Pillar 3
Disclosure document

30 November 2023

Contents

1 Introduction

1.1 Background

This document sets out the Pillar 3 disclosures on capital and risk management for Hinckley & Rugby Society (the 'Society') for the year ended 30 November 2023.

The regulatory framework under which the Society operates for capital and liquidity requirements is set out in the Capital Requirements Directive (CRD) and Capital Requirements Regulations (CRR), and are together known as CRD IV or Basel III. These regulations were implemented in the UK by the Prudential Regulation Authority (PRA) under the PRA Rulebook (CRR) Instrument 2021.

The regulations set out the rules that determine the amount of capital institutions must hold in order to provide security for members and depositors, based on the characteristics of their business and their Board's assessment of the risks they face.

The CRD comprises three main elements, or 'Pillars':

Pillar 1: Minimum regulatory capital requirements relating to credit, market and operational risks. The Society meets the minimum capital requirements by applying the Standardised Approach to credit risk and the Basic Indicator Approach to operational risk;

Pillar 2: Assessment of capital requirements by the Society through the Internal Capital Adequacy Assessment Process (ICAAP) and the PRA through the Supervisory Review and Evaluation Process (SREP) to determine whether additional capital should be held for specific risks not covered under Pillar 1; and

Pillar 3: Disclosure of information relating to the risk exposures, the management of those risks and capital adequacy, in accordance with the Disclosure (CRR) Part of the PRA Rulebook.

The Pillar 3 disclosures are designed to promote market discipline through external disclosure of a firm's risk management framework and risk exposures.

1.2 Scope of application

The disclosures relate solely to Hinckley & Rugby Building Society (PRA Firm reference number: 206043; LEI number: 213800IM7OJT6Z9NRD26).

The Society has a dormant wholly owned subsidiary, Hinckley and Rugby Financial Services Limited. In accordance with accounting standards and the Building Societies Act 1986, a subsidiary may be excluded from consolidated financial statements on the basis of materiality. Accordingly, Society only and consolidated financial statements are the same. Consequently, the financial position of the subsidiary has not been included within these disclosures.

1.3 Basis and frequency of disclosures

The Society satisfies the criteria for being a 'small and non-complex' institution under Article 433b of the CRR as contained in the PRA Rulebook. As such, these disclosures comply with the requirements of the derogation for small and non-complex institutions that are non-listed institutions, as set out in Article 433b.

Row numbers in the standardised templates and tables within the document relate to PRA prescribed references. Where rows are not relevant to the Society, they have been excluded for the purposes of enhancing the readability and understandability of these disclosures in line with Article 432. In accordance with Article 432, certain information has not been disclosed on the basis that it represents non-material, proprietary or confidential information.

The disclosures are issued on an annual basis, unless more frequent disclosure is deemed necessary by the Society's Board, following publication of the Society's audited Annual Report & Accounts.

Unless otherwise noted, all figures within this document are stated as at 30 November 2023.

1.4 Verification

The disclosures have been reviewed by the Society's Risk Committee, and approved by the Board of Directors. The disclosures are not subject to external audit, except where they are equivalent to those prepared under accounting requirements for inclusion within the Annual Report & Accounts.

1.5 Further information

Any queries or comments relating to this document should be addressed to The Chief Financial Officer, Hinckley & Rugby Building Society, Upper Bond Street, Hinckley, Leicestershire LE10 1NZ.

1.6 Attestation

The director listed below confirms that, to the best of their knowledge, the disclosures provided according to Disclosure (CRR) Part of the PRA Rulebook (CRR) Instrument 2021 have been prepared in accordance with the Society's internal control processes agreed by the Board of Directors.

Approved by the Hinckley & Rugby Building Society Board and signed by their order.

John Mulvey
Chief Financial Officer
[25] April 2024

2 Summary of key metrics

The Society's key prudential metrics, as required to be disclosed under Article 447 of the CRR, are set out below.

