Pillar 3 Disclosure Document of Beverley Building Society for the year ending 31 December 2020

Contents

1. Introduction

This disclosure document is intended to provide background information on the Society's approach to risk management as related to maintaining and preserving the capital position of the Society. It also provides asset information and capital calculations under Pillar 1, and specifically the Society's risk weighted exposures under the standardised approach credit risk exposure classes. It also provides disclosures in relation to the Remuneration Policy and practices for those staff whose professional activities could have a material impact on the Society's risk profile.

The regulatory framework under which the Society operates comprises principally the Capital Requirements Directive (CRD) and the Capital Requirements Regulations (CRR), collectively referred to as 'CRD IV'. CRD IV requires capital requirements to be determined on the basis of three 'Pillars':

- **Pillar 1: Minimum Capital Requirements** calculated on *the standardised approach to credit risk* (expressed as 8% of the risk weighted exposure amounts for each of the applicable standardised credit risk exposure classes), and the *basic indicator approach to operational risk* (determined by reference to the net income of the Society averaged over the previous 3 years).
- **Pillar 2: Additional Capital Requirements** assessed by the Society as appropriate to reflect specific risks not considered to be adequately covered under Pillar 1 ('Pillar 2a' capital requirement) and to protect the Society's capital position under certain stressed conditions ('Pillar 2b' capital requirement). These requirements are evaluated through an Internal Capital Adequacy Assessment Process ('ICAAP'). This involves the assessment of capital that the Board of Directors ('the Board') considers adequate to mitigate the various risks to which the Society is exposed, based on the Society's Risk Appetite Statement, Risk Management Policies, Systems and Controls, and its Corporate Plan.
- **Pillar 3: Disclosure** of key information on risk exposures and approaches to risk management.

The basis of these Pillar 3 disclosures is the latest European standard issued by the Basel Committee on Banking Supervision (BCBS); Basel III/CRD IV. Basel III was constructed after the 2008 financial crisis with the aim of strengthening banks and building societies, in terms of capital adequacy, stress testing and liquidity risk.

CRD IV had an extended period of implementation that started in 2014 and concluded in 2019.

Beverley Building Society ('the Society') has an obligation to ensure that Members are protected by a sufficient amount of capital. Internal systems and controls have been designed by the Society, to identify the risks associated with its activities and evaluate the potential losses which may arise under stressed conditions. This risk assessment is used to assist the Board in developing appropriate business strategies, identifying significant risk management performance indicators, and in effective oversight of the effectiveness of systems and controls.

These disclosures reflect the Society's position as of 31 December 2020, and data has been drawn from the Society's Annual Report and Accounts as at that date unless otherwise stated.

The Society has no subsidiaries and operates a simple traditional building society model with no complex treasury operations. At 31 December 2020 the Society was exclusively funded from retail savings and deposits.

The Society prepares its annual accounts in accordance with the Building Societies Act 1986, the Building Societies (Accounts and Related Provisions) Regulations 1998 and Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102") as issued in September 2015. These Pillar 3 disclosures reflect this.

It should be noted that these disclosures do not constitute a Financial Statement and are intended only for the purpose of providing information on the Society's capital requirements and relevant aspects of its risk management framework.

In the event that a user of this document requires further explanation on the disclosures given, application should be made in writing to the Risk Director at Beverley Building Society, 57 Market Place, Beverley, HU17 8AA.

2. Risk appetite

The Society's Risk Appetite Statement, which has been approved by the Board, is summarised as follows:

<u>Prudential</u>

The Society will not knowingly take risk positions which threaten its ability to remain an independent mutual Building Society that is able to continue to provide value to its members on a going concern basis. The Society's Executive Team will conduct its activities in a manner that safeguards the Society's investing members' deposits.

The Society ensures that its internal control mechanisms and administrative and accounting procedures permit the verification of its compliance with rules adopted in accordance with the Capital Adequacy Directive (CAD). The Society closely monitors any proposed changes which may impact on the Society.

<u>Credit</u>

The Society will only consider new lending when it is Fully Secured on Residential Property (FSRP) and is owner occupied. Currently the Society is lending a maximum of 95% of purchase price or value whichever is the lower, with appropriate mortgage indemnity insurance taken on new lending above 80% LTV.

A maximum loan of 4 x income is generally applied which is in addition to monthly affordability calculation, incorporating a stress of Standard Variable Rate (SVR) + 2.00%.

