Saffron Building Society

Pillar 3 Disclosure

31st December 2022

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1. Introduction

This Pillar 3 document discloses the Society's approach to risk management, detailing the capital resources and requirements relating to the year ending 31st December 2022.

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.

The Group is regulated under UK Capital Requirements Regulation (CRR) and technical standards that were created by the European Union (Withdrawal) Act 2018. The CRR has subsequently been amended by a number of statutory instruments and is split across the Prudential Regulatory Authority (PRA) rulebook and primary legislation. These disclosures are prepared and presented in accordance with the Disclosure (CRR) part of the PRA Rulebook which includes revised disclosure requirements applicable from 1 January 2022 following the UK's implementation of the remaining provisions of CRR II. Any references to the EU regulations and directives should, as applicable, be read as references to the UK's version of the respective regulation, as onshored into UK law under the European Union (Withdrawal) Act 2018.

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.

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).

2. Capital Reporting

2.1 Capital framework

The Basel framework requires disclosure of capital requirements and other key elements 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 formulaic, risk based, capital calculation focussing particularly on credit and operational risks to determine the Capital Resources Requirement (CRR). The Society adopts the Standardised Approach (SA) for assessing credit risk and the Basic Indicator Approach for operational risk.
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.

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

- Capital conservation buffer which 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. The buffer was reintroduced at 1% from 13 December 2022 and the Financial Policy Committee has announced that the rate will increase to 2% with binding effect from 5 July 2023.

Through the ICAAP, the Group's Board has 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).

2.2 Basis of preparation

This document deals with the requirements laid down for Pillar 3 (disclosure) and the information provided is in accordance with the rules laid out under the PRA rulebook articles 431 to 455.

The group complies with the criteria specified for a 'small and non-complex' institution in article 433b of the PRA rulebook. This document has thus been prepared using the derogation approach for 'small and non-complex' institutions.

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.

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.

The tables reported are as specified by the PRA rulebook, in some cases rows that contain a nil value have been omitted. Items available in the annual report have not been duplicated in this document.

The Groups financial statements have been prepared in accordance with Financial Reporting Standard 102: The Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS102) and the Building Societies (Accounts and Related Provisions) Regulations 1998.

2.3 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.

2.4 Regulation

In June 2019 the Official Journal of the European Union published Capital Requirements Regulation and Capital Requirements Directive (CRD) amendments. Following this in November 2020 the Financial Conduct Authority (FCA), Her Majesty's Treasury and the Prudential Regulation Authority published a statement confirming that Basel III reforms representing the outstanding parts of the EU's 2nd CRR would be implemented from January 2022.

In March 2020 it was announced by the Group of Central Bank Governors and Heads of Supervision (GHOS), that Basel 3.1 reforms would be delayed until January 2023. Subsequently in November 2022 the PRA published a consultation (CP16/22 – Implementation of the Basel 3.1 standards) proposing that Basel 3.1 standards would commence from January 2025.

2.5 Oversight

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 2022 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 2022** unless stated otherwise.

2.6 Key disclosures

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

Table 1 : UK M1 – Key Metrics

		£'000 2022	£'000 2021
	Available own funds (amounts)		
1	Common Equity Tier 1 (CET1) capital	**68,945**	**53,331**
2	Tier 1 capital	**68,945**	**53,331**
3	Total capital	**79,435**	**63,735**
	Risk-weighted exposure amounts		
4	Total risk-weighted exposure amount	**464,427**	**426,122**
	Capital ratios (as a percentage of risk-weighted exposure amount)		
5	Common Equity Tier 1 ratio (%)	**14.70%**	**12.50%**
6	Tier 1 ratio (%)	**14.70%**	**12.50%**
7	Total capital ratio (%)	**17.00%**	**15.00%**
	Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)		
UK 7a	Additional CET1 SREP requirements (%)	**4.74%**	**4.76%**
UK 7b	Additional AT1 SREP requirements (%)	**6.32%**	**6.35%**
UK 7c	Additional T2 SREP requirements (%)	**11.91%**	**10.97%**
UK 7d	Total SREP own funds requirements (%)	**11.92%**	**10.97%**
	Combined buffer requirement (as a percentage of risk-weighted exposure amount)		
8	Capital conservation buffer (%)	2.50%	2.50%
9	Institution specific countercyclical capital buffer (%)	1.00%	0.00%
UK 9a	Systemic risk buffer (%)	0.00%	0.00%
11	Combined buffer requirement (%)	3.50%	2.50%
UK 11a	Overall capital requirements (%)	11.50%	10.50%
12	CET1 available after meeting the total SREP own funds requirements (%)	15,580	8,588
	Leverage ratio		
13	Total exposure measure excluding claims on central banks	**1,188,480**	**1,135,325**
14	Leverage ratio excluding claims on central banks (%)	**5.70%**	4.70%
	Additional leverage ratio disclosure requirements		
14a	Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)	**5.70%**	**4.70%**
14b	Leverage ratio including claims on central banks (%)	**5.34%**	**4.05%**
14c	Average leverage ratio excluding claims on central banks (%)	**4.86%**	**4.29%**
14d	Average leverage ratio including claims on central banks (%)	**4.62%**	**3.68%**
14e	Countercyclical leverage ratio buffer (%)	**0.35%**	**0.00%**
	Liquidity Coverage Ratio		
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	179,717	249,055
UK 16a	Cash outflows - Total weighted value	105,505	76,949
UK 16b	Cash inflows - Total weighted value	4,522	3,593
16	Total net cash outflows (adjusted value)	100,984	73,356
17	Liquidity coverage ratio (%)	**178.0%**	**339.52%**
	Net Stable Funding Ratio		
18	Total available stable funding	1,195,711	1,174,561
19	Total required stable funding	904,351	863,450
20	NSFR ratio (%)	**133.00%**	**136.03%**

2.7 Overview of risk weighted exposure amounts (RWEA's)

The table provides details of the Risk Weighted Exposure Amounts (RWEAs) and Society's own funds requirements.