Table 1: Template UK KM1 - Key metrics		a 30 Nov 2023	e 30 Nov 2022
		£m	£m
	Available own funds (amounts)		
1	Common Equity Tier 1 (CET1) capital	44.8	44.4
2	Tier 1 capital	44.8	44.4
3	Total capital	45.3	44.7
	Risk-weighted exposure amounts		
4	Total risk-weighted exposure amount	283.3	273.4
	Capital ratios (as a percentage of risk-weighted exposure amount)		
5	Common Equity Tier 1 ratio (%)	15.81%	16.22%
6	Tier 1 ratio (%)	15.81%	16.22%
7	Total capital ratio (%)	15.98%	16.34%
	Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)		
UK 7a	Additional CET1 SREP requirements (%)	1.45%	1.50%
UK 7d	Total SREP own funds requirements (%)	9.45%	9.50%
	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 (%)	2.00%	0.00%
11	Combined buffer requirement (%)	4.50%	2.50%
UK 11a	Overall capital requirements (%)	13.95%	12.00%
12	CET1 available after meeting the total SREP own funds requirements (%)	6.36%	6.72%
	Leverage ratio		
13	Leverage ratio total exposure measure	791.0	746.6
14	Leverage ratio	5.66%	5.94%
	Liquidity Coverage Ratio		
15	Total high-quality liquid assets (HQLA) (Weighted value - average)	130.4	139.5
UK 16a	Cash outflows - Total weighted value	60.7	65.7
UK 16b	Cash inflows - Total weighted value	9.6	11.7
16	Total net cash outflows (adjusted value)	51.1	54.0
17	Liquidity coverage ratio (%)	254.95%	258.37%
	Net Stable Funding Ratio		
18	Total available stable funding	770.0	748.8
19	Total required stable funding	505.1	465.6
20	NSFR ratio (%)	152.43%	160.83%

Note – Certain rows of this table have not been presented as they are not applicable to the Society.

3 Risk management policies and objectives

This section sets out the Society's approach to risk management.

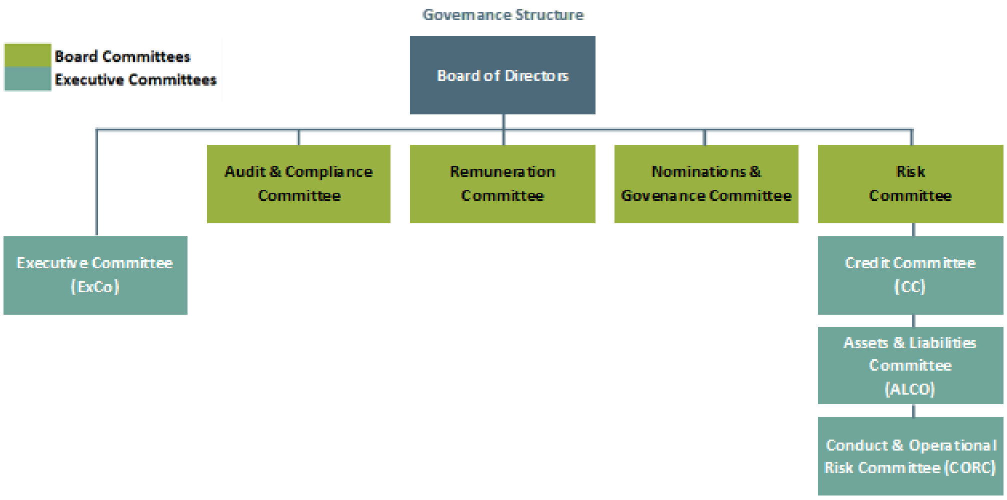
3.1 Risk management framework

The Board has implemented a Risk Management Framework to mitigate the risks to which it is exposed. The framework comprises:

- a risk focused governance structure;
- risk appetite statements and risk management policies;
- procedures for the identification, monitoring and reporting of risks within defined risk limits.

In addition, the risk management framework incorporates the requirements of the PRA's Supervisory Statement 20/15 'Supervising building societies' treasury and lending activities'. In particular, the Society has adopted the Traditional lending approach and the Matched treasury approach to risk management, as defined in that statement.

3.1.1 Governance structure



The Board of Directors has established sub-committees to assist in the implementation and monitoring of the Risk Management Framework, including the Audit & Compliance Committee, Remuneration Committee, Nominations & Governance Committee, and Risk Committee.

In addition, the Society operates executive committees with risk management responsibilities, including the Executive Committee, which reports directly to the Board, and the Credit Committee, Assets & Liabilities Committee, and Conduct & Operational Risk Committee, which report to the Risk Committee.

The role of the Board and each committee is described below:

Board of Directors

The Board of Directors has responsibility for the overall Risk Management Framework. The Board is responsible for setting and aligning the Society's strategy and risk appetite, and ensuring risk management is appropriate and functioning effectively. These duties also include the responsibility for aligning, within the ICAAP and ILAAP, the Risk Management Framework and the financial disciplines of business planning, capital management and liquidity and funding management.

Board committees

- The Audit & Compliance Committee (ACC), a non-executive committee, has responsibility for ensuring that the Society's accounting and reporting systems provide accurate information, appropriate internal controls reflecting the Society's risk profile are in place and these are reviewed regularly, liaising with the external auditor, and monitoring the effectiveness of the compliance and internal audit functions.