There is an appetite for lending on both a capital & interest and an interest-only basis subject to limits and criteria agreed by the Board. There is currently no further appetite for new buy to let or non-residential (i.e., commercial) lending.

Conduct

The Society offers straightforward, value for money products, that are easy to understand, and are supported by an unrivalled level of personal service. In addition, the Society does not offer sales incentives or bonuses to its staff and individual appraisal objectives do not include sales targets. Levels of conduct risk are considered to be low.

Operational

The Society has minimal appetite for losses arising from operational risk but accepts that it cannot limit it entirely.

3. Risk management policies and objectives

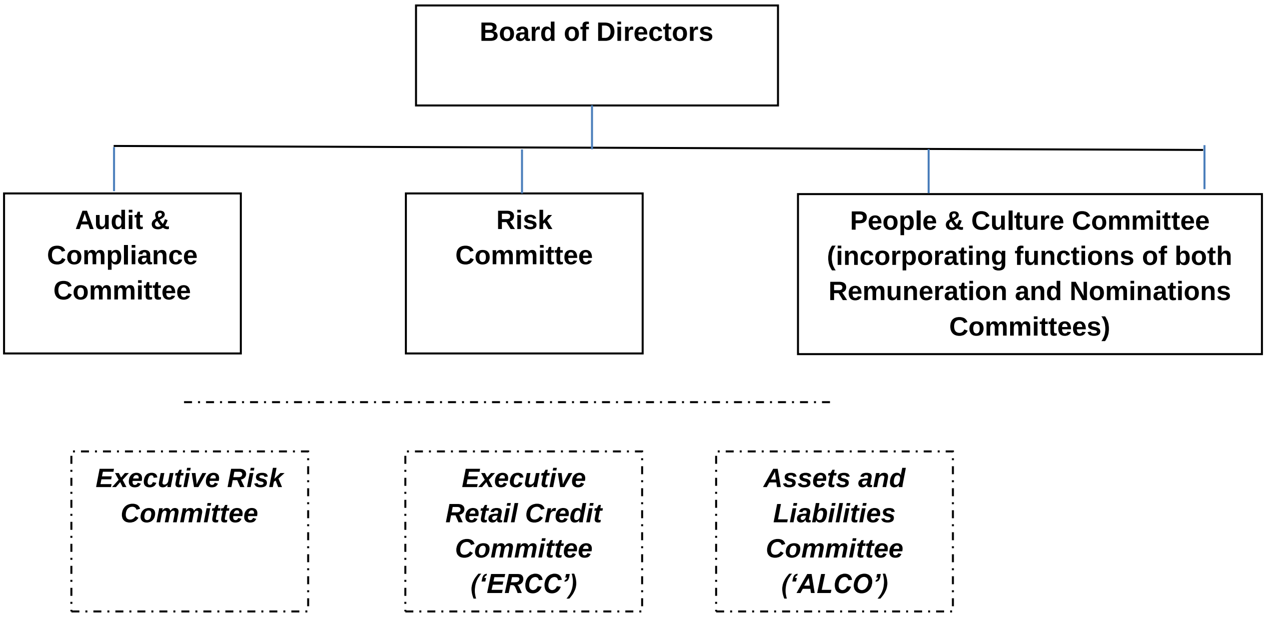
3.1. Risk framework

The Risk Appetite Statement is relevant to all the significant risks facing the Society. This, along with the Corporate Plan, sets the parameters for the risk framework which includes:

- Strategy, principles and risk appetite (quantitative and qualitative); clearly articulated and approved by the Board.
- Responsibilities: allocation to individuals, Committee Terms of Reference, mandates and reporting lines defined and appropriately segregated.
- Arrangements: documented Policies and Procedures, communicated and applied across the business.
- Monitoring; generation of appropriate management information for first and second line oversight, and the generation of appropriate Reports for governance oversight.
- Internal Audit; independent evaluation of the design, implementation and effectiveness of the Society's systems and controls.

3.2. Governance

The Society's Board and Committee structure is:



The responsibilities of the Board and each of the Board sub-Committees are described in their Terms of Reference, which are published on the Society's website.

3.2.1 The Board

The Board, chaired by Stuart Purdy, directs and supervises the Society's affairs. The principal functions of the Board are to determine the Society's strategy, to review business performance and to ensure that the necessary financial and business systems and controls and human resources are in place for the management of risk and to safeguard the interests of members.

