Society as they fall due, resulting in an actual or potential loss exposure for the Society.	17
Wholesale Credit Risk	Risk that a treasury counterparty is unwilling or unable to honour its obligations to the Society as they fall due, resulting in an actual or potential loss exposure for the Society.	20
Operational Risk	Risk of incurring losses resulting from inadequate or failed internal processes, people or systems, or from external events	23
Interest Rate Risk / Market Risk	Risk that arises from changes in interest rates when holding assets and liabilities that possess differing interest rate characteristics.	24
Liquidity Risk	Risk that the Society is unable to make available sufficient resources to meet its current and future financial obligations as they fall due, or is only able to do so at a premium cost.	25
Business Risk	Risk associated with future business plans and strategies from material unexpected changes in the external environment.	26
Pension Obligation Risk	Risk to a firm caused by its contractual or other liabilities to or with respect to a pension scheme.	26
Remuneration Risk	Risk that can arise from reward schemes that could encourage inappropriate action by risk takers in the business.	26
IT Security / Cyber crime	Risk that the Society’s systems might be infiltrated allowing the intruder to take control of customer accounts or download sensitive data for personal gain.	26
Compliance and Financial Crime Risk	Risk of financial loss, reputational damage and or regulatory censure arising from failure to comply with regulatory or legislative requirements.	27
Conduct Risk	Risk the Society acts in a way which delivers adverse outcomes for customers and therefore not in accordance with the requirements or principles of Treating Customers Fairly.	27
Climate Risk	Risk to the Society arising from greenhouse gas emissions principally covering the key risks of flood, subsidence, coastal erosion and energy efficiency remediation.	27

2.4. Risk governance

The oversight and direction of the Board is central to the Society's risk management framework. The Board exercises governance over risk through a series of Board committees and management structures. Each of the Board committees includes at least two Non-Executive Directors (one of which chairs). Management committee membership comprised of the Executive and appropriate Members of senior management.

The Committees forming part of the Risk Management framework that applied for the year ended and as at 31 December 2020 comprise of:

Group Board

It is the Board's role to set the strategic direction for the Society, ensure that the necessary financial and human resources are in place to meet them and review the performance of the Executive team. The Board also maintains a framework to enable risk to be assessed and managed in accordance with its risk appetite. At the end of the year the Board consisted of two Executive Directors (Chief Executive Officer and Chief Financial Officer) and five Non-Executive Directors (including a Chairman).

Our Chief Financial Officer joined the Society on 1 June 2020 and prior to that our Deputy Chief Financial Officer was appointed as Chief Financial Officer on an interim basis. The Nominations Committee maintain a succession plan for Executives and Non-Executive Directors.

The Board met thirteen times in 2020 including a session dedicated to strategy and has a formal calendar of items for review. The Board retains certain powers for decision making but also delegates certain responsibilities and powers to Committees which are listed below. The Chairman holds meetings at least twice a year with the Non-Executive Directors without the Executive Directors being present. The Non-Executive Directors meet once a year without the Chairman inter alia to review the Chairman's performance.

The **Chairman** is responsible for the leadership of the Board and its effectiveness. The Chairman sets the governance agenda, standards and expectations for Board Directors and ensures constructive challenge and openness between Non-Executive and Executive Directors. The Chairman and Vice Chairman are elected by the Board on an annual basis.

Non-Executive Directors constructively challenge and help develop proposals on strategy and oversee executive performance. The Board consider all Non- Executive Directors to be independent.

The Board delegates the implementation of the strategy and the day-to-day management of the Group to the Executive Leadership Team which is led by the Chief Executive Officer.

The Board has established Committees to consider certain specialist areas in more detail than would be appropriate at a Board meeting. Each Committee operates within defined terms of reference. Minutes of meetings, evidencing the level and quality of challenge, are formally recorded and proceedings are reported to the full Board by the respective Committee Chairman. The Committees and their summary terms of reference are set out below.

The full terms of reference may be obtained on request from the Society Secretary.

Audit Committee

The Audit Committee (‘AC’) is a committee of the Board and comprises nominated Non-Executive Directors, excluding the Chairman, and is chaired by Neil Holden. Members of the Executive and senior management are invited to attend as appropriate.

Internal audit services are currently provided to the Society by PwC under the terms of a specific engagement. Under the Committee’s terms of reference, it has responsibility to approve the terms of engagement, appointment, reappointment or dismissal of the internal auditors. It is also responsible for managing the relationship with the external auditor, including an annual review of auditor effectiveness and their appointment, reappointment and removal. All Non-Executive Directors on this Committee have experience that is relevant to the role and at least one member present has recent financial experience. In considering the integrity of the Group’s financial statements the committee reviews the acceptability of accounting policies and the significant financial judgements. The external auditor, BDO, has also considered the appropriateness of the accounting policies and judgements made by management.

Taken in its entirety, the AC is satisfied that the Annual Report and Accounts are fair balanced and understandable.

During 2020 the Committee met eight times to fulfil its responsibilities and, in particular, considered reports for the following:

- *the plans and activities of internal and external audit;*
- *the effectiveness and independence of internal and external audit;*
- *the integrity of the Group’s financial statements;*
- *procedures for preventing and detecting financial crime;*
- *Whistleblowing policy and reporting;*
- *reviewing the integrity of systems and controls in operation around the Society.*

Risk Committee

The Risk Committee (RC) is a committee of the Board and comprises nominated Non-Executive Directors, excluding the Chairman and is chaired by David Rendell. Members of the Executive and senior management are invited to attend as appropriate.

The Risk Committee also focusses on compliance and conduct risk to ensure a balanced and proportionate approach is taken to the key risks. The Committee reviews the effectiveness of the relevant Group systems of internal control and monitors compliance with regulatory requirements and relevant codes of practice. It considers and approves the remit of the risk and compliance management functions and provides input, review and challenge to Executive management’s identification and assessment of risks. It provides ongoing monitoring of the overarching and specific risk management frameworks and ensures that either the Society remains within its risk appetite and tolerances in the various aspects of its business or that management takes appropriate mitigating actions where the risk appetite is being, or appears to be at risk of being, breached. It approves and oversees the delivery of the annual integrated assurance plan comprising the internal audit and risk management and compliance plans.

These activities are based on a thorough risk assessment of the full scope of the Group’s business activities and in the context of the Board’s strategy and risk appetite.

During 2020 the RC met seven times to fulfil their responsibilities and in particular considered reports for the following:

- the effectiveness of the system of internal control;
- the plans and activities of risk and compliance and conduct teams and the effectiveness and resourcing of those teams;
- the principal risks faced by the Society, together with evidence that the Society is currently operating within risk appetite and will continue to do so based on the outlook for those risks;
- approval and review of Credit Risk outside the mandate of Credit Committee.