- The Remuneration Committee, a non-executive committee, has responsibility for determining, on behalf of the Board, the policy and the level of remuneration of the executive directors, senior management and the wider workforce. The Committee also ensures that remuneration aligns with the long-term interests of the business and incentives towards excessive risk taking are eliminated.

- The Nominations & Governance Committee, a non-executive committee, has responsibility for leading the process for senior appointments, ensuring plans are in place for orderly succession to both the Board and senior management positions, and ensuring that the Board and senior management have the appropriate skills and experience to effectively manage the business and deliver the Society's strategy.

- The Risk Committee, a non-executive committee, has responsibility for oversight, on behalf of the Board, of the Society's Risk Management Framework, including the identification of risk, the monitoring of risks against appetite, and ensuring the management of risk is adequate and occurs in an integrated manner. This includes overseeing the operation of the ICAAP and ILAAP, monitoring the Society's overall capital adequacy, liquidity adequacy and exposure to risk, and ensuring that effective stress and scenario testing is carried out.

Executive committees

The Executive Committee, Credit Committee, Assets & Liabilities Committee (ALCO), and Conduct & Operational Risk Committee (CORC) are executive committees and have responsibility between them for the day-to-day management of all risk categories:

- The Executive Committee is primarily responsible for implementing the strategy approved by the Board and managing strategic risks that arise, including those arising from change management.

- The Credit Committee is responsible for managing the Society's credit risk arising from mortgage lending.

- The ALCO is primarily responsible for the management of prudential risks, including liquidity risk, funding risk, interest rate risk, treasury counterparty credit risk, pension obligation risk and certain business risks, including those arising from margin management.

- The CORC is responsible for the management of conduct and operational risks, including information security and financial crime risks.

Three lines of defence model

While the Board of Directors is ultimately accountable for the risk management framework, all staff within the Society have responsibility for risk management.

The Society operates a ‘three lines of defence’ model, structured as follows:

Oversight			
Board Audit and Compliance Committee Board Risk Committee			
1st Line of Defence	2nd Line of Defence	3rd Line of Defence	External audit
Preventative	Reactive		
Risk Ownership	Risk Control	Risk Assurance	
Society's operational staff who perform day-to-day risk management activities	GRC department	Internal Audit	
Control environment of the Society	A second, independent, review to provide assurance	Independent challenge of the process to levels of assurance	
Follow a risk process	Not directly involved in the operational task		

- **First line of defence:** Line management within each business area is responsible for the identification, measurement and management of the risks within the Society’s risk appetite, ensuring appropriate controls are in place and operating effectively.

- **Second line of defence:** The Governance, Risk & Compliance function provides risk management expertise, challenge and support to the Board, management and staff. Independent views are reported to the ACC and Risk Committee utilising management information from across the business, external intelligence and bespoke assurance activity in accordance with a risk-based work programme approved by the ACC.

- **Third line of defence:** The Internal Audit function is responsible for independently reviewing the effectiveness of the internal control environment. The ACC approves the risk-based work programme of Internal Audit and receives reports of the results of the work performed.

External audit also reports to the ACC, providing independent assurance of financial statement risks and controls.

The Board sits above the three lines of defence and provides oversight to each line, setting the risk appetite for the Society and receiving reports from the ACC, Remuneration Committee, Nominations & Governance Committee and Risk Committee to enable it to obtain a holistic view of the Society’s Risk Management Framework.

3.1.2 Risk Appetite, Risk policy statements and risk limits

The Board has approved a risk appetite for each risk category to which the Society is exposed. This is set out in the Risk Appetite Statement document.

Risk policy statements, which articulate policy and risk limits in more detail for specific risk categories, have been implemented to manage the risks faced by the Society within the defined risk appetite.

The key policies include the Lending Policy, the Financial Risk Management Policy, which covers liquidity, funding, counterparty credit and interest rate risks, the Conduct Risk Policy and the Operational Risk Policy. These contain detailed criteria and risk limits within which the business is managed. The policies are reviewed in detail by the Risk Committee, with amendments approved by the Board on a regular basis to ensure they remain relevant and appropriate.

3.1.3 Risk identification, monitoring and reporting

The Society operates formal processes to identify, measure and report on risks to which it is exposed:

- Risk identification: The Society's Risk Register records all the key risks to which the Society is exposed. The risks and mitigating controls are monitored and updated by risk owners on a regular basis, who also confirm the effective operation of controls. Risks identified on the register are graded, according to their likelihood of occurrence and consequence before and after the effect of internal controls. New risks identified are communicated to the Society's Governance, Risk & Compliance department for inclusion on the Risk Register and allocation to a risk owner.