3.2.2 Audit and Compliance Committee

The Committee, chaired by Mike Heenan, considers regulatory compliance matters, the adequacy of internal controls, reviews reports from both the Society's internal and external auditors and reviews any changes in accounting policy and practice. Meetings are held at least four times a year and other members of the Committee are Esther Morley and Richard Pattinson. All three members of the Committee have recent relevant financial experience.

3.2.3 Risk Committee

The Risk Committee, chaired by Esther Morley, meets at least four times a year. The Committee is responsible for the oversight and challenge of the Society's risk management framework to identify, manage and mitigate key risks faced by the

Society. This includes oversight of the Society's balance sheet in relation to liquidity and net interest margin, of the overall quality of the mortgage portfolio, for reviewing policies and ensuring adherence to regulatory limits. Other members of the Committee are Mike Heenan, Richard Pattinson and Sue Symington.

Also routinely attending are Karl Elliott (Chief Executive), Janet Bedford (Deputy Chief Executive), Mark Marsden (Risk Director) and Graham Carter (Head of Lending).

3.2.4 People & Culture Committee

The People & Culture Committee, chaired by Sue Symington, meets at least four times a year and focuses on those strategic matters which relate to the employment of all colleagues in the Society in particular in relation to Succession Planning, Reward, Learning & Development and Performance Management. This includes the independent review of the remuneration, benefits and contracts of Non-Executive Directors and Executive Directors, and review of the structure, size and composition of the Board, making recommendations to the Board as appropriate. The other members of the Committee are the Chairman and the Chief Executive. Further details can be found in the Society's Annual Report and Accounts.

The Society maintains a comprehensive suite of Policies to support management of specific risks. These include, but are not limited to, policies for Financial Risk, Funding, Liquidity, Lending, Conduct Risk and Arrears Management. These contain appropriately detailed qualitative and quantitative criteria and limits within which the business is managed, and the effectiveness of risk management systems and controls is regularly evaluated. These are reviewed, amended and approved by the Board on a regular basis to ensure they remain relevant and appropriate.

3.3 Risk management structure

The Society operates a 'three lines of defence' model, summarised below:

a) First Line – the operational business

The Board sets out its requirements in Statements and Risk Appetite and Policy, the implementation of which is delegated to the Senior Management Team consisting of:

- Chief Executive
- Deputy Chief Executive/ Finance Director
- Risk Director
- Head of Lending
- Head of Operations

The Executive Team ensures that departmental procedures, individual and team responsibilities, staff training and quality control arrangements reflect the Boards requirements in a transparent, recorded manner. The Executive Team meets weekly and considers the effective implementation of these requirements.

b) Second Line – risk & compliance

Supported by a Compliance Manager and a Risk Manager, the Risk Director works with the senior management team to ensure that the risk management framework is implemented. This includes providing independent monitoring and challenge to help identify any gaps in the risk control system. Reports are provided to the Executive Team, Board and its sub-Committees on a regular basis.

c) Third Line - internal audit

Internal Audit has been outsourced to RSM, who provide independent assurance that the systems are appropriate, and controls effectively applied, and report directly to the Chairman of the Audit and Compliance Committee.

3.4. Risk identification, monitoring and reporting

The Society's Risk Register is the main tool capturing the significant risks (and associated controls) facing the Society and is maintained by the Risk Director, who also ensures that these are communicated to the Board and are reflected in the ICAAP process: The Risk Register is reviewed by the Risk Committee on behalf of the Board twice a year. The Risk Register records the evaluation of likelihood and potential consequences, inherent and residual risk.

The Board, Risk Committee, and the Audit and Compliance Committee monitor risk metrics derived from the ICAAP, ILAAP and Recovery Plan related to their areas of responsibility. Issues identified are highlighted to the Board. All Board members receive management information in relation to the full suite of ICAAP derived risk metrics from the ICAAP, ILAAP and Recovery Plan.

3.5. Principal risks faced by the Society

The Risk Appetite Statement defines the boundary of the risks that the Society is willing to assume. The Financial Risk Management, Funding, Liquidity, Lending, Arrears Management and other risk related Policies provide a translation into specific contexts and provide a specific risk management framework in these areas.

The principal risks facing the Society as a result of its normal business activities are outlined below.

3.5.1 Credit Risk

Credit risk is the risk of unexpected loss if a customer or counterparty fails to perform its obligations. As a prime residential mortgage lender, mortgage default is the largest single risk run by the Society. This risk is monitored by the Risk Committee, as is credit risk in relation to liquid assets.