The Risk and Audit Committees were previously a combined committee. This committee met three times before being separated into two in April 2020.

Further details can be found in the Society's Report and Accounts which are available on the Society's website, www.saffronbs.co.uk

Remuneration and Loans Committee

The Board has established the Remuneration and Loans Committee which comprises all the Non- Executive Directors and is chaired by Jenny Ashmore. It sets remuneration policy for Directors and reviews and approves remuneration arrangements and service contracts for Executive Directors.

The committee takes responsibility to review gender pay across the Society. In 2021 the Society will voluntarily publish its gender pay gap. Committee will also monitor compliance with the regulatory Remuneration Code as it applies to Material Risk Takers under the Senior Manager Regime. It also considers and approves loans to Directors or connected persons. The Committee meets at least twice a year to review remuneration and as necessary to approve applications for Directors' loans.

Nominations Committee

The Board has established the Nominations Committee which consists of the Chairman of the Society who is the Chair of the Committee, Senior Independent Director, the Chair of the Audit Committee and Chief Executive Officer.

The Committee reviews the balance of Board skills, independence, experience and knowledge, its structure and composition, any new appointments and the performance of Directors. The Committee also ensures that the Society meets its statutory responsibilities giving due consideration to relevant laws, regulation and codes; in particular to be responsible for adherence to the Building Societies Act and follow good practice in corporate governance, including reviewing the UK Corporate Governance Code.

In the appointment of new Directors the Committee is driven by the need for diversity around the board table and sets high expectations when engaging with professional search agencies to encourage a diverse range of applicants. The Committee considers diversity in the context of experience and skills as well as cultivating a wide range of characteristics and different perspectives.

Assets & Liabilities Committee

The Assets & Liabilities Committee (ALCO) comprises the Executive Team, including Executive Directors, Deputy CFO, Head of Commercial Finance and Treasury and the Treasurer. It manages capital risk, liquidity risk (the risk that the Society will not be able to meet its financial obligations), financial reporting risk; wholesale credit risk and interest rate risk (which arises from a mismatch between interest rate characteristics).

The Committee is responsible for ensuring the Society operates within agreed parameters set out in the ALCO Terms of Reference. On a monthly basis the Committee reviews performance against prescribed risk appetite metrics to ensure that the Society is operating within the Board approved risk appetite. The Committee meets at least eleven times a year and is chaired by the Chief Financial Officer.

Executive Risk Committee

The Committee comprises the Executive Team, including Executive Directors and representatives from Risk and Compliance. Representatives from other departments may also attend by invitation.

The Committee considers information regarding all principal risks faced by the Society as documented in the Enterprise Risk Management Framework (ERMF) to consider, review and challenge how existing risks in the business are being controlled and mitigated in accordance with stated risk appetite and consider new and emerging risks. The Committee provides regular reports and recommendations, where appropriate, to RC. The Committee meets at least ten times per year and is chaired by the Chief Risk Officer.

Credit Committee
The Committee comprises the Executive Team, including Executive Directors. The Committee reviews lending propositions and loan performance as well as benchmark and trend data. It reviews and recommends to the Board changes to lending policy or limits. The Committee meets at least eleven times a year and is chaired by the Chief Risk Officer.

Product Price and Promotions Committee
The Committee comprises the Executive Team, including Executive Directors and representatives from Risk, Finance, Product and Service departments.

The Committee approves and monitors (in line with the defined principles, strategy and operating plan) all Society products and propositions (new and existing) including mortgage, retail and business savings, third party products and services. The Committee meets at least ten times a year and is chaired by the Chief Commercial Officer.

2.5. Risk appetite

The Board defines risk appetite as “the level of risk the Society is prepared to accept whilst pursuing its business strategy as a mutual society set up for the benefit of its Members, recognising a range of possible outcomes as the business plan is implemented”.

Risk appetite is reflected in qualitative measures set out in the Society’s ERMF, further refined in the year to formally include Cyber Risk and Information Security and in a series of quantitative measures that are reported to the Board at each meeting.

2.6. Risk culture

The Board places significant emphasis on every level of the organisation having an awareness of risk and the importance of effective management of risk. Each department across the organisation is expected to take ownership for the identification and management of risks specific to their areas, with the Board and Management Committees, together with the three lines of defence model ensuring a strong risk culture is embedded throughout the organisation, set by the “tone from the top”. As a Mutual organisation, exemplary conduct is also expected from everyone in the organisation and conduct is taken into consideration when making decisions on remuneration across all levels of the organisation to ensure incentives do not drive poor customer outcomes.

2.7. Stress testing

Stress testing is a risk management tool used by the Group to understand the impact of severe but plausible scenarios on its business model. The Group uses a prescribed Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) to identify and quantify the capital and liquidity risks it faces. Stress testing is undertaken as part of these processes with the combined output used to inform the Board’s risk appetite, certain policies together with management actions and contingency plans.

As part of its risk management framework, the Society undertakes a number of overarching stress tests of Pillar 2 capital. These cover:

- HPI fall and arrears deterioration
- Conduct risk events
- Operational near miss experience including mortgage operations processing, savings administration, finance and treasury, legal, reputational and people risks
- Future technological developments risks, information security and third party outsource risk
- Climate change risks

Liquidity stress tests are performed on a regular basis with the results reported to ALCO. These stress tests are designed to identify any shortfalls in the Society's liquidity holdings against a range of run off rates of retail and wholesale funding.

The Society monitors interest rate risk through a number of metrics including the exposures created by applying stresses to its balance sheet. The outcomes of the key stresses are measured against the Board agreed 'interest rate risk appetites'.

In addition, the PRA carries out an assessment of the Society and may issue revised capital or liquidity guidance specifying minimum capital and liquidity levels based on their assessment of the risks faced by the Group, including under stress.

3. Capital resources

The Group's capital resources are calculated under Pillar 1 of the CRD. The scope of these resources as of 31 December 2020 relate to the Saffron Building Society Group on a consolidated basis. There are no current or foreseen material, practical or legal impediments to the prompt transfer of capital resources between Saffron Building Society and its subsidiaries.

Total Group assets at the above date were £1,207m. Included in the balance are £42m of assets relating to Crocus Home Loans Ltd. Further details of the Society's subsidiary undertakings are included in Note 13 to the Group Annual Report and Accounts

3.1. Tier 1 capital

Common Equity Tier capital comprises the Society's general and other reserves, net of regulatory adjustment.

3.2. Tier 2 capital

Tier 2 capital includes issued subordinated liabilities which are detailed within Note 21 of the Annual Report and Accounts. The subordinated debt, entered into during 2003 for £10,000,000, is denominated in sterling and is repayable at maturity on 29 January 2028.

The rights of repayment of the holders of subordinated loans are subordinated to the claims of depositors, all creditors and Members holding shares in the Group, as regards the principal of their shares and interest due on them.