- Risk monitoring: The Executive Committee, Credit Committee, ALCO and CORC monitor risk metrics relating to their respective areas of responsibility. This is in addition to the monitoring and management of risks by risk owners within the first line of defence. Issues identified are escalated, if appropriate, to the Risk Committee and the Board.

- Risk reporting: The Chief Risk Officer identifies trends and produces an independent analysis of risk across all risk categories, including key risk indicators. Any amber or red indicators are reported to the Risk Committee together with details of management actions. The Risk Committee reviews this risk information on a quarterly basis. The Board also receives a quarterly report from the Chief Risk Officer, covering strategic risks to the Society.

3.2 Principal risks

The Society is primarily a retailer of mortgage and savings products. Surplus funds are invested in liquid assets with a range of counterparties.

The Society identifies, assesses and controls risks that arise from these activities through the Risk Management Framework as set out in section 3.1. The most significant risks to which the Society is exposed are:

- Retail credit risk;
- Treasury counterparty credit risk;
- Strategic risk;
- Liquidity risk;
- Funding risk;
- Interest rate risk;
- Conduct risk;
- Operational risk;
- Climate change risk; and
- Pension obligation risk.

Details of these risks are set out below.

The Society is exposed to market risk through interest rate risk and pension obligation risk as described below. The Society does not operate a trading book and all assets and liabilities are denominated in Sterling.

The economic downturn currently being experienced, together with high inflation and high interest rates, result in increased credit, operational and financial risks, and these are being closely monitored and managed by the Board. The most material impact on the Society relates to credit risk and details of this are disclosed below.

The Society has defined a risk appetite for each significant risk category. In accordance with Article 432 of the CRR as contained in the PRA Rulebook, the Society has elected not to disclose key ratios and metrics relating to its risk appetite as it considers these to be proprietary or confidential information.

3.2.1 Retail credit risk

Retail credit risk is the risk arising from borrowing members failing to meet the contractual obligations of their loan.

The risk is controlled by a Board approved Risk Appetite Statement and a Lending Policy that is regularly reviewed by the Credit Committee and Risk Committee, with changes approved by the Board. The policy is translated into lending criteria and procedures, which seek to ensure that borrowers only assume a debt that they can afford to repay, thereby safeguarding both themselves and the Society. The policy also aims to promote the origination of a balanced portfolio of mortgage assets that matches the expertise and experience of underwriters.

Key controls set out in the policy and separate detailed underwriting criteria to mitigate credit risk include:

- The setting and regular monitoring of applicable lending limits, including product, borrower and loan related limits, to avoid concentrations of exposures in higher risk lending categories.

- The setting of full underwriting criteria for each product category, designed to ensure the affordability of mortgage repayments using an affordability model, the adequacy of loan security and the creditworthiness of borrowers through the use of external credit checks.

- The assessment of all new mortgage applications by experienced staff who are accredited through a formal training and competence scheme. Mortgage applications are approved by staff with specific underwriting mandates.

- The use of qualified external property surveyors, solicitors and accountants as necessary to assist the assessment of mortgage applications.

- The prevention of mortgage fraud through thorough mortgage application assessment and use of external fraud prevention systems.

- The pricing of all new mortgage products using a model that incorporates an expected Probability of Default (PD) and Loss Given Default (LGD) to ensure that the return received appropriately reflects the risks involved. The expected loss assumptions are based on the type of loan, property and borrower, including affordability and credit history.

- The use of mortgage indemnity policies to insure the Society against the risk of lending at higher Loan to Value (LTV) ratios and to provide specialist cover for self-build lending.

The Society has a separate Mortgage Support Policy, reviewed by the Credit Committee and approved by the Risk Committee, detailing the systems and controls relating to the processes for dealing with arrears and forbearance. Should borrowers find themselves in financial difficulty, the Society has established procedures to ensure that it responds appropriately, providing borrowers with a personalised plan designed to help get their mortgage back on track.

Possession is always a last resort, and will only be pursued if agreement with a borrower to return them to an affordable and sustainable position or an alternative mortgage exit strategy, such as voluntary sale, cannot be reached.

Whether the Society incurs a loss from possession is dependent on the value realised from the security property. The Society monitors the impact of house price movements by carrying out stress testing of its mortgage book to take account of actual and projected movements in house price indices on the expected value of any properties taken into possession.

All mortgage lending is secured by a first charge on property in England and Wales. The portfolio is made up of mortgages split between owner occupied and buy to let loans. The Board has also implemented controls to mitigate lending concentrations through the monitoring of geographic mortgage concentrations, limiting the maximum value and maximum loan to value of large exposures to single or connected mortgage borrowers, and limiting maximum exposures to specific product and borrower types.

