



BEVERLEY

BUILDING SOCIETY

Building Better Futures



Pillar 3 Disclosure Document of Beverley Building Society for the year ending 31 December 2023

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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, 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.

Basis of Preparation

These disclosures have been prepared in line with the disclosure framework outlined within the PRA Rulebook, effective from 1st January 2022. Article 433b within the Rulebook sets out the reduced disclosures required for "small and non-complex institutions". Beverley Building Society ('the Society') has classified itself as a "small and non-complex institutions" based on it meeting the criteria set out in Article 4 (145) (g) of Regulation 575/2013 (Regulation (EU) No 575/2013 of the European Parliament and of the Council). The following 'Pillar 3' disclosures are therefore set out to meet the disclosure requirements within Article 433b of the PRA rulebook.

The disclosures which apply to the Society (PRA firm reference number 206064) have been prepared on a non-consolidated basis as the Society has no subsidiaries or associated entities for these purposes.

This Pillar 3 Disclosure document should be read in conjunction with the Society's Annual Report & Accounts for the year ended 31 December 2023. In line with Article 433b (2) these disclosures will be updated and published annually in line with the publication of the Society's Annual Report & Accounts. Unless otherwise stated all information relates to the Society's assets as at 31 December 2023.

Capital Regulatory Framework

The calculation of the Society's capital requirements is made up of the following key components:

- **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 financial 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.

Background

The Society has an obligation to ensure that Members are protected by the holding of 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 2023, 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 or associated entities and operates a simple traditional building society model with no complex treasury operations. At 31 December 2023 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, and the Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102") as issued in September 2015.

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.

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.

2. Risk management

2.1. Risk framework

The Board has established a risk management framework for the Society that is proportionate to our size, complexity of our business and the risks to which its exposed. This framework enables the Board to identify, monitor, control and report on the key risks faced by us.

Risks specific to the Society are managed in a combination of ways using forecasting and stress test models to help guide business strategies; key risk indicators to identify risks that may be operating outside of appetite, feedback from members, risk events that may indicate weaknesses or non-compliance with the operating of established controls and the use Board sub-committees and executive committees to monitor and control specific risks.

2.2 Risk Appetite

In 2023, the Board conducted a full review of its Primary risks to ensure they remain relevant and support the updated Corporate Plan. As part of this exercise, the corresponding risk appetite statements were also reviewed and updated. Each Primary risk has a qualitative risk appetite statement, supported by a corresponding set of risk appetite metrics to track that the Society's risk exposures remain within appetite, and where breaches occur that they are reported to the Board.

The significant risks for reporting purposes (as detailed more fully in the Financial Statements) are conduct risk, operational risk, credit risk, and liquidity risk. Risk definitions are covered in section 2.6 below. The Society has a board-approved appetite for each of these risks.

The Risk Appetite Statements along with the Corporate Plan, set 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, Committees (via their own 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.

2.3.4 People & Culture Committee

The People & Culture Committee, chaired by Bob Andrews, 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 Barry Meeks, Stephen Smith and Karen Wint. Further details can be found in the Society's Annual Report and Accounts.

The People & Culture Committee fulfils the role of a typical Remuneration AND Nominations Committee as well as other duties; in alignment with the PRA General Organisational Requirements and also mindful of the Financial Reporting Council's guidance contained within their Corporate Governance Code.

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.

2.4 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 Leadership Team (SLT) consisting of:

- Chief Executive
- Chief Finance Officer
- Risk Director
- Chief Operational Officer
- Head of Lending
- Head of Operations
- Head of IT
- Head of New Business

The SLT ensures that departmental procedures, individual and team responsibilities, staff training and quality control arrangements reflect the Board's requirements in a transparent, recorded manner. The SLT meets monthly and considers the effective implementation of these requirements.

b) Second Line

Supported by a Risk Manager and a Compliance Officer, 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 activity has been outsourced to RSM, who provide independent assurance that the systems are appropriate, and controls effectively applied, and report directly to the Chair of the Audit and Compliance Committee.

2.5 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 Manager 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 at least 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.

2.6. Principal risks faced by the Society

Risk Appetite Statements define the boundary of specified primary and strategic 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.

2.6.1 Credit Risk

Credit risk is the risk of losses arising from a borrower or counterparty failing to meet its obligations as they fall due. 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.

a. Credit Risk – Mortgages

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 situated 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. At the end of the year, we applied for Authorisation to offer Consumer but to let mortgages in order to meet an identified member need and expand our mortgage product offering. The Society does not accept self-certification of income.