Under CRD IV rules subordinated liability instruments are required to satisfy prescribed criteria in order to be eligible for regulated capital. The subordinated debt held by Saffron continues to meet these criteria and is therefore recognised as Tier 2 capital.

Tier 2 capital also includes amounts held as collective provision balances.

3.3. Capital composition (Own funds)

The following table shows Saffron Building Society's capital resources at 31 December 2020.

	Note	31 December 2020	31 December 2019
Common Equity Tier 1 Capital		**£m**	**£m**
General reserves		49.7	53.7
Available for sale reserve		0.1	-
Revaluation reserve		0.4	0.8
Less: Regulatory adjustments			
Intangible assets	1	(4.5)	(6.3)
Pension Scheme surplus	2	-	(0.4)
Deferred tax assets	3	-	-
Prudent Valuation Adjustment	4	(0.2)	(0.2)
Total Common Equity Tier 1 Capital		**45.6**	**47.6**
Tier 2 Capital			
Credit risk adjustments: Collective provision		0.5	0.3
Subordinated liabilities		10.0	10.0
Total Tier 2 Capital		**10.5**	**10.3**
Total Own Funds (Tier 1 and Tier 2)		**56.1**	**57.9**

Notes:

1) CRD IV requires intangible fixed assets, net of any deferred tax liabilities, to be deducted from CET1 capital
2) CRD IV does not permit a pension fund deficit to be added back to regulatory capital but requires a surplus, net of any deferred tax liabilities, to be deducted from CET1 capital
3) Deferred tax assets that rely on future profit and arise from temporary differences are also required to be deducted from CET1 capital, but an exemption is applicable as long as the amount represents less than 10% of total CET 1 capital. The Society's deferred tax asset at 31 December 2020 falls below the threshold for regulatory adjustment.
4) Capital Requirements Regulation (CRR) requires financial institutions to apply prudent valuation to fair value positions. The Prudent Valuation Adjustment is directly deducted from the Common Equity Tier 1 (CET1) capital.

3.4. Reconciliation of regulatory capital

A reconciliation of equity attributable to members per the Statement of Financial Position to regulatory capital is presented below:

	31 December 2020	31 December 2019
Equity attributable to members per the Statement of Financial Position	**£m 50.2**	**£m 54.5**
Adjustments for items not eligible for inclusion in CET1 capital		
Intangible assets	(4.5)	(6.3)
Pension Scheme surplus	-	(0.4)
Prudent Valuation Adjustment	(0.2)	(0.2)
Total adjustments to Common Equity Tier 1 Capital	**(4.7)**	**(6.9)**
Adjustments to Tier 2 Capital		
Collective provision	0.5	0.3
Subordinated liabilities	10.0	10.0
Total adjustments to Tier 2 Capital	**10.5**	**10.3**
Regulatory capital	**56.1**	**57.9**

3.5. Leverage ratio

The CRR leverage ratio is defined as the ratio between Tier 1 Capital and total exposures (on and off balance sheet) without taking into account any risk weightings. Its objective is to reduce the risk of excessive leverage i.e. an excessively low amount of own funds compared to total assets as well as acting as a back-stop against the model complexities involved in calibrating risk weights. The leverage ratio also takes off-balance sheet exposures into account.

In 2017, the PRA updated the UK leverage ratio framework, although this only applies to banks and building societies with retail deposits of £50 billion or more. The UK leverage ratio is calculated in the same way as the CRR except it excludes central bank reserves from the exposure. However, the European Central Bank has allowed temporary relief due to the pandemic and central bank deposits are currently allowed to be excluded under the CRR measure until June 2021. The UK and CRR approaches to measurement are therefore aligned at 31 December 2020 and the table below sets out the leverage ratio under the UK and CRR measures (using the temporary exemption under the CRR for 31 December 2020), together with a reconciliation between total exposure and total asset values as reported in the Society's Annual Report and Accounts:

	31 December 2020	31 December 2019
Total Tier 1 Capital	**£m 45.6**	**£m 47.6**
Total assets as reported in statutory accounts	1,207.1	1,070.2
Accounting value of derivatives	(0.6)	(0.2)
Derivatives gross positive fair value of contracts	0.8	0.2
Derivatives potential future exposure	2.8	2.0
Undrawn credit facilities	14.5	11.5
Deduction of intangible assets	(4.5)	(6.3)
General credit risk adjustments	0.5	0.3
Central Bank Exposures (2020 exemption)	(155)	N/A
Total leverage ratio exposure	**1,065.6**	**1,077.7**
Central Bank Exposures	N/A	(86)
Total UK leverage ratio exposure	**1065.6**	**991.7**
Leverage ratio	**4.3%**	**4.4%**
UK leverage ratio	**4.3%**	**4.8%**

4. Capital adequacy

4.1. Pillar 1 capital

Under PRA rules a minimum level of Pillar 1 capital must be held to cover credit risk, operational risk and for the credit valuation adjustment. The Society calculates credit risk under the standardised approach, operational risk under the basic indicator approach and CVA under the standardised method. These are the less complex approaches and are typically adopted by small to medium sized institutions, with the more sophisticated alternatives generally adopted by the largest financial institutions.

4.2. Pillar 2 capital

Pillar 2 capital is provided to cover specific risks faced by the Society or risks that are not considered to be adequately covered by Pillar 1 (e.g. pensions obligation risk, interest rate risk, concentration risk). As at 31 December 2020 the capital requirement for Pillar 2A was 0.49% of RWAs.

4.3. Internal Capital Adequacy Process (ICAAP)

The five year Strategic Plan and Annual Operating Plan process establishes risk appetites for each of the Group's business lines and for each risk category. Through this process, the Group ensures it has sufficient financial and non-financial resources to meet its Strategic plan objectives.

In addition to the Strategic plan and Operating plan, the Group operates a formal Internal Capital Adequacy Assessment Process (ICAAP). The ICAAP sets out the framework for the Society's internal governance and oversight of its risk and capital management policies and involves a review of all risks of relevance to the Society and an assessment of the capital required to ensure the Group's capital resources are sufficient to support its plans - in both normal and stressed conditions.

The production of the ICAAP involves reviewing all business areas with estimates for capital allocation across the Strategic Plan period and a comparison against Board risk appetite. The Group Board agrees the stress models including where appropriate the PRA's 'Annual Cyclical Scenario' and the economic scenarios to be used in calculating capital requirements.

The Board reviews the risks and makes an assessment of the capital required to mitigate the financial impact of the risks, including assessment of the results of stress testing modelled output. The Board approves the capital assessment taking into account any areas where they may feel the models and internal assessments do not adequately capture the full risk exposure and holding extra capital where appropriate.

4.4. Internal capital guidance and buffer requirements

In addition to the ICAAP process the PRA issues the Society with its Total Capital Requirement (TCR). This sets the minimum capital the Society must hold under Pillar 1 and 2A requirements.