<u>(a)</u> <u>Credit Risk – Mortgages</u>

Credit risk for mortgages, arising from exposures to institutions, retail and commercial customers is assessed via a number of stress tests defined in the Risk Appetite Statement.

All new lending is assessed against a Board approved Lending Policy by experienced staff subjected to a thorough training and competence regime. A full affordability assessment including an appropriate affordability stress test (currently SVR + 2% across all its discounted variable and fixed rate products) is completed in all cases, and the separate approvals to Offer and Complete on mortgages enforce ‘four eyes’ checking, segregation of duties and adherence to Board approved mandates.

The Society lends only on property in England and Wales. All new lending is prime residential to owner occupiers, although the Society does retain some exposure to legacy commercial and buy to let lending. The Society does not accept self-certification of income.

During the year to 31 December 2020 credit losses were £262K (2019: £257K). At that date there were 17 (2019: 24) accounts where forbearance was currently exercised; the balance of these accounts amounted to £2.90M (2019: £3.12M) or 1.93% (2019: 2.05%) of mortgage balances.

<u>(b)</u> <u>Credit Risk – Liquidity Counterparties</u>

The Society’s Liquidity Policy includes strict criteria for counterparties to ensure that its liquidity investments are both diversified and of a high quality. There are Policy criteria in relation to eligible counterparties, eligible investments, single counterparty exposures and maturity structure. A large proportion of the Society’s liquid asset exposure is to the UK Government.

Total liquidity at 31 December 2020 was £49.4M (2019: £38.8M) broken down as follows:

	< 3 Months £000	**Total £000**
Bank of England Reserve Account (same day access)	40,703	**40,703**
Nat West Call Account (Rated A)	6,712	**6,712**
Barclays Call Account (Rated A+)	1,877	**1,877**
Cash in hand	99	**99**
Total	49,391	**49.391**

The increase in liquidity during 2020 was primarily a consequence of prudent decisions to maintain a high level during a period of unprecedented potential volatility with the juxtaposition of the impacts of the response to CoVID-19 and the ending of the BREXIT transitional period.

The Risk Committee monitors counterparty exposures against the limits, and the Board is briefed by its Chairman on the outcome of that monitoring and on key decisions made, which includes (when applicable) changes to counterparty limits, for Board ratification.

(c) Provisions

Provisions for losses are based upon an appraisal of loans and other asset balances and their carrying value on the Society's Balance Sheet, in accordance with a Board approved Policy on Loss Provisioning.

Individual assessments are made of all loans and on properties which are in possession, more than three months in arrears, or have clear indicators of impairment. Additionally, loans with a high LTV and relatively limited remaining term, as well as loans historically extended, are assessed on an individual basis. Specific provision is made against those loans and advances that are considered to be impaired, based on expected discounted cashflows. In arriving at the specific provision, account is taken of discounts required against each individual property value, the amounts expected to be recovered under mortgage indemnity policies, estimated sale expenses and an appropriate discount rate.

Those loans not found to be specifically impaired are then collectively assessed by portfolio type for any impairment that has been incurred but not yet identified. In assessing collective impairment, the Society uses statistical modelling of historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, and then considers adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than is suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

In 2020, higher probabilities of default are allocated to mortgages within the collective provision, with signs of early impairment indictors such as 1-2 months in arrears, or those mortgages with higher LTVs. The financial accounts of large commercial mortgage customers are also considered for early signs of impairment.

Where the Society is renting out properties acquired through possession, impairment is considered on a discounted cashflow basis. The forecast will take into account the loan amount, expected income and costs of renting the property and assumes the sale of the property at valuation, including relevant sales costs, at the end of the expected term. Where these properties are subsequently expected to be sold in the short term, the estimated provision based on immediate sale will be taken.

The movements on provisions in 2020 are set out below:

	Loans fully secured on residential property	**Other loans fully secured on land**	**Total**
	£000	£000	£000
At 31 December 2019			
Collective provision	62	69	131
Specific provision	154	248	402
Total	216	317	533
Specific provision -utilised in year	(24)	-	(24)
Change for the year			
Collective provision	(24)	33	9
Specific provision	216	37	253
Reclassification*	164	(164)	-
Total	356	(94)	262
At 31 December 2020			
Collective provision	38	102	140
Specific provision	510	121	631
Total	548	223	771

*Reclassification: £164,000 has been reclassified from other loans fully secured on land to loans fully secured on residential property, given management believes this better reflects the categorisation of the underlying mortgage.