Table 2 : UK OV1

		Risk weighted exposure amounts (RWEAs)		Total own funds requirements
		£'000	£'000	**£'000**
		2022	2021	**2022**
1	**Credit risk (excluding CCR)**	**419,767**	391,505	**33,581**
2	Of which the standardised approach	419,767	391,505	33,581
3	Of which the foundation IRB (FIRB) approach			
4	Of which slotting approach			
UK 4a	Of which equities under the simple riskweighted approach			
6	**Counterparty credit risk - CCR**	**404**	280	**32**
7	Of which the standardised approach	404	280	32
8	Of which internal model method (IMM)			
UK 8a	Of which exposures to a CCP			
UK 8b	Of which credit valuation adjustment - CVA			
9	Of which other CCR			
15	Settlement risk			
UK 22a	**Large exposures**			
23	**Operational risk**	**44,255**	34,337	**3,540**
UK 23a	Of which basic indicator approach	44,255	34,337	3,540
UK 23b	Of which standardised approach			
UK 23c	Of which advanced measurement approach			
24	Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)			
29	**Total**	**464,427**	426,122	**37,154**

2.8 Standardised approach – Credit risk exposure and CRM effects

The table below states the Society's standardised exposures net of credit risk adjustment exposures. The table shows values using two different bases, pre credit conversion factor (CCF) and pre credit risk mitigation (CRM) and post-CCF and CRM. Exposures are stated net of credit risk adjustment exposures.

RWA density is RWA expressed as a percentage of exposures post CCF and CRM.

Table 3 : UK CRM 2022

	Exposure classes	Exposures before CF and before CRM		Exposures post CF and post-CRM		RWAs and RWAs density	
		On-balance sheet exposures	Off-balance sheet exposures	On-balance sheet exposures	Off-balance sheet amount	RWAs	RWAs density (%)
		£'000	£'000	£'000	£'000	£'000	£'000
1	Central governments or central banks	124,823		124,823			0.0%
2	Regional government or local authorities						
3	Public sector entities						
4	Multilateral development banks	55,833		55,833			0.0%
5	International organisations						
6	Institutions	51,851		31,638		2,745	8.7%
7	Corporates						
8	Retail	8,614	5,698	8,614	1,140	7,315	75.0%
9	Secured by mortgages on immovable property	1,021,416	53,235	1,021,416	10,647	361,909	35.1%
10	Exposures in default	7,586		7,586		7,586	100.0%
11	Exposures associated with particularly high risk	18,703	15,709	18,703	3,142	32,768	150.0%
12	Covered bonds						
13	Institutions and corporates with a short-term credit assessment						
14	Collective investment undertakings						
15	Subordinated debt, equity and other own funds instruments						
16	Other items	7,695		7,695		7,695	100.0%
17	TOTAL	**1,296,522**	**74,643**	**1,276,309**	**14,929**	**420,019**	**32.5%**

Table 4 : UK CRM 2021

	Exposure classes	Exposures before CF and before CRM		Exposures post CF and post-CRM		RWAs and RWAs density	
		On-balance sheet exposures	Off-balance sheet exposures	On-balance sheet exposures	Off-balance sheet amount	RWAs	RWAs density (%)
		£'000	£'000	£'000	£'000	£'000	£'000
1	Central governments or central banks	183,513		183,513			0.0%
2	Regional government or local authorities						
3	Public sector entities						
4	Multilateral development banks	66,633		66,633			0.0%
5	International organisations						
6	Institutions	42,908		42,908		796	1.9%
7	Corporates						
8	Retail	7,629	10,532	7,629	2,106	7,302	75.0%
9	Secured by mortgages on immovable property	975,242	41,010	975,242	8,202	344,942	35.1%
10	Exposures in default	6,761		6,600		6,649	100.7%
11	Exposures associated with particularly high risk	13,256	14,559	13,256	2,912	24,252	150.0%
12	Covered bonds						
13	Institutions and corporates with a short-term credit assessment						
14	Collective investment undertakings						
15	Subordinated debt, equity and other own funds instruments						
16	Other items	8,244		8,244		8,244	100.0%
17	**TOTAL**	**1,304,186**	**66,102**	**1,304,025**	**13,220**	**392,184**	**29.77%**

2.9 Standardised approach – Exposures by asset class

Exposures are classified under their respective risk weight percentage where an ECAI rating has been used. Other exposures are stated as ‘unrated. This includes exposures to central governments and central banks within the UK and EEA, as these receive a zero per cent risk weight in line with regulatory permission.