The table below sets out the TCR and buffer requirements as they apply to the Society as at 31 December 2020.

	% of RWA	£m
RWAs		407.7
Capital requirements		
TCR (including Pillar 1)	8.49%	34.6
Capital conservation buffer	2.50%	10.2
Countercyclical buffer	-	-
Total	10.99%	44.8

4.5. Risk weightings

The Group determines credit risk weightings according to the Standardised Approach as set out in the CRR. Under this approach the level of capital required against a given level of exposure to credit risk is calculated as: Pillar 1 credit risk capital requirement = Exposure value x Risk weighting x 8%

Risk weightings vary depending on the nature of the asset and variable factors such as loan to value, security, or for wholesale assets, counterparty, credit ratings and duration.

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 Group averaged over the previous three years.

4.6. Capital requirements summary

The Society's minimum capital requirement under Pillar 1 is the sum of the credit risk capital requirement and the operational risk capital requirement. The table below shows the position by asset class.

Pillar 1 Capital Requirements £m	Risk Weighted Assets 2020 £m	Risk Weighted Assets 2019 £m	Minimum Capital Requirements 2020 £m	Minimum Capital Requirements 2019 £m
Credit Risk (excl. counterparty credit risk)	365.8	316.2	29.3	25.3
of which Standardised Approach	*365.8*	*316.2*	*29.3*	*25.3*
Counterparty Credit Risk	2.4	7.0	0.2	0.6
of which CVA	*2.4*	*7.0*	*0.2*	*0.6*
Operational Risk	30.4	36.1	2.4	2.9
of which Basic Indicator Approach	*30.4*	*36.1*	*2.4*	*2.9*
Other Balance Sheet Items	7.6	9.1	0.6	0.7
Amounts subject to 250% risk weight	1.5	0.7	0.1	0.1
TOTAL CREDIT RISK EXPOSURE	407.7	369.0	32.6	29.5

Further detail of the asset classes as at 31st December 2020 is shown in the table below:

	31 December 2020		
Capital requirement £m	**Exposure**	**RWA**	**Capital @8%**
Central governments or central banks	156.2	-	-
Multilateral development banks	51.0	-	-
Institutions	47.4	0.5	-
Retail - Exposures over 80% LTV	16.2	12.1	1.0
Secured by mortgages on immovable property	923.1	328.8	26.3
Items Associated with higher risk	12.2	18.4	1.5
Exposures in default	6.3	6.5	0.5
Other items	8.3	9.0	0.7
Total credit risk	**1,220.7**	**375.3**	**30.0**
Credit Valuation Adjustment (CVA) Risk		**1.9**	**0.2**
Operational Risk – Basic Indicator approach	**-**	**30.4**	**2.4**
TOTAL CREDIT RISK EXPOSURE		**407.7**	**32.6**

Items associated with higher risk relates to a modest portfolio of development lending managed by the Society.

4.7. Capital reporting

Capital adequacy is reported to the PRA quarterly in the Common Reporting (CoREP) returns. It is also monitored monthly through ALCO and reported at every Board meeting.

5. Credit risk

Credit risk is the risk that a customer is unwilling or unable to honour its obligations to the Society as they fall due, resulting in an actual or potential loss exposure for the Society. The Society segments credit risk into two categories: Retail; and Treasury. As a primary lender the Group faces credit risk as an inherent component of its lending activities. Adverse changes in the credit quality of the Group's borrowers, a general deterioration in UK economic conditions or adverse changes arising from systemic risks in UK and global financial systems could reduce the recoverability and value of the Group's assets.

Mitigation
The Society operates within a credit risk appetite which directs our lending to the prime mortgage sectors. Risk factors such as property location and borrower characteristics are monitored carefully and the portfolio is benchmarked against external loss and risk data.

The Credit committee is responsible for reviewing the Group's lending policy and monitoring the exposures in accordance with this policy, including exposures to individual counterparties and sector concentration. The Credit committee recommends lending policy for approval by the Board.

The Assets and Liabilities Committee (ALCO) is responsible for recommending limits on Treasury counterparties, country exposures and types of financial instruments for approval by the Board.

Lending and business decisions
The Group translates its overall risk appetite for credit risk into individual lending limits. The performance against these limits is monitored monthly and the limits reviewed at least annually. In addition the Group credit risk is stress tested by type of business and the results reflected in business decisions.

Pricing
Pricing models are in use for all mortgages. Our pricing model includes an assessment of capital requirement by product and provides guidance as to what rate needs to be charged to meet return targets based on capital requirement for the product.

Concentration risk
Where the Group's exposure to a single borrower or several borrowers (for example, within the same group of companies) is large, there is a consequential risk of large losses should the borrower default. Concentration risk is concerned mainly with the risk that in some cases these losses may be sufficient to threaten the solvency of a firm.

However, concentration risk need not just be in the form of large loans to single borrowers, it could include a geographic concentration of 'high risk' or high LTV loans, specific lending such as buy-to-let or industry/sector concentrations.

The Group monitors all of these areas carefully to ensure that it does not lend more than is appropriate for its position and size. In addition it has limits on specific areas, such as where payments are linked to rental income on the property securing the loan.

The Group, as a regional building society, has a geographical concentration in its core lending area. It manages this risk carefully by having business strategies that aim to maintain a good balance of lending across England and Wales and regularly monitoring its exposure by region.

It also takes account of concentration risk within its models by having higher economic stresses where geographical concentration risk has been identified.

In the Group's case this means that for residential exposures in East Anglia, Greater London and South East England the internal capital assessment includes the modelling of greater reductions in asset values in these regions than would otherwise be the case.

5.1. Retail credit risk – Loans and advances to customers

Retail credit risk exposures are limited to and arise from the provision of loans secured on land and properties within the UK. All mortgage loan applications are reviewed by an individual underwriter and are assessed against credit risk appetite as set out in the Society's Board-approved Credit Risk Policy. Retail credit risk exposures are monitored each month by Credit Committee, with additional reporting of risk appetite to the Risk Committee and Board.

	31 December 2020			
Loans & Advances to Customers £m	**Exposure**	**RWA**	**Capital @8%**	**RWA Density**
Claims or contingent claims on corporates	1.2	1.2	0.1	100%
Claims or contingent claims on real estate property	950.3	358.1	28.7	38%
Past Due Items	6.3	6.5	0.5	103%
Total Loans & Advances to Customers	**957.8**	**365.8**	**29.3**	**38%**

The Group's total portfolio of loans and advances mostly comprise of owner-occupied and buy-to let mortgages. The Group also has a small portfolio of equity release mortgages and non-residential loans but is not looking to expand these portfolios.