3.5.2 Liquidity Risk

Liquidity risk is the risk that the society is unable to meet its financial obligations as they fall due. Its main liabilities are its retail savings products. The Society's policy is to maintain sufficient liquid funds at all times to ensure that liabilities can be met as they fall due. The objective of liquidity is to help smooth mismatches between maturing assets and liabilities, thereby maintaining public confidence in the solvency of the Society. The majority of the Society's liquid funds are either deposited with the Bank of England or invested in tradable financial instruments which can readily be converted to cash should the need arise.

Liquidity risk is managed principally by holding an appropriate level of high quality, easily realisable liquid assets (primarily in a Bank of England Reserve Account). The Board has established an appropriate Liquidity Risk Appetite and Policy Statement, supported by a Contingency Funding Plan developed to ensure that, so far as reasonably practicable, the availability of sufficient financial resources to meet liabilities as they fall due under a range of scenarios.

Liquidity levels, and a number of associated lead indicators (e.g., levels of outflows, Liquidity Coverage Ratio and the Net Stable Funding Ratio) are monitored by the Executive team in accordance with a defined framework.

At 31 December 2020 the Society held £49.4M of liquid assets, representing 26.24% of shares and borrowings.

The Society's risk appetite, policies, systems and controls for managing liquidity risk are reviewed by the Risk Committee at least annually and approved by the Board. This review process includes approval of the Society's Liquidity Policy and Internal Liquidity Adequacy Assessment Process (ILAAP). Regular stress testing is an important part of the liquidity risk management framework. The stress scenarios selected are reviewed regularly. A Contingency Funding Plan is in place to ensure that the Society recognises early any indicators that might suggest a developing liquidity crisis, and prompt specific early actions should this be the case.

3.5.3 Conduct and Operational Risk

Conduct risk is the risk to the delivery of fair customer outcomes. Conduct risk can arise through product design, promotion, sale, fulfilment and communications.

Operational risk is the risk of loss due to inadequate or failed internal processes, the actions of people, fraud and financial crime, non-compliance with applicable laws and regulations, or external physical events. The effectiveness of systems and controls for the management of conduct and operational risk is monitored by the Risk Committee This Committee reviews risk management information including:

- *Key Risk Indicators (KRIs):* Reflecting the overall Risk Appetite, ICAAP and ILAAP assumptions and policy limits/ requirements, KRIs are reviewed to provide an indication of the operating effectiveness of the systems and controls for the management of conduct and operational risk. Operational performance outside normal limits is reviewed in detail to establish any material issues and confirm the adequacy of management responses to address both direct and root causes.

- *Operational risk incidents* (including operational loss data) are reviewed to identify remedial actions and control enhancements required. 'Near misses' are also considered.
- *Complaints data* is considered to ensure there is no evidence of adverse customer outcomes and/ or deficiencies in the Society's responsiveness to complaints. In addition to reviewing internal complaints data the Society reviews experience elsewhere (for example as reported by the Financial Ombudsman Service) with a view to proactive risk reduction.
- *Outstanding internal audit issues* – to ensure appropriate responses are actioned on a timely basis and to direct additional resource if required.
- *Compliance and risk monitoring* results are monitored to ensure that remedial actions are undertaken on a timely basis.
- *Regulator communications* are reviewed for evidence of any concerns in relation to risk governance or conduct risk.
- *Training Completion Rates* are monitored to ensure staff are engaged in maintaining competence.
- The *Risk Register* is reviewed at least twice a year to ensure it remains up to date and is appropriately reflected in the operational risk capital requirement assessed in the ICAAP.
- Updates on *significant third party/outsourcing relationships* are reviewed at least twice a year.
- *Operational (including IT) resilience and business continuity* plans and testing results.

The Society seeks to mitigate operational risk by implementing a strong control environment, supported by a culture that encourages staff to engage openly and positively with the Board, senior management and auditors. Operational losses in the last ten years have been consistently a small percentage of the Pillar 1 Operational Risk Capital allocation.

3.5.4 Interest Rate Risk

Interest rate risk in the banking book (IRRBB) is the risk of losses arising from a change in the interest rates. The areas of interest rate risk to which the Society has some exposure is:

- Repricing Risk - the mismatch of repricing of assets and liabilities and off-balance sheet short and long-term positions. The Society applies a parallel shift in interest rates of 2% to define its risk appetite in this regard.