Table 5 : CR5 2022

	Exposure classes £'000	Risk weight											Total	Of which unrated
		0%	2%	10%	20%	35%	50%	70%	75%	100%	150%	250%		
1	Central governments or central banks	124,823											124,823	124,823
2	Regional government or local authorities												0	
3	Public sector entities												0	
4	Multilateral development banks	55,833											55,833	
5	International organisations												0	
6	Institutions	17,912	20,213		13,726								51,851	
7	Corporates												0	
8	Retail exposures								14,312				14,312	14,312
9	Exposures secured by mortgages on immovable property					1,073,595				1,056			1,074,651	1,074,651
10	Exposures in default									7,586			7,586	7,586
11	Exposures associated with particularly high risk										34,413		34,413	34,413
12	Covered bonds												0	
13	Exposures to institutions and corporates with a short-term credit assessment												0	
14	Units or shares in collective investment undertakings												0	
15	Equity exposures												0	
16	Other items									7,695		0	7,695	7,695
17	**TOTAL**	**198,568**	**20,213**	**0**	**13,726**	**1,073,595**	**0**	**0**	**14,312**	**16,338**	**34,413**	**0**	**1,371,165**	

Table 6 : CR5 2021

	Exposure classes £'000	Risk weight										Total	Of which unrated
		0%	2%	10%	20%	35%	50%	70%	75%	100%	150%		
1	Central governments or central banks	183,513										183,513	183,513
2	Regional government or local authorities											0	
3	Public sector entities											0	
4	Multilateral development banks	66,633										66,633	
5	International organisations											0	
6	Institutions	26,323	14,007		2,578							42,908	
7	Corporates											0	
8	Retail exposures								18,162			18,162	18,162
9	Exposures secured by mortgages on immovable property					1,015,120				1,133		1,016,253	1,016,253
10	Exposures in default									6,663	98	6,761	6,761
11	Exposures associated with particularly high risk										27,815	27,815	27,815
12	Covered bonds											0	
13	Exposures to institutions and corporates with a short-term credit assessment											0	
14	Units or shares in collective investment undertakings											0	
15	Equity exposures											0	
16	Other items									8,244		8,244	8,244
17	**TOTAL**	**276,469**	**14,007**	**0**	**2,578**	**1,015,120**	**0**	**0**	**18,162**	**16,040**	**27,913**	**1,370,288**	

3. Liquidity Reporting

The Society's liquidity is entirely denominated in sterling and held almost exclusively in High Quality Liquid Asset (HQLA) investments. The largest element is held in a reserve account with the Bank of England and the majority of the remainder invested in treasury bills and either sovereign or supranational development banks. A small element has been held in certificate or deposits with major banks, with £10m held at December 2022.

3.1 LCR

The table below reports the Society's average LCR based on end of month observations over the preceding 12 months to each quarter end date for the financial year ended 31 December 2022.

Liquidity levels remain at a level materially above the regulatory minimum of 100%.

Table 7 : UK LIQ1

		Total weighted value (average)			
Quarter ending on		Dec-22	Sep-22	Jun-22	Mar-22
Number of data points used in the calculation of		12	12	12	12
HIGH-QUALITY LIQUID ASSETS					
1	**Total high-quality liquid assets (HQLA)**	**226.2**	**229.6**	**227.1**	**225.3**
CASH - OUTFLOWS					
2	Retail deposits and deposits from small business customers, of which:	52.2	46.8	47.8	49.8
3	*Stable deposits*	29.3	30.5	30.5	29.7
4	*Less stable deposits*	20.1	16.2	17.3	20.1
5	Unsecured wholesale funding	0.0	0.6	0.6	0.7
7	*Non-operational deposits (all counterparties)*	4.0	4.3	3.7	4.1
9	*Secured wholesale funding*	0.0	0.0	0.0	0.0
11	*Outflows related to derivative exposures and other collateral requirements*	4.3	5.0	4.2	4.3
13	*Credit and liquidity facilities*	23.4	32.7	27.6	25.5
14	Other contractual funding obligations	0.0	0.1	0.1	0.0
16	**TOTAL CASH OUTFLOWS**	**83.9**	**89.5**	**84.1**	**84.4**
CASH - INFLOWS					
18	Inflows from fully performing exposures	3.5	3.5	3.5	3.5
19	Other cash inflows	0.7	1.5	1.4	1.3
20	**TOTAL CASH INFLOWS**	**4.2**	**5.0**	**4.9**	**4.8**
TOTAL ADJUSTED VALUE					
UK-21	LIQUIDITY BUFFER	226.2	229.6	227.1	225.3
22	TOTAL NET CASH OUTFLOWS	79.7	84.4	79.1	79.6
23	**LIQUIDITY COVERAGE RATIO**	**283.7%**	**272.0%**	**287.2%**	**283.1%**

3.2 NSFR

The table below reports the December average of the quarter ends during 2022. As with the LCR this reflects strong funding materially above the regulatory minimum of 100%.