	2020	2019
Owner occupied	**54.3%**	57.8%
Buy to let	**37.5%**	32.6%
Equity release	**6.6%**	7.2%
Other	**1.6%**	2.4%

"Past Due" (Loans > 3 months in arrears or in possession) exposures by geographical region *(values stated prior to FRS102 valuation adjustments):*

31 December 2020

	Residential Mortgages			
	£m	£m	£m	
Geographical Region	**Past Due***	**Performing**	**Total**	**%**
S.East	2.16	196.96	199.12	21.2%
Gr.Lon	2.07	285.92	287.98	30.7%
E.Eng	1.19	130.38	131.57	14.0%
S.West	0.20	83.35	83.55	8.9%
N.West	0.20	54.42	54.62	5.8%
W.Mids	0.00	52.35	52.35	5.6%
E.Mids	0.21	50.79	51.01	5.4%
Yorks&Humb	0.00	38.82	38.82	4.1%
Wales	0.54	22.58	23.12	2.5%
N.East	0.00	15.14	15.14	1.6%
Total	**6.57**	**930.72**	**937.29**	**100.0%**
	0.7%	99.3%		

	Commercial			
	£m	£m	£m	
Geographical Region	**Past Due***	**Performing**	**Total**	**%**
E.Eng	0.00	0.45	0.45	37.7%
S.East	0.00	0.28	0.28	23.7%
W.Mids	0.00	0.36	0.36	30.0%
Gr.Lon	0.00	0.10	0.10	8.6%
Total	**0.00**	**1.20**	**1.20**	**100.0%**
	0.0%	100.0%		

Total Loans & Advances	**6.57**	**931.91**	**938.48**	
	0.7%	99.3%		

(Residential mortgages include owner occupied, buy-to-let and residential properties under development)
**Past Due amounts relate to the overall mortgage balances not the amount in arrears these being 3 months or more in arrears, in possession or LPA receiver appointed.*

Credit risk adjustments - Impairment provisions
Provisions for losses are based upon an appraisal of loans, advances and other assets. Individual provisions are made where required in respect of properties in possession and where a Receiver of Rents (RoR) has been appointed. Individual provision requirements are also assessed in respect of mortgage accounts where 3 payments have been missed (90 days past due) and against other assets where book value exceeds the estimated realisable value.

The provision on each account represents the amount required to reduce the outstanding balance of the asset to its expected realisable value, by using industry recognised house price indices reduced for anticipated forced sale discounts, and adjusted for costs of realisation, other recoveries and the probability of re-possession.

Collective provisions are made where it is considered that there is impairment in the value of assets at the year-end that is not already covered by specific provisions. These are calculated by applying factors that

reflect probability of default and loss given default. The mortgage assets are segmented to allow different levels of risk factors to be applied to each part of the portfolio.

The amount shown in the Group's income statement represents the actual losses incurred and the net change in provisions.

The collective provision made at the year-end represents the Directors' assessment of the potential losses which, although not yet specifically identified as relating to payment arrears, are known from experience to exist in the Group's loan portfolio.

These provisions have been deducted from the appropriate asset values shown in the balance sheet with the exception of customer claims which are shown within other creditors.

Both the statement of financial position and the provisions for liabilities can be found in the 2020 Annual Report and Accounts.

	Individual £000	Collective £000	Total £000
Group			
At 1 January 2020	685	331	1,016
Charge / (credit) for the year	24	170	194
Amounts utilised in the period	(443)	-	(443)
At 31 December 2021	**266**	**501**	**767**
Society			
At 1 January 2020	685	328	1,013
Charge / (credit) for the year	24	171	195
Amounts utilised in the period	(443)	-	(443)
At 31 December 2021	**266**	**499**	**765**

5.2. Wholesale credit risk

Counterparty credit risk

The purpose of the Group's counterparty treasury credit risk management policy is to ensure that the Group can obtain an appropriate return whilst operating within prudent limits in respect of counterparties.

The methodology for establishing counterparty limits involves consideration of the background rating information and balance sheet data relevant to the counterparty. The minimum acceptable counterparty credit rating for the Society to establish credit exposures to a credit rated counterparty is S&P long-term credit rating of BBB- (Credit Quality Step 3); this means that any counterparties the Society has credit exposures to are deemed 'Investment Grade' by S&P.

Replacement values of outstanding hedging instruments are calculated and counterparty limits are adjusted to reflect any off-balance sheet exposure.

New limits are approved and existing limits modified and/or removed only on the recommendation of the Assets and Liabilities Committee to the Risk Committee. All limits (and operational guidelines) are reviewed regularly (and at least annually) by the Assets and Liabilities committee.

The Treasurer prepares a submission for the approval of new, or the removal of existing, counterparties. Limits may be suspended by the Treasury Department pending removal in the event of adverse market intelligence. No dealing will take place with counterparties which do not have a pre-approved limit.

Where appropriate, exposure to counterparties is monitored on a consolidated basis. Interest rate swap derivative instruments are all covered under 'collateralised' agreements. Depending on the market value of the instruments, this results in either the Group or the swap counterparty depositing collateral funds with the corresponding counterparty. This mitigates the credit risk to either counterparty from any exposure created by movement in the market value of derivatives.

Impairment of Wholesale assets
At each balance sheet date the Society assesses the portfolio of wholesale assets for objective evidence of impairment. Wholesale assets classified as available for sale assets are considered impaired if an event has occurred after initial recognition of the asset that has an adverse impact on the estimated future cash flows of those assets. Any charges for impairment are recognised in the income statement. The Society reported no such charges on its wholesale assets during the year ended 31 December 2020.

Analysed by credit quality based on S&P ratings:

	Asset	Risk Weighted Asset	Capital	RWA Density
Treasury Assets				
Claims or contingent claims on central government or central banks	£156.2m	£0.0m	£0.0m	0%
Claims or contingent claims on multinational development banks	£51.0m	£0.0m	£0.0m	0%
Claims or contingent claims on institutions	£43.8m	£0.4m	£0.0m	1%
Total Treasury Assets	**£251.0m**	**£0.4m**	**£0.0m**	**0%**

S&P Ratings Services	Credit Quality Step	Maturity of Treasury Investment			
		< 3 months	3 months to 1 year	> 1 year	Total
AAA	1	£10.9m	£16.2m	£24.8m	£51.8m
AA-	1	£185.8m	-	-	£185.8m
A	2	£12.3m	-	-	£12.3m
A-	2	£1.1m	-	-	£1.1m
Total		**£210.1m**	**£16.2m**	**£24.8m**	**£251.0m**

5.3. CVA risk

A Credit Valuation Adjustment (CVA) is held in order to reserve capital for potential mark to market losses that could arise related to the creditworthiness of counterparties to the Society's derivative contracts. The Society's exposure values related to counterparty credit risk at 31 December 2020 are shown below:

	Exposure value £m
Gross positive fair value of contracts	0.8
Potential future exposure	0.3
Total net derivatives credit exposure	0.6

Resulting RWA requirement	1.9
Group Capital requirement	0.2

5.4. Asset encumbrance

The Society has pledged a portion of its mortgage assets as collateral with the Bank of England in order to participate in the Bank's Term Funding Scheme with additional incentives for SMEs ("TFSME"), part of the Sterling Monetary Framework. The Society participates in TFSME as this provides the Society with an additional source of funding, helping to diversify funding and lower overall funding costs to the Society. The loans remain fully owned and managed by the Society but are reported as encumbered assets.