Comprehensive credit risk management information is reviewed at the Credit Committee on a monthly basis and includes mortgage portfolio analysis, details of mortgage arrears, mortgage portfolio stress testing and lending limit monitoring. Oversight is provided by the Risk Committee, which is responsible for the oversight and challenge of risk management across the Society.

Further details of credit risk exposures, arrears and forbearance, and concentrations are provided in Note 28 (c)(ii) of the Annual Report & Accounts.

3.2.2 Treasury counterparty credit risk

Treasury counterparty credit risk is the risk of loss arising from a treasury counterparty being unable to meet their financial obligations to the Society.

The risk is controlled by a Board approved Risk Appetite Statement and the Financial Risk Management Policy that set out the types of financial instrument the Society can hold and the counterparties the Society can invest with, along with applicable asset class, sector, and counterparty limits. The policy is regularly reviewed by ALCO and Risk Committee, with changes approved by the Board.

Treasury counterparty exposures and related limits are monitored by ALCO each month, with oversight provided by the Risk Committee, which is responsible for the oversight and challenge of risk management across the Society. The limits for all rated counterparty exposures are linked to credit ratings in addition to management's own assessment. Unrated building societies are assessed by ALCO.

The Society holds treasury investments in order to meet liquidity requirements and for general business purposes. The Society's liquid assets are held on deposit with the Bank of England

and UK banks and building societies, reducing the level of counterparty risk to which the Society is exposed.

The Society has no provisions for impairment against any treasury counterparties. Further details of the Society's counterparty credit risk are set out in Note 28 (c)(i) of the Annual Report & Accounts.

3.2.3 Strategic risk

Strategic risk is the risk of loss and the impact on capital arising from the Society's agreed strategy or failure to achieve planned objectives. It can be caused by competitive pressures, deteriorations in the economy, or changes to legislation. The risk has the potential to impact the underlying profitability and capital adequacy of the Society required to keep the business viable.

The Board and its committees mitigate this risk by:

- approving a business plan, including detailed financial and capital plans, that it believes to be robust and achievable;
- stress testing this plan to assess the impact of various adverse market conditions and to identify areas requiring close monitoring;
- ensuring that a diverse range of mortgage and savings products are in place;
- regular monitoring of actual performance against the plan and its objectives, including business volumes, margin, other income, expenditure, and key performance and risk indicators;
- ensuring capital, liquidity and funding positions are adequate to enable the Society to survive severe but plausible stresses;
- setting an appropriate risk culture and ensuring that the Society's management and staff have the appropriate knowledge and experience;
- monitoring by the Risk Committee to ensure all key business risks are identified, monitored and reported, including reports provided by the Chief Risk Officer;
- reviewing and approving all key policy documents, including any changes to these policies, by the Risk Committee and the Board;
- approving all new product and service initiatives following an appropriate assessment of the risks involved; and
- monitoring of external markets, competitors and economic indicators.

At an executive level, the Society's Executive Committee has the primary responsibility for implementing the business plan and monitoring strategic risk. Oversight is provided by the Board, which is responsible for the setting and oversight of the strategy.

3.2.4 Liquidity risk

Liquidity risk is the risk that the Society does not have sufficient financial resources to meet its liabilities as they fall due or can secure them only at an excessive cost.

The risk is controlled by a Board approved Risk Appetite Statement and the Financial Risk Management Policy that set out liquidity risk limits, and these are regularly reviewed by ALCO and Risk Committee, with changes approved by the Board. The policy sets out the permissible financial instruments in which the Society can invest, and the minimum liquidity requirements as determined by the Society's Internal Liquidity Adequacy Assessment Process (ILAAP). The aim of the policy is to:

- maintain liquidity resources which are adequate, both as to amount and quality, to ensure that there is no significant risk that the Society's liabilities cannot be met as they fall due;
- smooth out the effect of maturity mismatches between assets and liabilities; and
- maintain the highest level of public confidence in the Society.

The key aspects of the control framework to mitigate liquidity risk are as follows:

- The holding of cash, demand deposits and other easily realisable assets. The Society holds funds on deposit with the Bank of England and large UK clearing banks that are realisable at very short notice. The majority of these assets qualify as high quality liquid assets, and these make up the Liquid Assets Buffer;
- The setting and regular monitoring of applicable liquidity limits, including those covering the amount, instrument type and maturity of liquidity held;
- The monitoring of both short-term and long-term liquidity ratios, including the Liquidity Coverage Ratio and Net Stable Funding Ratio, to ensure that these are maintained above minimum levels;
- Monthly liquidity stress testing, to ensure that the level of the Liquid Assets Buffer and total liquidity held are sufficient to meet liabilities under severe but plausible stressed conditions; and
- A documented Recovery Plan that sets out the governance processes and the options available to the Board if the Society experienced a liquidity stress event. The Plan includes a menu of possible actions depending on the severity of the liquidity event.