Table 8 : UK LIQ2

December 2022 Average Quarters		Unweighted value by residual maturity (average)			Weighted value (average)
		< 6 months	6 months to < 1yr	≥ 1yr	
Available stable funding (ASF) Items					
1	Capital items and instruments	**0.0**	**0.0**	**65.5**	**77.5**
2	*Own funds*	0.0	0.0	55.1	67.1
3	*Other capital instruments*	0.0	0.0	10.4	10.4
4	Retail deposits	**846.0**	**55.2**	**38.8**	**886.1**
5	*Stable deposits*	686.1	37.6	37.5	725.0
6	*Less stable deposits*	159.9	17.5	1.4	161.1
7	Wholesale funding:	**22.5**	**12.9**	**204.5**	**221.6**
9	*Other wholesale funding*	22.5	12.9	204.5	221.6
11	Other liabilities:	**1.7**	**0.0**	**9.7**	**9.7**
13	*All other liabilities and capital instruments not included in the above categories*	1.7	0.1	3.1	3.2
14	**Total available stable funding (ASF)**	**870.3**	**68.0**	**318.6**	**1,195.0**
Required stable funding (RSF) Items					
15	Total high-quality liquid assets (HQLA)	**0.0**	**0.0**	**0.0**	**1.5**
17	Performing loans and securities:	**43.4**	**35.9**	**1729.7**	**804.9**
21	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*	26.5	15.7	951.9	789.6
22	*Performing residential mortgages, of which:*	10.6	13.7	764.9	0.0
24	*Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products*	6.4	6.5	12.8	18.0
26	Other assets:				
31	*All other assets not included in the above categories*	0.0	0.0	0.0	13.6
32	Off-balance sheet items	**81.7**	**0.0**	**0.0**	**81.7**
33	**Total RSF**	**125.1**	**35.9**	**1729.7**	**904.4**
34	**Net Stable Funding Ratio (%)**	**0.0**	**0.0**	**0.0**	**133.0%**

4. Risk Management Approach

4.1 Risk Statement

As a mutual organisation the Society operates a prudent business model with a board defined risk appetite reflecting these values. The Society operates a robust risk control framework and a strategy that ensures it can withstand severe yet plausible stress impacts.

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), with management committee members comprising from the Executive and appropriate members of senior management.

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 statements set out in the Society's Risk Appetite Statement and in a series of quantitative measures that are reported to the Board.

Risk appetite is formally reviewed at least annually but may be revised more frequently to reflect emerging risks, changes to the economic and market environment or for any other reasons considered appropriate. All changes are taken to the Risk Committee for challenge before being recommended to the Board.

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 account when making decisions on remuneration across all levels of the organisation to ensure incentives do not drive poor customer outcomes or excessive risk taking.

4.2 Risk Management

"Three lines of defence"

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 independent assurance (3rd line).

4.2.1 Risk management framework

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 effective 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 and preparing for Consumer Duty of Care.

The Committee ensures that there is an appropriate balance between risk and reward in order to optimise member benefit and, when issues arise, they are managed for the best outcome of the Society and its members.

The Society's Risk Management Framework (RMF) 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;
- articulating the Society's risk strategy, Its proactive measures to mitigate risk and risk appetite; and
- directing the approach to risk governance throughout the Society.

The RMF sets out the Society's method of managing risk through:

- detailing the 3 Lines of Defence (3LoD) model and its operation within the Saffron Risk Management Framework;
- determining the responsibilities of the management Risk Committees and of individual roles in place to govern risk and how oversight for these operates;
- 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. The RMF is supported by policies and procedures to embed the principles into the business.

4.2.2 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 accepts niche lending sectors but seeks to minimise risk, in terms of property type, location and borrower characteristics, this is monitored carefully and benchmarked against external loss and risk data.

4.2.3 Interest rate risk in the banking book (IRRBB)

Interest rate risk is the risk of fluctuations in interest rates and changes in the value of instruments we use to manage interest rate risk which may impact the Society's capital and earnings.

The principal exposures faced by the Society are significant repayment or product switches within the Society mortgage portfolio which have an additional downside impact on the carrying value of the Effective Interest Rate (EIR) fair value asset attached to the mortgage asset. A further risk is the impact to the equity release mortgage book of movements in the long term discount rate (although this portfolio is also exposed to risks related to house price movements and mortality experience).

Mitigation:
The Society manages the risk through on-balance sheet matching of assets and liabilities or derivative financial instruments. Movements in interest rates and other indices have a direct impact on the value of certain balance sheet items which, in turn, creates volatility in reported earnings that cannot be completely mitigated. These balances are monitored on an ongoing basis with action taken when required.

4.2.4 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, through either 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 Group's liquidity portfolio and actively seeking alternative sources of finance. Note 28 to the Accounts, "Financial Instruments" contains additional narrative and numerical information in respect of the Group's approach to the management of credit risk, market risk and liquidity risk.

4.2.5 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 Deputy CRO maintains department-specific risk and control self-assessments (RCSA) covering the operations of the entire Society. RCSAs 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 ensure that any breakdown in systems would not cause significant disruption to the business.

4.2.6 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 member accounts or access sensitive data for personal gain.

Mitigation:
The Society continues to invest in the maintenance and development of technology, which includes cyber-risk reduction initiatives, ongoing certification to Cyber Essentials Plus, and alignment of the Society's information security management system to industry recognised standards such as ISO27001:2013 and the NIST Cyber Security Framework.

4.2.7 Compliance risk

Compliance 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. Ultimately there are three risks when it comes to ensuring that we comply 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.

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. 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.

4.2.8 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 or the newly formed Consumer Duty legislation.

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 the Board Risk Committee on conduct matters.

4.2.9 Business risk

The Group faces competition in all the core markets in which it operates. There is a danger 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.