The Society enters into derivative financial contracts as part of its management of interest rate risk for which collateral is also posted.

The table below details the levels of asset encumbrance for 2020. Note that this information is required to be disclosed as median values over quarterly positions during the 12 months preceding 31st December 2020 and as a result may differ from other information provided in this disclosure.

The Society is required to encumber more assets than it receives in collateral to allow for the potential non-performance of assets held in the pools.

Template A: Encumbered and unencumbered assets

2020	Encumbered assets		Unencumbered assets	
	Carrying amount £000s	Fair value £000s	Carrying amount £000s	Fair value £000s
Assets of the reporting institution	**252,810**		**783,400**	
Equity Instruments	-	-	-	-
Debt securities	-	-	76,362	76,362
Other assets	252,810		707,038	

Template B: Collateral received

The Society does not meet the criteria which requires institutions to report encumbrance Template B (collateral received).

Template C: Sources of encumbrance

2020	Matching liabilities contingent liabilities or securities lent £000s	Assets, collateral received and own debt securities issues other than covered bonds and ABSs encumbered £000s
Carrying amount of selected financial liabilities*	55,300	55,300

**Figures represent the mean encumbered assets and collateral received against financial liabilities. For the purpose of analysing this table, selected financial liabilities represent drawings under the Bank of England Term Funding Scheme.*

Template D: Accompanying narrative information

As one element of its participation in the Bank of England Sterling Monetary Framework the Society has access to the Discount Window Facility (DWF). The Society has pre-positioned two mortgage pools to provide collateral to support any future drawings. The value of the pre-positioned mortgage pools was £271.3m at 31st December 2021 (Template A reflects the median value for the 12 month period to 31 December 2020).

£95.5m of funding drawn under the Bank of England Term Funding Scheme is outstanding at 31 December 2020, collateralised by the encumbrance of the two pools of residential mortgages.

6. Operational Risk

Operational risk is the risk of incurring losses resulting from inadequate or failed internal processes, people or systems, or from external events. This definition includes legal risk and environmental risk together with events or circumstances where disaster recovery planning does not work.

The activities of the Group expose it to any operational risks relating to its ability to implement and maintain effective systems to process its transactions with Members and customers. A significant breakdown in IT systems of the Group might adversely impact the ability of the Group to operate its business effectively.

Mitigation
To address these risks, the Society has put in place risk and control self-assessments (RCSA). RSCAs are reviewed and tested on a regular basis and the results reported to the Executive and Board Risk Committee. Any incidents and near misses are assessed in terms of potential cost to the Society and the causes identified to improve controls. Additionally the Group's internal audit function (provided externally by PwC) carries out targeted reviews of critical systems and processes to ensure that they are properly designed and operate effectively.

The Group has a Business Continuity Plan which is kept under regular review and is designed to reduce the risk that any breakdown in systems would not cause significant disruption to the business.

The Society adopts the Basic Indicator Approach ("BIA") to calculate its Pillar 1 capital requirements for Operational Risk. This uses as a proxy the product of the specified factor of 15% applied to the average net interest income plus net non-interest income over the previous three years, to calculate a charge for operational risk.

The calculation for the Pillar 1 capital requirement for Operational Risk as at 31st December 2020 was £2.4m, calculated as follows:

	2018	2019	2020
Basic Indicator Approach (BIA) Operational Risk	**£m**	**£m**	**£m**
Net interest income	20.7	19.8	15.7
Fees and commissions receivable	0.7	0.9	0.5
Fees and commissions payable	(0.6)	(0.6)	(0.5)
Net other operating income and charges	0.2	0.0	(0.2)
Net fair value movements	(3.6)	(0.5)	(3.9)
TOTAL	**17.4**	**19.6**	**11.6**
Basic indicator (three year average)			16.2
Own funds requirement (15% of Basic Indicator)			**2.4**

In addition the Society conducts stress testing to determine whether additional capital should be held in Pillar 2A. Further details of stress testing can be found in section two.

7. Other risks

7.1. Market Risk – incorporating Interest Rate Risk in the Banking Book (IRRBB)

Market risk is the risk of changes to the Society's financial condition caused by market interest rates or early redemption of assets. The Society is exposed to market risk in the form of changes (or potential changes) in the general level of interest rates, changes in the relationship between short and long-term interest rates and divergence of interest rates for different balance sheet elements (basis risk). The Society has adopted the 'Matched' approach to interest rate risk, as defined by the PRA, which aims to undertake the hedging of individual transactions within an overall strategy for structural hedging, based on a detailed analysis of the statement of financial position.

IRRBB indicates the risk that arises from changes in interest rates when holding assets and liabilities that possess differing interest rate characteristics. This primarily occurs for the Society where it offers fixed interest rate mortgages and savings products. The risk arises where either fixed rate mortgages are funded by variable rate savings or vice versa.

An example of this risk materialising would be where interest rates rise and this results in a need to increase variable rates. Thus savings costs would increase but fixed rate mortgage income would remain unchanged, thereby reducing the net income generated.

Where possible the risk can be managed by matching against other mortgages and savings with the same fixed interest duration. Where this is not possible within an appropriate tolerance interest rate derivatives are entered into to hedge out the risk.

In order to monitor and evaluate this risk the society produces an interest gap report on a daily, weekly and monthly basis with results being reported to ALCO on a monthly basis.

To quantify the risk across the entire balance sheet the interest rate gap is stressed in a number of bespoke scenarios as well as parallel interest rate stresses. The Society's risk appetite is defined across a range of measures, with particular emphasis on a parallel shift of 2% in interest rates in either direction. As part of the interest rate risk analysis there is a regular and detailed review of the interest rate risk related to the portfolio of lifetime mortgages.

The table below shows the impact on economic value arising from the following interest rate scenarios applied as at 31 December 2020, which are well within the Board's risk appetite:

	Impact £000s
Parallel shift +2%	917
Parallel shift -2%	(917)

7.2. Liquidity risk

Liquidity risk is the risk that the Society is unable to make available sufficient resources to meet its current or future financial obligations as they fall due, or is only able to do so at a premium cost. This includes the risk the Society attracts excessive liquidity through poor product management, acting as a drag on financial performance.