The minimum level of the Liquid Assets Buffer is set in accordance with an Internal Liquidity Adequacy Assessment Process (ILAAP) that is reviewed by the Risk Committee and approved by the Board on an annual basis. The ILAAP incorporates severe but plausible stress testing linked to the Board's formal assessment of the liquidity risks to which the Society is exposed.

The ALCO monitors liquidity risk on a monthly basis, including management information on liquidity and funding limits, Liquid Asset Buffer levels and composition, liquidity stress testing results and liquid asset and wholesale borrowing maturity analysis. Oversight is provided by the Risk Committee, which is responsible for the oversight and challenge of risk management across the Society.

Further details of the Society's liquid assets and how liquidity risk is managed are set out in Note 28 (d) of the Annual Report & Accounts.

3.2.5 *Funding risk*

Funding risk is the risk that the Society is unable to obtain stable funding to achieve its business objectives or can secure it only at an excessive cost.

The Board has defined the Society's risk appetite, policy and controls relating to the management of funding risk in the Financial Risk Management Policy. The Board mitigates funding risk through:

- the setting of risk limits, to reduce exposure to maturity, sectors, counterparties and funding concentration risks;
- the spreading of funding across a range of retail savings products, with different tenures, interest rate characteristics and risk profiles; and
- the use of a range of wholesale funding sources, including a range of sectors, counterparty types, and tenures. This includes the use of the Bank of England funding schemes, where relevant.

The Society's funding profile and position against limits are monitored by ALCO on a monthly basis, with oversight provided by the Risk Committee.

3.2.6 *Interest rate risk*

Interest rate risk is the risk of reductions in net interest margin arising from unfavourable movements in interest rates due to:

- Mismatches between the dates on which interest receivable on assets and interest payable on liabilities are reset to market rates (re-pricing risk); and
- The re-pricing of assets and liabilities according to different interest bases (basis risk).

The main causes of interest rate risk are the imperfect matching of fixed rate mortgages and savings products. While the Society aims to match fixed rate assets with liabilities, it is not always possible to achieve exact matches due to the need to estimate initial customer demand for mortgage and savings products and the early repayment of mortgages.

The Society's policy is to manage its exposure to interest rate re-pricing mismatch risk and basis risk within approved limits set by the Board within the Financial Risk Management Policy. The Policy includes limits for the maximum impact of both parallel and non-parallel shifts in interest rates on the Society's economic value and net interest income, individual and cumulative interest rate gap limits, and net exposure limits to each interest rate basis. The Society manages interest rate risk through a combination of matching assets and liabilities with offsetting interest rate characteristics and using interest rate swaps to reduce mismatches.

Historic and forward looking interest rate risk gap analyses, basis risk exposures and interest rate risk stress testing, using a range of parallel and non-parallel shifts in interest rates, are monitored by ALCO on a monthly basis. Oversight is provided by the Risk Committee, which is responsible for the oversight and challenge of risk management across the Society.

Further details of the Society's exposure to interest rate risk are set out in Note 28 (e) of the Annual Report & Accounts.

3.2.7 *Conduct risk*

Conduct risk is the risk of detrimental outcomes to customers arising throughout the lifecycle of the Society's products due to inadequate processes.

The Board aims to ensure that good consumer outcomes arise from all customer interaction and to achieve customer satisfaction at all times. Where this does not occur, the Society will endeavour to rectify the outcome as appropriate. In delivering good customer outcomes, the Society operates strong governance over the competence of its staff via the Senior Management Regime and training and competence frameworks.

The risk is controlled by a Board approved Risk Appetite Statement and Conduct Risk Policy that document the Society's commitment and approach to ensuring that customers are treated fairly and that regulatory requirements and best practice guidance from the Financial Conduct Authority (FCA) are met. This includes building the needs of vulnerable customers into processes and the Society's culture. The policy is reviewed in detail by the Risk Committee and approved by the Board. The Society has implemented the FCA's Consumer Duty regulations required to date and, in line with the regulatory timetable, will complete this work during 2024.

Management information, measuring conduct risk and consumer outcomes, is reviewed monthly by CORC, which reports to the Risk Committee, ensuring visibility of any customer detriment and adequate controls are implemented.

3.2.8 *Operational risk and Operational resilience*

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems, or external events. It includes risks arising from cyber, change management, data loss, use of models, third parties, products, laws and regulations, and financial crime. Operational resilience is the Society's ability to maintain important business services in the event of adverse internal or external events.