4.2.10 Pension obligation risk

The Society has an obligation to fund the Saffron Building Society Pension Scheme (the "Scheme"). The Scheme is closed to future accrual and has been closed to new employees since August 2003 however, the obligation still gives rise to a risk that the Society will be called upon to provide additional funding should the Scheme's liabilities exceed its assets. The funding obligation is based upon regular triennial actuarial valuations, the most recent being 30 April 2020.

4.2.11 Climate change and environmental risk

The UK launched the Green Finance Strategy on 2 July 2019. The Strategy supports the UK's economic policy for strong, sustainable and balanced growth, the delivery of a modern Industrial Strategy and the domestic and international commitments on climate change, the environment and sustainable development. The Society has identified climate change as a significant area of risk and ensures that the financial implications are understood and monitored regularly.

Limits to mitigate risks have been set following extensive scenario analysis and a pro-active approach has been taken in order to support the Society in becoming a more sustainable business. A particular focus has been placed upon the physical impact of climate change on the Society's mortgage book, for example, properties located in areas subject to flood risk. The Society also recognises transition risks which can arise from the process of adjustment towards a low-carbon economy.

5. Remuneration

5.1 Information relating to body that oversees remuneration

5.1.1 Composition and mandate of the main body

The Society's objectives in setting remuneration policies is to ensure that they are in line with its overall strategy, risk appetite and long-term objectives, and that remuneration is set at a level to attract and retain the talent necessary.

The Board has established a committee known as the Remuneration Committee to assist in fulfilling the oversight and governance responsibilities in connection with remuneration activities. The terms of reference of the Committee are available on the Society's website, https://www.saffronbs.co.uk/about/corporate-information/board-and-its-committees

Remuneration committee membership comprised of six Non-Executive Directors, one of whom is the committee's Chair. The Committee met 6 times during the financial year ending December 2022.

5.1.2 External Consultancy

The Society engaged the services of McLagan, part of the Aon Group, a number of years ago to provide benchmarking surveys, studies, products, and consulting services in line with a wider total reward assessment against the wider Financial Services market. Salary benchmark data is provided to the Society annually.

5.1.3 Scope of the institution's remuneration policy

The principal aim of the Remuneration Policy is to ensure the remuneration of all colleagues and executives is fair, reflects individual performance and competence and is competitive within the local financial services market.

The Remuneration Policy ensures that the strategic objectives can be achieved: attracting, motivating, rewarding and retaining people with appropriate skills and behavioural competencies to deliver the business plan. It also promotes and encourages the right behaviours to align with the Society's conduct, culture and risk management practices (avoiding incentives which could encourage inappropriate risk taking and detriment). Directors and some other key roles are all designated as 'Code Staff' under the Regulator's Remuneration Code due to their material impact on the Society's risk profile

The Remuneration Policy addresses the Corporate Governance Code requirements and the Committee uses this to ensure that the implementation takes due consideration of the need for clarity, simplicity, risk, predictability, proportionality and alignment to culture. The Committee is satisfied that the remuneration policy meets with the criteria of the Remuneration Code.

5.1.4 Material Risk Takers (MRTs)

The Remuneration Committee acknowledge there are 22 individuals whose roles qualify for inclusion as a MRT. Those roles have professional activities that have a material impact on the Society's risk profile.

The categories of employees cover:

- All members of the Society's Board, including Non-Executive Directors, the Chairman and the Chair Designate. All Executive Directors, Directors and the key members of the Senior Leadership team which includes roles that perform a professional activity that has a significant impact on the relevant business unit's risk profile, for example, our Deputy Chief Risk Officer and Head of Underwriting.

5.2 Information relating to the design and structure of the remuneration system for identified staff

5.2.1 Overview of the key features and objectives of remuneration policy

Our remuneration approach is very much in-line with the size of our Society and the complexity of the activities performed. The remuneration for our identified staff has been carefully considered against the risk profile and to protect the society against unsuitable remuneration structures and gradings that would put the society at risk and out of place within our sector.

Our efforts into reviewing remuneration in 2022 were underpinned by our strategic goal of becoming an 'Amazing Employer Brand', our approach is simple to benchmark and considers the wider Financial Service Market and BSA salary data, in line with the sector.

Our Amazing Employer Brand goal was created to ensure there was a relentless focus on people through improved people led initiatives, and one of the six key people workstreams is a commitment to 'Meaningful Rewards and Benefits'

Our fixed remuneration forms a high proportion of the reward package, with variable pay up to 30% for the highest performers. Together with a competitive benefits package which is measured fairly across all colleagues, including those that are considered as identified staff.

5.2.2 Information on the criteria used for performance measurement

Our approach to remuneration is very much in-line with the size of our Society, and performance management has a key focus.

In 2022, we introduced a new pay and gradings structure called 'Career Families' this reflects the truth of what we do now and what we could do in the future and provides our colleagues with the framework to navigate the future development and reward of individuals and teams.

The framework has been assessed against external McLagan compensation data and also that of BSA benchmarking to test salaries within the sector.

Individual objectives are set at the start of each performance year and all link to each of the Societies corporate goals, values and behaviours. Objectives are discussed during monthly 1:1's with people managers, culminating in calibration of performance grades awarded.

The bonus process has a robust calibration process built in to review all performance grades for individuals, departments and reviewed further between genders and other protected characteristics across the Society. The scheme's purpose is underpinned by key principles linked to an approach that is focused on performance against the corporate strategy, profit and affordability.