The Group relies on its access to sources of funding to finance the origination of new business and working capital. If access to funding became restricted, either through market movements or regulatory or Government action, this might result in the scaling back or cessation of new lending.

Mitigation

The Group, through its treasury operation, overseen by the Assets and Liabilities Committee, seeks to mitigate this risk by managing the quality and term of the Group's liquidity portfolio and actively seeking alternative sources of finance.

In practice this results in the Group holding a significant amount of highly liquid assets, typically UK gilts, Treasury bills, multilateral development bank securities and deposits with the Bank of England, which are eligible to meet its required liquidity buffer set by the regulator. In addition the Group maintains deposits placed on call or overnight with the Bank of England and major banks to meet its operational needs without drawing on its buffer requirements.

In accordance with BIPRU12, the Group maintains a significant level of high quality, UK Government Debt and AAA rated debt instruments, which are classed as Eligible Buffer Assets. As at 31 December 2020 the Group held Eligible Buffer Assets amounting to £205m.

It is a requirement for all Banks and Building Societies to construct plans that detect possible failure and minimise the consequences of failure should it occur. The Society has Board-approved Recovery Plan and Resolution Plan documents. The Resolution Plan outlines a menu of options the Society could credibly take to recover from a Society-specific or market-wide stress. The resolution plan contains prescribed information necessary for the Bank of England to establish an orderly resolution of the Society in the event that recovery cannot be achieved. Both the Recovery Plan and Resolution Plan documents are updated at least annually.

The Society calculates and expresses its current and prospective liquidity requirements based on estimated future requirements under stressed conditions. The Society also reports liquidity using the regulatory measures of Liquidity Coverage Ratio (LCR) and Net Stable Funding Requirement (NSFR).

The LCR is shown in the table below expressed as an average of the previous twelve monthly figures preceding each quarter end:

Liquidity Coverage Ratio*				**Quarter ending**
	Mar-20	**Jun-20**	**Sep-20**	**Dec-20**
Number of data points used in average	12	12	12	12
	£m	£m	£m	£m
Liquidity Buffer	*162.2*	*174.2*	*176.5*	*174.1*
Total Net Cash Outflows	*68.9*	*70.0*	*71.3*	*71.8*
	235.3%	**248.7%**	**247.4%**	**242.7%**

**The Society LCR ratio is stated on a quarterly basis using an average of the liquidity buffer and net cash outflows over the preceding 12 months to each quarter end in accordance with European Banking Authority Guidelines (EBA/GL/2017/01). The Society is not considered systemically important and therefore is only required to report summary LCR information.*

The Society's NSFR as at 31 December 2020 was 128%.

7.3. Business risk

The Group faces competition in all the core markets in which it operates. There is a risk that its profitability and/or market share may be impacted by the actions of its competitors.

Mitigation

To mitigate this risk, the Group maintains close relationships with its Members and customers, business introducers and other significant participants in the markets in which it is active as well as participating in sector-wide organisations (for example, the Building Societies Association) and initiatives. This allows market trends to be identified and addressed within the Group's business strategy.

7.4. Pension obligation risk

Pension obligation risk relates to defined benefit pension schemes and defined contribution schemes offering guaranteed returns that are not fully matched by underlying investments.

The Group has a defined benefit pension scheme. The scheme is closed to new Members and is closed to future accrual of service cost.

The Society seeks to ensure that the Pension Scheme is sufficiently funded so that the Pension Scheme can meet its pension commitments as and when required. As such the possibility exists of a further impact to Group capital from increased longevity and increasing scheme liabilities, from failure of an insurance company providing an annuity for the fund or from changes in scheme assumptions leading to the requirement for extra contributions.

The scheme is funded based upon triennial actuarial valuations, the most recent being 30 April 2020 at which point it was fully funded with a surplus of £1m on the trustee basis of valuation. The Group is not required to make any contributions over the next 12 months. The FRS 102 valuation at 31 December 2020 resulted in the recognition of a pension liability of £614k at the balance sheet date.

The framework for Pillar 2A pension obligation risk capital includes stressing pension scheme assets and liabilities to assess the impacts on capital. The Group currently allocates a specific amount of capital under Pillar 2 to cater for a stress scenario which reduces asset values and is coupled with an increase in pension liabilities.

7.5. Remuneration risk

Remuneration risk can arise if reward schemes are in place which can encourage inappropriate action by risk takers in the business.

It is the responsibility of the Remuneration and Loans committee to approve remuneration policies and the reward packages offered to Directors, Executive and staff who are considered to have a material impact on the Group's risk profile (known as 'Material Risk Takers').

A further responsibility is to demonstrate that remuneration decisions made are consistent with an assessment of the Group's financial situation and future prospects. At the same time, there is a risk that the Group is unable to retain and attract the quality of individuals needed to deliver its strategic plans. Accordingly, the Remuneration and loans committee has regard to the relative position of the Group to other societies and financial services businesses and uses market benchmarks when formulating remuneration strategy.

7.6. IT Security / Cyber crime

Cyber-crime and the security of information held by the Society are a present and growing threat that the Society's systems might be infiltrated allowing the intruder to take control of customer accounts or download sensitive data for personal gain.

Mitigation

The Society continues to invest in the maintenance and development of technology, which includes cyber-risk reduction initiatives and further progress towards attainment of Information Security industry standards.

7.7. Compliance and Financial Crime risk

Compliance and financial crime risk is the risk of financial loss, reputational damage and or regulatory censure arising from failure to comply with regulatory or legislative requirements.

The market sectors in which the Group operates and the markets from which it receives its funding have been subject to extensive intervention by the UK Government, European Union and other regulatory bodies. To the extent that such actions disadvantage the Group, when compared to other market participants, they represent a risk to the Group.

Mitigation

In order to mitigate this risk, the Group has been active in explaining its position to the authorities and works with its professional advisors in this process.

Ultimately- there are three risks when it comes to ensuring that the Society complies with regulations:

a) Failing to identify new or developing regulatory requirements / guidance;
b) Failing to comply with all regulatory requirements; and
c) Failing to identify breaches and take appropriate action.

A dedicated compliance team, reporting to the CRO, monitor rule compliance through a programme of departmental and thematic reviews and, under the supervision of the Board Risk Committee, ensures that the Society stays within the various regulatory regimes and provides Executive management and the Board with regular updates on regulatory issues.

7.8. Conduct risk

Conduct risk forms a part of compliance risk and is the risk that the Society acts in a way which delivers adverse outcomes for customers and therefore not in accordance with the requirements or principles of Treating Customers Fairly.

Mitigation

Every department in the Society is aware of and responsible for ensuring Members are put first and the highest standards of conduct upheld, with regular training provided to ensure these principles are embedded in the culture of the Society. The Compliance team acts as second line of defence and reports to Board Risk Committee on conduct matters.