During the year to 31 December 2023 credit losses were £396K (2022: £119K). At that date there were 28 (2022: 27) accounts where forbearance was currently exercised; the balance of these accounts amounted to £5.31M (2022: £4.98M) or 3.28% (2022: 3.30%) of mortgage balances.

b. Credit Risk – Liquidity Counterparties

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 2023 was £42.2M (2022: £46.6M) broken down as follows:

	< 3 Months £000	Total £000
Bank of England Reserve Account (same day access)	36,457	36,457
Nat West Call Account (Rated A+)	3,801	3,801
Barclays Call Account (Rated A+)	1,908	1,908
Cash in hand	66	66
Total	42,232	46,646

The reduction in liquidity during 2023 reflected strong lending in the year. The Society’s liquidity position at the year-end date comfortably met all regulatory and internal requirements.

The Risk Committee monitors counterparty exposures against the limits, and the Board is briefed by its Chair 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. This policy is reviewed by the Audit Committee at least annually.

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.

Higher probabilities of default are allocated to mortgages within the collective provision, with signs of early impairment indicators such as 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 2023 are set out in Note 10 within the Society's Annual Report and Accounts.

2.6.2 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 help minimise the risk from any mismatches in the tenure between maturing assets and liabilities, thereby maintaining the strong solvency of the Society. As noted above, the Society's liquid funds are either deposited with the Bank of England or in call accounts with the Society's clearing banks, all of which allow same day access to funds.

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 2023 the Society held £42.2m of liquid assets, representing 22.0% 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. The adequacy of these arrangements has been independently evaluated through the ILAAP.

3.6.3 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.

2.6.4 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 3% 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. Since 2020 the Society is also active the fixed rate lending market with two-year products which it matches against fixed savings bonds 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 2023 were relatively small, therefore interest rate risk remains limited in this regard.

During 2023 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 up to 2 years months to maturity (Fixed Rate 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.

2.6.5 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:

	2023		2022	
	£000	%	£000	%
East Anglia	2,546	1.2	1,768	1.2
East Midlands	10,076	6.4	9,648	6.4
Greater London	9,556	5.7	8,617	5.7
North	4,153	2	3,004	2.0
North West	11,734	5.2	7,808	5.2
Outer Metropolitan Area	8,715	4.3	6,444	4.3
South East	13,121	7.6	11,495	7.6
South West	10,695	5.6	8,512	5.6
Wales	5,413	2.1	3,126	2.1
West Midlands	7,259	4.2	6,396	4.2
Yorkshire and Humberside	79,576	55.7	83,829	55.7
Total	162,844	100	150,645	100

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 (11.12% of all mortgages, 2022: 13.61%) 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, as well as fixed-rate lending (see section 3.5.4). No further consideration of product risk is considered necessary for capital planning purposes.

The Society's lending is originated on an approximately 25:75 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 £1.2M). 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 £850K.

2.6.6 Climate Change Risk

Climate change risks are a combination of:

- **Physical Risk:** the risk of the Society being impacted by climate related events, such as heatwaves, droughts, floods, storms, and sea level rises. These have the potential to lead to financial losses, impaired asset values and reduced creditworthiness of borrowers, and;
- **Transition Risk:** the risks arising from the process of adjustment towards a low-carbon economy. Changes in public policy, technology and consumer sentiment could require reassessment of the value of assets and/or change credit exposures. At present, the Society considers government policy initiatives in relation to housing Energy Performance Certificate (EPC) ratings to be the most material.

The potential physical risks associated from climate change have been assessed via modelling by an independent third party (Landmark). Based on a High Emissions Scenario ('RCP 8.5') and modelling to 2060 this suggests that, in relation to the loan book when last assessed in November 2021:

- The Society has an above average exposure to securities in flood risk areas; and

The Society has a lower-than-average exposure to securities liable to subsidence and no properties where coastal erosion is likely to pose a risk. See qualifying statements below.

This reflects the concentration of mortgage lending in Yorkshire and the Humber. However, when taking into account the low LTV of the portfolio the modelling suggests that the potential losses under this scenario are significantly less than those that arise from severe economic downturns previously modelled and considered in the ICAAP.

The Risk Committee has considered the level of turnover of the mortgage book since this initial analysis and is satisfied that that these findings remain pertinent. The appropriateness of a refresh is considered annually.