These risks are managed within a Board approved Risk Appetite Statement as an integral part of the Society's operations. The Society's management is responsible for assessing operational risks within each business area and implementing appropriate policies, procedures and mitigating controls. The effectiveness of the controls is considered by CORC, with oversight by the Risk Committee.

An Information Security Policy, approved by the Risk Committee, sets out the framework for mitigating cyber security risks. The Society recognises the increased threat of cyber-attacks being faced across the financial sector and continues to ensure that it has an appropriate capability to detect and respond to cyber security issues effectively, safeguarding the organisation and members' data and savings.

A Change Management Policy, approved by the Risk Committee, is in place to reduce the risks arising from change across the Society. The Executive Committee provides oversight over the change agenda and ensures that approved projects contribute to the agreed business objectives, sufficient resources are available to complete each project, project risks are raised and appropriately addressed, and post-implementation reviews are undertaken so that the Society benefits from any lessons learned.

A Third-Party and Outsourcing Policy, approved by the Risk Committee, sets out the framework through which third parties are managed. The policy requires evaluations for all new suppliers against set criteria and regular on-going assessments to ensure standards are adhered to. Regular management information is monitored on the performance of key suppliers.

An Anti-Money Laundering Policy, approved by the Board, along with procedures and monitoring systems, provide the Society's framework for mitigating financial crime. Staff training is undertaken to prevent, deter and detect financial crime, and promote a culture that supports its prevention and detection. The Society's Money Laundering Reporting Officer (MLRO) is responsible for promoting adherence to the policies and procedures, and ensuring all staff understand and comply with the applicable regulations and their individual responsibilities.

Compliance with laws and regulations is monitored by CORC, with oversight from the ACC. Policy statements are in place and reviewed annually for key regulations, including data protection and health and safety.

To ensure the Society is operationally resilient, business impact assessments have been undertaken to identify and map important business services and set specific impact tolerances that are consistent with the Board's risk appetite for operational risk. Management ensures that adequate procedures, resources and contingency plans are in place to adhere to the set impact tolerances, and these are assessed using different scenario tests.

Management information relating to operational risk and resilience, the occurrence of risk events and near misses, as well as actions taken in response to such events, is monitored by CORC each month, with a summary provided to the Board.

3.2.9 Climate change risk

Climate change risk is the risk of loss arising from the impact of climate change on the Society's assets, and the risk to the environment directly from the Society's own emissions.

Climate change presents a combination of risks to the Society that require management and mitigation. The Society has identified potential exposure to both physical risks and transition risks in respect of climate change.

Physical risks relate to the potential impacts of the increased frequency of weather events, such as floods, storms and wildfires, and longer-term changes in the climate, such as rising sea levels. The physical risks that are particularly relevant to the Society have been identified as:

- Increased severity and frequency of flooding; and
- Rising sea levels impacting coastal communities.

Both these risks have the potential to cause reductions in property collateral values and increased insurance premiums, impacting borrower affordability, for borrowers in areas prone to flooding.

Transition risks reflect the potential impacts from the process of moving to a carbon neutral economy and include changes in government policy, technological advances, and consumer behaviour. The transition risks that are particularly relevant to the Society have been identified as:

- Changes required to property collateral, particularly those with low energy efficiency levels that may require substantial investment to meet future standards; and

- Borrowers employed in non-climate friendly occupations or industries who may experience a reduction in income as the economy adjusts to a carbon neutral future.

The transition risks identified have the potential to cause reductions in property collateral values and reductions in borrower affordability.

The Society has a climate change strategy to respond to the financial risks arising from climate change and this has been approved by the Board, with responsibility for climate change risk allocated to the Chief Executive. Assessments undertaken of security property values with a potential high risk of flooding or low energy efficiency indicate minimal risk exposure at present. Further assessments of other risks and enhancements to data held are being undertaken to improve the Society's overall assessment.

The Society continued to track its own scope one and two emissions during the year, relating to those arising from owned vehicles and electricity and gas usage. These are used to track the Society's own carbon footprint and to monitor the impact of actions taken to reduce emissions. The Society continues to monitor the regulatory landscape in relation to climate change to assess the impacts of any changes.

3.2.10 Pension obligation risk

Pension obligation risk is the risk or a reduction in profit due to the Society having to make significant contributions to its defined benefit pension scheme.

The Society's defined benefit scheme was closed to future accrual 1 January 2010. The Board uses the services of external professional pension and investment advisers regarding investment decisions, liability management and the on-going reduction of risk within the scheme.

While the scheme assets and liabilities are largely hedged for inflation and interest rate risk, the Society is exposed to:

- A fall in the market value of investments held reducing the fair value of scheme assets; and

- An increase in life expectancy increasing the present value of scheme liabilities.