7.9. Climate change risk

The potential value at risk to the Society from greenhouse gas emissions has been modelled to cover the key risks of flood, subsidence, coastal erosion and energy efficiency remediation. Consideration of the Pillar 2 requirements arising from this analysis has been included within the ICAAP. Embedding consideration of the financial risks from climate change into the governance framework of the Society is ongoing and the CRO has assumed direct responsibility for oversight.

8. Remuneration

The Directors' Remuneration Report, which is set out on pages 38 to 41 of the Society's Annual Report and Accounts, describes the policies and process for determining the remuneration policy of the Society. Further detail on Executive and Non-Executive Directors' remuneration is also provided in Note 7 of the Annual Report and Accounts 2020.

The Society has two Board committees dealing with appointment and remuneration of code staff: Remuneration and Loans Committee; and Nominations committee, both of which are covered in section 2.4 of this document.

8.1. Components of remuneration

Executive directors' remuneration must fairly reflect responsibilities, expertise, experience and performance whilst being competitive enough to attract, motivate, reward and retain high quality executive directors. The Society continues to operate in a competitive environment from a sector as a well as geographic perspective. Performance at a high level is expected, with rewards directly linked to appropriate risk management, financial performance, quality customer service and individual excellence.

Executive Directors are all designated as "Material Risk Takers" under the Regulator's Remuneration Code due to their material impact on the Society's risk profile. The remuneration package for Executive Directors is made up of the following components:

Component	**Level**	**Basis**
Basic salary	Salary level decisions are recommended to the Remuneration and Loans Committee	Based on job content, responsibilities and remuneration levels for similar positions in financial services
Pension	Employer pension contribution is 13.5% of basic salary paid monthly into a group personal pension plan unless otherwise requested to be payable as a cash alternative. For newly appointed Executives / Executive Directors from 1 December 2018 the employer contribution is 8.5% of basic salary	None of the executive directors are members of the (closed) final salary scheme
Bonus	No bonus will be paid in respect of the 2020 performance year. In 2020 some Executives did receive a payment from previous bonus years, because 40% of any bonus earned will be deferred over 3 years	Earned on an annual basis and is determined by a combination of organisational and individual performance. It is linked to appropriate risk management, financial performance, capital management, quality customer service, operational fitness and people engagement. These organisational metrics are linked to the business plan for the year and approved by the Remuneration and Loans Committee
Other benefits	Cash allowance (in lieu of a lease vehicle) of 10% of basic salary paid monthly through payroll. Income protection, death in service, private medical insurance and enhanced annual leave	Benchmarked in line with the Sector
Redundancy	Enhanced redundancy scheme, which can pay up to 52 weeks of employment is based on length of service	This scheme is non-contractual and has the facility to be changed or withdrawn at any time

8.2. Material Risk Takers

In accordance with regulation the Society has considered which of its staff fall under the scope of 'material risk taker' and are deemed Code staff. The activities of a material risk taker may have material impact on the firms risk profile although not all affect the Society's risk profile in the same way. The Society deems material risks takers to be Executive Directors, Executives and other senior management roles (typically Heads of Functions).

Aggregate information on remuneration for the year ended 31 December 2020 is provided below:

	Number of staff	Fixed Remuneration	Pension	Other Allowances	Variable Remuneration	TOTAL
Executive Directors	2	283,750	32,365	29,640	10,384	**356,139**
Executives	3	375,208	37,042	39,348	10,384	**461,981**
Other material risk takers	10	874,787	61,687	71,872	31,553	**1,039,898**
TOTAL	**15**	**1,533,745**	**131,094**	**140,859**	**52,321**	**1,858,019**

No individuals received total remuneration exceeding £850,000.

8.3. Non-Executive Directors' remuneration

Non-executive directors' remuneration comprise entirely of fees which are reviewed annually. Non-executive directors are not entitled to any bonus or pension from the Society.

8.4. Contracts of employment

All Executive Directors are employed on a permanent service contract.

Non-Executive Directors are appointed by letter for a three year period and are generally expected to serve a second three year term. Appointment can be extended for a further three years if taking on a significant new role, for example Chairman or Vice Chairman.

Appendix: EBA Own Funds Disclosure Template

2020

Common Equity Tier 1 (CET1) Capital : Instruments and reserves		£m
2	General Reserve	50.1
3	Accumulated other comprehensive income and other reserves	0.0
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	50.1
Common Equity Tier 1 (CET1) Capital :Regulatory Adjustments		
8	Intangible Asset	(4.5)
28	Total regulatory adjustments to CET1	(4.5)
29	Common Equity Tier 1 (CET1) Capital	45.6
Tier 2 Capital : Instruments and provisions		
46	Capital instruments and subordinated loans eligible as T2 Capital	10.0
50	Credit risk adjustment : Collective provision	0.5
51	Tier 2 capital before regulatory adjustments	10.5
59	Total capital	56.1
60	Total risk weighted assets (RWA)	407.7
Capital Ratios and Buffers		
61	Common Equity Tier 1 ratio (as a % of RWA)	11.2%
62	Tier 1 ratio (as a % of RWA)	11.2%
63	Total Capital (as a % of RWA)	13.7%
64	Institution specific buffer requirement (CET1 requirement plus CCB & CCYB)	7.00%
65	of which : Capital Conservation Buffer Requirement (CCB)	2.5%
66	of which : Countercyclical Buffer Requirement (CCYB)	0.0%
68	Common Equity Tier 1 available to meet buffers (as a percentage of RWA)	4.9%

2019

Common Equity Tier 1 (CET1) Capital : Instruments and reserves		£m
2	General Reserve	53.9
3	Accumulated other comprehensive income and other reserves	0.0
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	53.9
Common Equity Tier 1 (CET1) Capital :Regulatory Adjustments		
8	Intangible Asset	(6.4)
28	Total regulatory adjustments to CET1	(6.4)
29	Common Equity Tier 1 (CET1) Capital	47.6
Tier 2 Capital : Instruments and provisions		
46	Capital instruments and subordinated loans eligible as T2 Capital	10.0
50	Credit risk adjustment : Collective provision	0.3
51	Tier 2 capital before regulatory adjustments	10.3
59	Total capital	57.9
60	Total risk weighted assets (RWA)	369.0
Capital Ratios and Buffers		
61	Common Equity Tier 1 ratio (as a % of RWA)	12.9%
62	Tier 1 ratio (as a % of RWA)	12.9%
63	Total Capital (as a % of RWA)	15.7%
64	Institution specific buffer requirement (CET1 requirement plus CCB & CCYB)	8.00%
65	of which : Capital Conservation Buffer Requirement (CCB)	2.5%
66	of which : Countercyclical Buffer Requirement (CCYB)	1.0%
68	Common Equity Tier 1 available to meet buffers (as a percentage of RWA)	5.7%