The potential transition risk arising from mandatory EPC remediation policies requiring capital investment and potentially 'blighting' low EPC rated securities has also been modelled by Landmark. While the modelling required some informed estimates in the absence of available EPC Ratings for 47% of the Society's mortgage securities, it does suggest that the Society has an above average exposure to properties rated EPC F or G. Landmark modelled the potential impact of mandatory upgrading of properties to EPC E, EPC C and to their maximum potential. As for physical risk, the Society is significantly protected by the low average LTV of its mortgage book. While the potential losses in these situations are significantly higher than from physical risks, they remain significantly less than those that arise from severe economic downturns previously modelled and considered in the ICAAP.

The Board recognises that the conclusions of these analyses are critically dependent on the LTV profile and will ensure that this is appropriately considered in new lending plans.

The Society has only a small exposure to securities used for commercial purposes and none of these are considered to be businesses with particular exposure to transition risks.

2.6.7 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.

3. Key Disclosures

The table below shows key metrics describing the Society's capital position, risk weighted exposure amounts (RWEAs), capital requirements (in line with the Society's most recent Supervisory Review and Evaluation Process, SREP) and key ratios as at 31st December 2023 (and the comparator at 31 December 2022):

Table 1: UK KM1 – Key metrics

		2023	2022
		£,000	£,000
Available own funds (amounts)			
1	Common Equity Tier 1 (CET1) capital	13,450	12,604
2	Tier 1 capital	13,450	12,604
3	Total capital	13,653	12,835
Risk-weighted exposure amounts			
4	Total risk-weighted exposure amount	71,956	65,198
Capital ratios (as a percentage of risk-weighted exposure amount)			
5	Common Equity Tier 1 ratio (%)	18.69%	19.33%
6	Tier 1 ratio (%)	18.69%	19.33%
7	Total capital ratio (%)	18.97%	19.69%
Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)			
UK 7a	Additional CET1 SREP requirements (%)	-	-
UK 7b	Additional AT1 SREP requirements (%)	-	-
UK 7c	Additional T2 SREP requirements (%)	-	-
UK 7d	Total SREP own funds requirements (%)	8.00%	8.00%
Combined buffer requirement (as a percentage of risk-weighted exposure amount)			
8	Capital conservation buffer (%)	2.50%	2.50%
9	Institution specific countercyclical capital buffer (%)	-	-
UK 9a	Systemic risk buffer (%)	2.00%	1.00%
11	Combined buffer requirement (%)	4.50%	3.50%
UK 11a	Overall capital requirements (%)	12.50%	11.50%
12	CET1 available after meeting the total SREP own funds requirements (%)	6.47%	8.19%
Leverage ratio *			
13	Total exposure measure excluding claims on central banks	169,868	159,973
14	Leverage ratio excluding claims on central banks (%)	7.92%	7.88%
Liquidity Coverage Ratio			
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	37,355	53,211
UK 16a	Cash outflows - Total weighted value	15,942	16,342
UK 16b	Cash inflows - Total weighted value	5,454	6,981
16	Total net cash outflows (adjusted value)	10,489	9,361
17	Liquidity coverage ratio (%)	363%	704%
Net Stable Funding Ratio			
18	Total available stable funding	193,031	187,773
19	Total required stable funding	109,471	101,321
20	NSFR ratio (%)	176.33%	185.32%

Notes to Table 1 (UK KM1)

Row numbers in the tables relate to the PRA prescribed references as set within the prescribed templates in the PRA Rulebook. Rows have been excluded where not relevant to the Society, although in some instances a row may be shown containing a nil value where it is considered to enhance the readability and understandability of the disclosures.

*The leverage Ratio is a 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. The Basel III minimum leverage ratio at 31 December 2023 was 3.00%.

Capital Adequacy

Capital resources of £13.7m at 31 December 2023 provides a £4.7m excess of own funds over the Society's Overall Capital Requirements (OCR).