Annually, the CRO performs an annual attestation to confirm the remuneration policy is effective and there has been no undue risk placed through performance management linked pay.

5.2.3 Remuneration policy review process

The renumeration policy is reviewed and updated on an annual basis and presented to the Renumeration Committee for approval. Particular attention is placed on both the qualitative and quantitative criteria. No material changes were made in 2022.

5.2.4 Information on how the institution ensures that staff in internal control functions are remunerated independently of the businesses they oversee

The internal control functions are independent and have sufficient resource, knowledge, and experience to perform their tasks and cooperate actively and regularly with each other. The remuneration of colleagues within the independent control functions allows for the employment of qualified and experienced colleagues and the reward equation is entirely fixed to reflect the nature of responsibilities in these areas.

The salary of the Chief Risk Officer is agreed by the Committee following recommendation from the Chief Executive Officer with the bonus element of the salary package linked to their performance against their specific objectives, with no element linked to the financial performance of the Society.

5.2.5 Policies and criteria applied for the award of guaranteed variable remuneration and severance payments

There is no guaranteed variable remuneration and this will only be awarded when affordable. Therefore, there are no policies attached to this.

5.3 Description of the ways in which current and future risks are taken into account in the remuneration processes

The Society Risk register details the key risks which have been developed through both the Risk Management Committee and the Board Risk Committee. The Chair of Risk is a member of the Remuneration Committee and The Chief Risk Officer provides a risk view on the variable pay scheme, along with providing an annual attestation in line with SYSC 21.1.2 (j).

5.4 The ratios between fixed and variable remuneration set in accordance with Article 94(1) of CRD

The fixed and variable components are appropriately balanced with the fixed portion representing a sufficiently high proportion of total remuneration.

There is no minimum requirement but a maximum of 30% could be achieved. This remains in line with regulatory requirements.

5.5 Description of the ways in which the institution seeks to link performance during a performance measurement period with levels of remuneration

5.5.1 Overview of main performance criteria and metrics for the institution, business lines and individuals

The Society monitors and measures reward performance through its variable pay through a balanced scorecard. The scheme is split into two and focuses on key performance indicators linked to Society and Individual performance and behaviours. The society will only be expected to pay a bonus if the threshold of Society performance is achieved.

Fixed element
The fixed element is a pound value which is the same for all staff and reflects the performance of the Society enabling all colleagues to share in success, to encourage collaboration and

teamwork. Performance assessments are based around realistic and measurable key performance indicators linked to the strategic goals of the Society.

Variable element
The variable element is a percentage of the staff members gross salary, up to a maximum of 20% for staff and 30% for those on the Executive Remuneration Scheme. Performance assessments are based around realistic and measurable key performance indicators linked to the strategic goals of the Society.

The actual percentage based on gross basic salary payable is determined once the end of year financials have been agreed.

Our business scorecard objectives are subject to ratification by the Remuneration Committee.

The KPI's linked to the business scorecard focus on 3 of the 5 corporate objectives;
- Financially and Operationally Strong
- Amazing Employer Brand
- Service that Stands Out

The performance calibration is further supported by ensuring all People Managers have a consistent approach to scoring and measuring performance across the Society linked to annual incentive schemes. The distribution is also shared with the Remuneration committee for oversight.

5.5.2 Measures the institution will implement to adjust variable remuneration in the event that performance metrics are weak, including the institution's criteria for determining "weak" performance metrics

During the calibration process, challenge is applied to each element of the process to ensure all colleague gradings are discussed. The Executive Committee will discuss the planned criteria for the performance year, which will then be rolled out to the People Managers via benchmarking meetings led by the Head of People.

The Head of People is then engaged to ensure fairness has been applied across the Society, with gradings benchmarked and performance has been carefully considered when agreeing on ratings. The proposed gradings are then discussed at the Executive Committee, where any moderation will be agreed before being proposed to the Remuneration Committee.

5.6 Description of the ways in which the institution seeks to adjust remuneration to take account of long-term performance

5.6.1 Overview of the institution's policy on deferral, pay-out in instrument, retention periods and vesting of variable remuneration including where it is different among staff or categories of staff

Our Remuneration Policy Statement refers to the deferral element. This only applies to Executive.

The strategic planning process identifies short, medium and long term activities and is overseen by the Board. Payment of annual bonus is based on performance in a given year against all of these objectives both bought forward and current. The deferred element is remunerated over the following three years and would only be forfeited if serious underperformance or misconduct in director responsibilities occurred.

Table 9: UK REM1 – Remuneration awarded for the financial year

			£'000	£'000	£'000	£'000
			MB Supervisory function	**MB Management function**	**Other senior management**	**Other identified staff**
1	Fixed remuneration	Number of identified staff	8	3	2	7
2		Total fixed remuneration	304,130	659,410	354,782	679,386
3		Of which: cash-based	304,130	600,413	318,780	589,047
UK-4a		Of which: shares or equivalent ownership interests	-	-	-	-
5		Of which: share-linked instruments or equivalent non-cash instruments	-	-	-	-
UK-5x		Of which: other instruments	-	-	-	-
7		Of which: other forms	-	58,997	36,002	90,339
9	Variable remuneration	Number of identified staff	8	3	2	7
10		Total variable remuneration	-	151,908	63,130	69,266
11		Of which: cash-based	0	151,908	63,130	65,689
12		Of which: deferred	0	60,763	25,252	-
UK-13a		Of which: shares or equivalent ownership interests	-	-	-	-
UK-14a		Of which: deferred	-	-	-	-
UK-13b		Of which: share-linked instruments or equivalent non-cash instruments	-	-	-	-
UK-14b		Of which: deferred	-	-	-	-
UK-14x		Of which: other instruments	-	-	-	-
UK-14y		Of which: deferred	-	-	-	-
15		Of which: other forms	-	-	200	3,577
16		Of which: deferred	-	-	-	-
17	Total remuneration (2 + 10)		**304,130**	**811,318**	**417,912**	**748,652**