- Basis Risk - the risk of loss arising from assets and liabilities repricing on different interest rate bases. This may arise from holding assets and liabilities that reprice from different floating rate indices.

(a) Re-pricing Risk

Re-pricing Risk for the Society was historically driven by its fixed rate treasury investments. During 2020 the Society entered the fixed rate lending market with a two-year product which it matches against a fixed savings bond of the same duration. The Board determines its risk appetite for interest rate risk as part of the ICAAP process based on stress tests.

The fixed rate portfolios at 31 December 2020 were small (<£2.6m), therefore interest rate risk remains limited in this regard.

During 2020 the Society had no fixed rate Treasury investments.

Risk Committee monitors both the actual and forecast risk monthly against its stated risk appetite.

(b) Basis Risk

The Society's balance sheet is priced based on a limited number of interest rate bases.

- Base rate linked assets (tracker mortgages and Bank of England Reserve).
- Fixed rate longer than 12 months to maturity (Fixed Rated lending matched against Fixed Rate savings bonds)
- Administered rate savings and mortgages.

Risk Committee monitors basis risk, versus the Board's agreed risk appetite, based on both actual and forecast data.

3.5.5 Concentration Risk

Concentration risk can arise from the absence of diversification in the Society's business across product and/ or geography. By its very nature, and by strategic choice, the Society limits its product range to simple savings and residential owner-occupied mortgages. The Society limits its activities to England and Wales, and particularly targets the East Riding, the rest of Yorkshire and the Humber. Most retail deposits are derived locally, with some diversification nationally through postal savings and internet-based business accounts.

An analysis of the Society's loans geographical concentration is shown in the table below:

	2020		2019	
	£000	%	£000	%
East Anglia	1,782	1.2	2,076	1.4
East Midlands	7,419	4.9	7,066	4.6
Greater London	5,530	3.7	4,911	3.2
North	2,523	1.7	2,260	1.5
North West	6,087	4.1	5,878	3.9
Outer Metropolitan Area	5,472	3.6	5,611	3.7
South East	7,723	5.1	7,071	4.6
South West	9,482	6.3	10,428	6.9
Wales	3,161	2.1	2,728	1.8
West Midlands	5,797	3.9	6,003	3.9
Yorkshire and Humberside	95,344	63.4	98,320	64.5
Total	150,320	100.0	152,352	100.0

Whilst the Society acknowledges this represents a concentration in its mortgage book, Yorkshire is large (12000 sq. km) and diverse in terms of industry and commerce.

The Society also considers it has a concentration in buy-to-let mortgages (18.02% of all mortgages, 2019: 19.5%), due to its legacy portfolio.

Whilst the Society's mortgage portfolio is currently overwhelmingly on administered rates, there is a combination of base rate tracker and SVR linked mortgages. No further consideration of product risk is considered necessary for capital planning purposes.

The Society's lending is originated on an approximately 40:60 basis between direct and Introduced channels, and no one introducer provides a volume of business upon which the Society is dependent.

The Society has a small number of legacy large mortgage exposures (i.e., individual balances valued at >10% capital or circa £1.15M). The status of these accounts is monitored on a monthly basis and the Society conducts regular assessments of the borrowers' position. No new 'large exposures' are entered into with a maximum new individual customer loan exposure set at £750K.

<u>Climate Change</u>

The Society has identified a number of potential physical and transitional financial risks associated with climate change, and these are directly aligned to geographical and sectoral concentrations. The primary such risks are:

- Reductions in the value of mortgage assets (direct damage or location blight, or for BTL properties inability to meet minimum EPC requirements for letting, potential impact of portfolio ERC targets as proposed by the DBEIS on valuations – and potentially capital risk weightings - of low energy efficiency securities, including the Society's head office premises).
- Increased risk to availability/ accessibility of the Society's premises and operating costs as a result of mandatory obligations on occupiers of commercial premises as the UK moves towards its emissions targets.
- Customer mortgage affordability should tax increase/ mandatory obligations for household expenditure as the UK moves towards its emissions targets. This could also lead to drawing down of savings balances.

While no losses have arisen from flood events in recent years (including the 2007 major flooding in Hull and the surrounding area – including Beverley) the Society is further enhancing its systems and controls in this area and has allocated specific responsibility for managing such risks to the Risk Director and is progressing an action plan to embed climate change risk management considerations into the overall risk management framework, responding to the regulatory expectations (most explicitly articulated through PRA SS 3/19.