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

		Risk weighted exposure amounts (RWEAs)		Total own funds requirements
		2023	2022	2023
		£,000	£,000	£,000
1	Credit risk (excluding CCR)	64,845	60,617	8,106
2	Of which the standardised approach	64,845	60,617	8,106
3	Of which the foundation IRB (FIRB) approach	-	-	0
4	Of which slotting approach	-	-	0
UK 4a	Of which equities under the simple riskweighted approach	-	-	0
5	Of which the advanced IRB (AIRB) approach	-	-	0
6	Counterparty credit risk - CCR	0	0	0
7	Of which the standardised approach	0	0	0
8	Of which internal model method (IMM)	-	-	0
UK 8a	Of which exposures to a CCP	-	-	0
UK 8b	Of which credit valuation adjustment - CVA	-	-	0
9	Of which other CCR	-	-	0
15	Settlement risk	-	-	0
UK 22a	Large exposures	-	-	0
23	Operational risk	7,111	4,581	889
UK 23a	Of which basic indicator approach	7,111	4,581	889
UK 23b	Of which standardised approach	-	-	0
UK 23c	Of which advanced measurement approach	-	-	0
24	Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)	-	-	-
29	Total	71,956	65,198	8,995

Notes to Table 2 (UK OV1)

a. Credit Risk

The Society uses the Standardised Approach to calculate its Pillar 1 credit risk capital requirement. In December 2023, the Society had £72.0M of Risk Weighted Exposure Amounts (RWEA) of which £64.8m related to credit risk. The resulting Pillar 1 credit risk regulatory requirement, calculated at 8.0% of RWEAs was £5.2m.

The breakdown of the Society's RWEAs and Pillar 1 Requirement as at 31 Dec 2023 is shown in the table below:

	Year ended 31 December 2023			Year ended 31 December 2022		
	RWA £m	Pillar 1 £m	% Total	RWA £m	Pillar 1 £m	% Total
Mortgage Assets	62.2	5.0	88.1%	57.5	4.5	88.1%
Liquid Assets	1.1	0.1	2.5%	1.6	0.1	2.5%
Other Assets	1.6	0.1	2.3%	1.5	0.1	2.3%
Operational RWA	7.1	0.6	7.1%	4.6	0.5	7.1%
TOTAL	72.0	5.8	100%	65.2	5.2	100%

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.

3.2.1 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.

3.2.2 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.

3.2.3 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. Remuneration

The Society has regard to the principles in the UK Corporate Governance Code 2018 relating to remuneration. This report explains the Society's approach to the remuneration of Executive and Non-Executive Directors detailing the different elements of remuneration paid to individual Directors and the process adopted to set them. This report should be read in alongside the disclosures within the Corporate Governance Report and Directors' Remuneration Report within the Society's Annual Report and Accounts.

The functions of a Remuneration Committee are discharged by the Society's People & Culture Committee, which consists of three Non-Executive Directors. This Committee focusses on strategic matters which relate to the employment of all colleagues in the Society in particular to the culture of the Society, remuneration and reward, learning & development and Performance Management. The Committee meets at least 4 times a year. Attendance at meetings by members is shown within the Corporate Governance section of the Society's Annual Report and Accounts.

The Society's policy is to set remuneration levels which will attract and retain high calibre Executive and Non-Executive Directors ('NEDs') and senior management. To ensure this is achieved the Committee reviews and benchmarks Executive and Non-Executive packages against supporting evidence from within the building society sector and, where relevant, other comparable industries. The Committee undertakes these reviews at the point of recruitment as well as on a regular basis to ensure remuneration remains suitably competitive to attract and retain colleagues of the necessary calibre. The Society's remuneration of its Executive and Non-Executive Directors is set by the People & Culture Committee commensurate to the size and scale of the Society as well as its performance and the principles of a mutual organisation.

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.

Variable remuneration

The Society does not operate any bonus schemes for its Executive Directors or any staff. The Society also does not offer any stock option, deferred or guaranteed variable remuneration to any staff.

Remuneration Code Staff

The Society has adopted a Remuneration Policy, which describes how the Society complies with the relevant sections of the Financial Conduct Authority's (FCA) and Prudential Conduct Authority's (PRA) Remuneration Codes. These Remuneration Codes require the Society to disclose the remuneration of a range of staff including Executive Directors, Non-Executives and other senior management, staff engaged in control functions and risk takers whose role has a material impact on the Society's risk profile.

As at 31 December 2023, the Society had 14 staff that were classified as material risk takers (31 December 2022: 14).

Remuneration Disclosures

The remuneration of Executive Directors and Non-Executive Directors is shown in the Annual Report and Accounts. Furthermore, the aggregate remuneration of material risk takers is also shown in the Annual Report and Accounts. The information is summarised below:

	Year ended 31 December 2023				Year ended 31 Dec 2022
	2023 FTE	Fixed Remuneration/£000	Variable Remuneration /£000	Total Remuneration/£000	Total Remuneration/£000
Non-Executive Directors	6	148	-	148	114
Executive Directors	3	389	-	389	489
Other Senior Management (Material risk takers)	5	285	-	285	226

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