Table 10: UK REM2 - Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff)

		£'000	£'000	£'000	£'000
		MB Supervisory function	MB Management function	Other senior management	Other identified staff
	Guaranteed variable remuneration awards				
1	Guaranteed variable remuneration awards - Number of identified staff	-	-	-	-
2	Guaranteed variable remuneration awards -Total amount	-	-	-	-
3	Of which guaranteed variable remuneration awards paid during the financial year, that are not taken into account in the bonus cap	-	-	-	-
	Severance payments awarded in previous periods, that have been paid out during the financial year				
4	Severance payments awarded in previous periods, that have been paid out during the financial year - Number of identified staff	-	-	-	-
5	Severance payments awarded in previous periods, that have been paid out during the financial year - Total amount	-	-	-	-
	Severance payments awarded during the financial year				
6	Severance payments awarded during the financial year - Number of identified staff	-	-	-	-
7	Severance payments awarded during the financial year - Total amount	-	-	-	-
8	Of which paid during the financial year	-	-	-	-
9	Of which deferred	-	-	-	-
10	Of which severance payments paid during the financial year, that are not taken into account in the bonus cap	-	-	-	-
11	Of which highest payment that has been awarded to a single person	-	-	-	-

Table 11: UK REM3 – Deferred Remuneration

	Deferred and retained remuneration	Total amount of deferred remuneration awarded for previous performance periods (£'000)	Of which due to vest in the financial year (£'000)	Of which vesting in subsequent financial years (£'000)
1	MB Supervisory function	-	-	-
2	Cash-based	-	-	-
3	Shares or equivalent ownership interests	-	-	-
4	Share-linked instruments or equivalent non-cash instruments	-	-	-
5	Other instruments	-	-	-
6	Other forms	-	-	-
7	MB Management function	3	3	3
8	Cash-based	60,830	31,280	29,550
9	Shares or equivalent ownership interests	-	-	-
10	Share-linked instruments or equivalent non-cash instruments	-	-	-
11	Other instruments	-	-	-
12	Other forms	-	-	-
13	Other senior management	2	2	2
14	Cash-based	13,865	7,365	21,230
15	Shares or equivalent ownership interests	-	-	-
16	Share-linked instruments or equivalent non-cash instruments	-	-	-
17	Other instruments	-	-	-
18	Other forms	-	-	-
19	Other identified staff	-	-	-
20	Cash-based	-	-	-
21	Shares or equivalent ownership interests	-	-	-
22	Share-linked instruments or equivalent non-cash instruments	-	-	-
23	Other instruments	-	-	-
24	Other forms	-	-	-
25	Total amount	74,695	38,645	50,780

Table 12: UK REM4 – Remuneration of 1 million EUR or more per year

	EUR	No of staff Identified staff that are high earners as set out in Article 450(i) CRR
1	1 000 000 to below 1 500 000	-
2	1 500 000 to below 2 000 000	-
3	2 000 000 to below 2 500 000	-
4	2 500 000 to below 3 000 000	-
5	3 000 000 to below 3 500 000	-
6	3 500 000 to below 4 000 000	-
7	4 000 000 to below 4 500 000	-
8	4 500 000 to below 5 000 000	-
9	5 000 000 to below 6 000 000	-
10	6 000 000 to below 7 000 000	-
11	7 000 000 to below 8 000 000	-

6. Attestation

The Board of Directors confirm that the Society’s capital position is sufficient to meet the minimum capital resources requirement. A viability assessment has been undertaken and from this the Board of Directors has a reasonably expectation that the group will continue to meet minimum requirements for the foreseeable future. The risk management framework is proportionate to the complexity and size of the Society and the principal risks it faces.

Appendix One – Composition of regulatory own funds

The Society holds capital in the form of Tier 1 and Tier 2.

Tier 1 capital is made up of retained profits held in a general reserve, property revaluation reserve, available for sale reserve which reflects valuation of treasury assets, and a prudent valuation adjustment.

Tier 2 capital is made up of subordinated debt and collective impairment.

The table below summarises the Society's capital as at 31st December 2022.