3.5.6 Pension Risk

The Society has no liability for final salary pensions. Staff pensions are all on a defined contributions basis.

3.5.7 Strategic Risk

Strategic risk is the risk of loss arising from poor strategic business decisions (arising from inadequate identification and evaluation of strategic options), their improper execution, or a lack of responsiveness to industry changes.

The Society recognises that ineffective strategic risk management can result in an interplay between poor business performance and maintaining an inappropriate risk profile. Consequently, it undertakes an appropriate process of identification and evaluation of strategic options, with particular focus on the availability (including the maintenance of) adequate capital and other resources throughout the planning horizon. The results of this evaluation are reflected in the corporate plan, annual work plans and budgets.

4. Capital resources

4.1 Capital resources at 31 December 2020

The following table summarises the Society's available capital resources at 31 December 2020:

Capital Resources	£000's
General Reserves (Core Equity Tier 1)	11,064
Revaluation Reserve	412
Less: Intangible Assets Adjustment	(100)
Tier 1 Capital	**11,376**
Eligible General Provisions	140
Tier 2 Capital	**140**
Total Regulatory Capital	**11,516**

The Society held £11.51M capital at 31 December 2020, which is equivalent to 213% of the Pillar 1 requirement (see 4.2.4 below).

4.2 Capital Adequacy

4.2.1 Integration with the corporate planning cycle

The Society recognises that capital, and the risk management framework, are both enablers and constraints to the business. This is reflected in the consideration of the resources and capabilities available when identifying and evaluating strategic options. The Strategic Plan, reviewed annually, is accompanied by appropriate capital forecasts and is evaluated against the ICAAP prior to adoption. That review includes reconsideration of the ongoing validity of material assumptions, stress tests and scenarios to ensure that any necessary amendments to the Society's financial risk management framework forecasts are progressed in a timely manner.

4.2.2 Process for generating the ICAAP document

The ICAAP document is reviewed annually as an iterative process, with review points whereby the Board consider, advise, challenge and if satisfied approve the boundaries of the assessment and key assumptions/ methodologies to be deployed.

4.2.3 Impact on policies, contingency funding plan and the recovery plan

The process of refreshing the ICAAP includes an appropriate review of key risk appetite, policy statements and management information suite to ensure internal consistency and maintain the 'line of sight' to facilitate Board oversight of their continued application and the continued validity of the ICAAP.

4.2.4 Summary of Pillar 1 capital requirement

The Society's calculations of its Pillar 1 capital requirement are set out below:

(a) Credit Risk

The Society uses the Standardised Approach to calculate its Pillar 1 credit risk capital requirement.

In December 2020, the Society had £66.8M of Risk Weighted Assets (RWA) which resulted in a Pillar 1 credit risk regulatory requirement of £5.4M. The Pillar 1 credit risk requirement is based on 8% of the risk weighted assets.

The majority of the Pillar 1 *requirement* is due to the mortgage book (87% of total), as shown below.

Total RWA and Pillar 1 Requirement at Dec 2020

	RWA £m	Pillar 1 £m	% Total
Mortgage Assets	59.2	4.7	87%
Liquid Assets	1.8	0.2	4%
Other Assets	1.1	0.1	2%
Operational RWA	4.7	0.4	7%
TOTAL	66.8	5.4	100%

Capital resources of £11.5M at 31 December 2020 provides a £6.1M excess of own funds over minimum Pillar 1 capital of £5.4m.

A breakdown of the components of the mortgage and liquid assets risk weighted calculations is as follows (note figures are rounded to the nearest £100k)

Mortgage Portfolio: Risk Weighted Assets at Dec 2020					
Risk Weighted Asset %	**35%** **£m**	**75%** **£m**	**100%** **£m**	**150%** **£m**	**Total** **£m**
FSRP <80% LTV	139.6	-	-	-	139.6
FSRP portion loan > 80% LTV	-	1.0	-	-	1.0
Arrears and Possession – portion loan <80%	-	-	3.1	-	3.1
Arrears and Possession – portion loan >80%	-	-	-	0.2	0.2
FSOL loans	-	-	6.3	-	6.3
TOTAL LENDING	**139.6**	**1.0**	**9.4**	**0.2**	**150.2**
Lending RWA	**48.9**	**0.7**	**9.4**	**0.3**	**59.2**
% Total	**82.6**	**1.1**	**15.8**	**0.5**	**100**