Table 12 : UK CC1

		£'000
	Common Equity Tier 1 (CET1) capital: instruments and reserves	
1	Capital instruments and the related share premium accounts	
2	Retained earnings	71,147
3	Accumulated other comprehensive income (and other reserves)	(64)
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**71,083**
	Common Equity Tier 1 (CET1) capital: regulatory adjustments	
7	Additional value adjustments (negative amount)	(197)
8	Intangible assets (net of related tax liability) (negative amount)	(1,858)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount)	
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	
12	Negative amounts resulting from the calculation of expected loss amounts	
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	
15	Defined-benefit pension fund assets (negative amount)	(83)
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	(2,138)
29	**Common Equity Tier 1 (CET1) capital**	**68,945**
	Tier 2 (T2) capital: instruments	
50	Credit risk adjustments	
51	**Tier 2 (T2) capital before regulatory adjustments**	**10,490**
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**0**
58	**Tier 2 (T2) capital**	**10,490**
59	**Total capital (TC = T1 + T2)**	**79,435**
60	**Total Risk exposure amount**	**464,427**
	Capital ratios and buffers	
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	14.70%
62	Tier 1 (as a percentage of total risk exposure amount)	14.70%
63	Total capital (as a percentage of total risk exposure amount)	17.10%
64	Institution CET1 overall capital requirement (CET1 requirement in accordance with Article 92 (1) CRR, plus additional CET1 requirement which the institution is required to hold in accordance with point (a) of Article 104(1) CRD, plus combined buffer requirement in accordance with Article 128(6) CRD) expressed as a percentage of risk exposure amount)	11.50%
65	of which: capital conservation buffer requirement	2.50%
66	of which: countercyclical buffer requirement	1.00%
68	**Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)**	**6.85%**

Appendix Two – Balance sheet assets reconciled to regulatory credit risk exposure

Table 13 : Balance sheet assets reconciled to regulatory exposures

	Group Balance Sheet Assets	Assets Deducted from own funds	Provisions	Regulatory Off Balance sheet Items	Negative Hedge Accounting Adjustments Excluded from Regulatory Reporting	Derivative financial instruments Calcuation from Regualtory Reporting different to Accounting value	Group Credit Risk Expsoure
2022	**£000**	**£000**	**£000**	**£000**	**£000**	**£001**	**£000**
Assets							
Cash in hand and balances with the Bank of England	103,738	-	-	-			103,738
Loans and advances to credit institutions	22,710	-	-	-			22,710
Debt securities	85,846	-	-	-			85,846
Derivative financial instruments	35,414	-	-	-		(15,201)	20,213
Loans and advances to customers	1,028,579	-	490	74,643	27,250		1,130,962
	1,276,287	-	490	74,643	27,250	(15,201)	1,363,469
							-
Investment properties	2,010	-	-	-			2,010
Property, plant and equipment	3,465	-	-	-			3,465
Intangible assets	1,858	(1,858)	-	-			-
Other assets	2,194	-	-	-		27	2,221
Current tax asset	-	-	-	-			-
Deferred tax asset	426	-	-	-		(426)	-
Pension asset	83	(83)	-	-			-
Total assets	1,286,323	(1,941)	490	74,643	27,250	(15,600)	1,371,165

Appendix Three – Glossary

This table provides explanations for key abbreviations used in the document

Basel II	Published in June 2004, was a new framework for international banking standards, superseding the Basel I in determining the minimum capital that banks should hold to guard against the financial and operational risks.
Basel III	Third framework setting standards for banks capital adequacy, stress testing, and liquidity requirements. Superseding parts of the Basel II standards, developed in response to the deficiencies in regulation revealed by the financial crisis of 2007–08.
CCF	Credit Conversion Factor. Off balance sheet exposures (e.g. mortgage pipeline) have a probability of becoming a credit exposure and shifting onto the balance sheet. The CCF is an estimate of this probability.
CCP	Central Counterparties. These are financial institutions that take on counterparty credit risk between parties to a transaction and provides clearing and settlement services. Used by the Society for clearing interest rate derivatives.
CCR	Counterparty credit risk. The risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows.
CET1	Common Equity Tier 1. The highest quality of regulatory capital comprising of retained earnings and other reserves. It absorbs losses immediately when they occur.
CRD	Capital Requirements Directive. A set of prudential rules applicable to financial institutions published by the EU.
CRR	Capital Requirements Regulation. EU law defining capital measurement and standards applicable to financial institutions.
FCA	Financial Conduct Authority. Responsible for supervision of financial institutions conduct approach.
GHOS	Group of Central Bank Governors and Heads of Supervision. The GHOS oversees the work of the Basel Committee, being the primary global standard setter for the prudential regulation of financial institutions.
ICAAP	Internal Capital Adequacy Assessment Process. Completed internally by financial institutions to asses the level of capital required to meet regulatory requirements
IRRBB	Interest Rate Risk in the Banking Book. Risk posed by adverse movements in interest rates that cause a mismatch between the rates set on customer loans and on deposits.

NSFR	Net Stable Funding Ratio. Relates the bank's available stable funding to its required stable funding. This must equal or exceed 100%.
Pillar 1	Minimum regulatory capital requirement. Specified by Basel framework at 8%
Pillar 2	Supervisory review and evaluation process (SREP) assesses financial institutions risk measurement and controls. Capital requirements will be added for risks not adequately covered under Pillar 1.
Pillar 3	Defines the required disclosure of key information on capital, risk exposures and risk management processes.
PRA	Prudential Regulation Authority. As part of the Bank of England the PRA Provides regulation of financial institutions, including Building Societies.
RWA	Risk Weighted Assets. Calculated through the standardised approach, multiplying an exposure with a prescribed percentage based on the level of risk.
SREP	Supervisory review and evaluation process is undertaken by the PRA to assess a firms individual capital requirement for Pillar 2
Standardised Approach	Prescribed regulatory approach to calculating capital requirements relating to credit, market and operation risk.