Liquid Assets: Risk Weighted Assets at Dec 2020				
Risk Weighted Asset %	**0%** **£m**	**20%** **£m**	**50%** **£m**	**Total*** **£m**
Cash and Buffer Eligible Assets	40.7	-	-	40.7
Call account	-	8.7	-	8.7
Total Liquid Assets £m	**40.7**	**8.7**	**-**	**49.4**
Liquid Assets RWA £m	**-**	**1.8**	**-**	**1.8**

** Including capitalised interest*

(b) Operational Risk

The operational risk capital requirement is calculated under the Basic Indicator Approach as 15% of the three-year average of the Society's annual gross income. Gross income is represented by net interest, investment and fee income.

In December 2020 the Society had a Pillar 1 operational risk regulatory requirement of £0.4m, this calculation is summarised below:

Metric	£m
2018 Gross Income	2.4
2019 Gross Income	2.4
2020 Gross Income	2.7
Average Gross Income over last 3 years	2.5
Pillar 1 Capital Requirement for Operational Risk 15% of Average Gross Income over last 3 years	0.4

4.2.5 Leverage Ratio

An additional non-risk based minimum leverage ratio requirement supplements the risk based capital requirements derived from the ICAAP. This ratio shows Tier 1 capital as a proportion of on and off-balance sheet asset exposures. It does not distinguish between credit quality of loans and acts as a primary constraint to excessive lending in proportion to the Society's capital base.

Basel III minimum leverage ratio at 31 December 2020 was 3.00%. The Society operates well above this requirement. At 31 December 2020 the Society's leverage ratio was 5.69% (2019: 5.82%).

4.3 Total capital requirement

'Total Capital Requirement' (TCR) refers to the amount and quality of capital the Society must maintain to comply with the minimum capital requirements under the Capital Requirements Regulation (575/2013) (CRR) (Pillar1) and the Pillar 2A capital requirement. At the time of publication of these disclosures the Society Total Capital Requirement (TCR) is set at 8% of Risk Weighted Assets.

5. Remuneration Code

The Board of Beverley Building Society is committed to ensuring that it adheres to the Remuneration Code, thus ensuring that the Society has risk-focused remuneration policies, which are consistent with and promote effective risk management and do not expose the Society to excessive risk. This is done in a manner which is appropriate to the Society's size, internal organisation and the nature, scope and the complexity of its activities.

The Society's People & Culture Committee, discharging the functions of a Remuneration Committee, ensures that its remuneration policy is consistent with the risk appetite of the Society. It promotes sound and effective risk management and will not encourage any excessive risk taking. This is being done by ensuring that no members of staff receive a bonus for the achievement of quantitative targets for the amount of business written.

The remuneration of both Non-Executive and Executive Directors and other members of senior management are determined by the Remuneration Committee, which consists only of Non-Executive directors, details of whom are in the Annual Report and Accounts.

In setting remuneration, the Committee takes account of fees and salaries payable and other benefits provided by Building Societies that are similar in size and complexity to the Beverley, and other organisations as are believed relevant.

Remuneration Code Staff

The Board have determined that the three Executive Directors (Chief Executive, Finance Director and Risk Director) and two other executives are designated as being subject to the Remuneration Code, as set out in SYSC 19.

It is believed that other members of staff could not materially affect the risk profile of the Society in the way that the staff identified above could, as they report directly into them or are constrained in their actions by their operating mandates as defined in the Society's documented procedures and policies.

Non-Executive & Executive Directors

Information regarding the mandate of the Remuneration Committee and the decision making process it uses in determining the remuneration policy for directors is contained in the Directors' Remuneration Report in the Society's Annual Report and Accounts.

Other Executives

The Remuneration Committee is also responsible for determining the terms and conditions of other members of the executive team after consultation with the Chief Executive. These are as follows:

- Head of Lending
- Head of Operations

Remuneration

Aggregate information on the remuneration of code staff for 2020 is given below:

	Fixed Remuneration/ £000	**Variable Remuneration /£000**	**Total Remuneration/ £000**
Non-Executive Directors	104	-	104
Executive Directors	382	-	382
Other Remuneration Code Staff	118	-	118
Total	604	-	604

Fixed remuneration includes pension contributions made by the Society and the value of taxable benefits.