The Society and scheme trustee have taken steps in recent years to de-risk the scheme by transferring assets from higher-risk growth investments to lower-risk bonds and liability matching investments.

Despite the scheme being in surplus, the Board, via ALCO and a separate Pension Oversight Committee, continues to regularly monitor the funding level of the scheme.

Details of the scheme accounting valuation by an independent actuary are set out in Note 30 of the Annual Report & Accounts.

3.3 Declaration on the adequacy of risk management arrangements

The Board and its sub-committees received reports during the year from management, the Governance, Risk and Compliance (GRC) function, internal audit and external audit. These reports include:

- Information from management as to adherence with risk appetite and policy limits;

- An annual review of internal controls from management;
- The results of risk and compliance reviews undertaken by the GRC function;
- The results of the internal audit work undertaken and an annual conclusion on the Society's control environment from the internal auditor; and
- Details of the effectiveness of internal controls from the external auditor, particularly those relating to the preparation of the accounts during the external audit process.

Based on the reports received, the Board is satisfied that the Society has sound risk management and internal control systems and that these systems have operated effectively during the year.

Accordingly, and in accordance with the requirement of Article 435(1)(e) of the CRR as contained in the PRA Rulebook, the Society's Board is satisfied that the risk arrangements in place are adequate with regard to the Society's profile and strategy.

4 Capital

4.1 Capital resources (Own funds)

An analysis of the Society's capital resources at 30 November 2023 is presented in the following table. The Society's profit is eligible to be treated as capital once it has been independently verified by the Society's auditors. Consequently, this figure is updated annually following the approval of the Society's year-end Annual Report & Accounts.

Table 2: Capital resources	**30 Nov 2023 £m**
Tier 1 capital (all Common Equity Tier 1 capital)	
General reserve	46.5
Available for sale reserve	-
Less: Defined benefit pension asset (net of deferred tax)	(0.4)
Less: Intangible assets	(1.3)
Less: Prudent valuation adjustment	(0.0)
	44.8
Tier 2 capital	
Collective provision for the impairment of loans and advances to customers	0.5
Total regulatory capital	**45.3**
Total Risk Exposures	283.3
Common Equity Tier 1 ratio	15.81%
Total Capital Ratio	15.98%

4.2 Capital requirement

4.2.1 Capital adequacy assessment process

The Society has adopted the Standardised Approach to credit risk and the Basic Indicator Approach to operational risk to calculate the minimum Pillar 1 capital requirement.

In addition to the risks covered under Pillar 1 (credit, market and operational risks), all other material risks to which the Society is exposed were assessed as part of the Society's annual Internal Capital Adequacy Assessment Process (ICAAP). Financial and capital forecasts were prepared incorporating all current and planned strategic initiatives, products and services. Forecasts were also prepared to assess the impact on the Society's business, including its profitability and capital position, of operating under plausible downside stressed conditions.

Through the ICAAP, the Board has established an internal minimum capital requirement that is sufficient to support present and future business plans, withstand a severe but plausible stress and ensure the minimum regulatory requirement (Total Capital Requirement) is adhered to.

The ICAAP is undertaken at least annually, and more frequently should the Society's business plan, forecasts or risk profile materially change. The results are documented, reviewed in detail by the Risk Committee and approved by the Board, and are assessed by the PRA as part of their supervisory review of the Society.

Compliance with capital requirements is monitored monthly by ALCO, and reported to the Board. The Society complied with and maintained capital above the regulatory minimums during the reporting period.

The ICAAP is integrated into normal business activities. The impact on capital requirements of new, and changes to existing, business processes, products and services are assessed. Strategic decisions are made following an assessment of their impact on capital, ensuring adequate capital is maintained at all times and used efficiently.

4.3 Pillar 1 capital requirement

Under the Standardised Approach to credit risk, the level of capital required against a given level of exposure to credit risk is calculated as:

Credit risk capital requirement = Exposure value x Risk weighting x 8%

Risk weightings for each exposure class are provided by the CRR as contained in the PRA Rulebook. Mortgage asset risk weightings take into account Loan-To-Value (LTV) ratios, security type and arrears and impairment provision levels. Wholesale liquid asset risk weightings are dependent on counterparty credit rating and deposit duration.

Under the Basic Indicator Approach to operational risk, the level of capital required is calculated as 15% of the Society's average net income (excluding insurance related income and one-off items) over the previous 3 years.

The resulting Pillar 1 capital requirement at 30 November 2023 is shown in the following table.

Table 3: Template UK OV1 – Overview of risk weighted exposure amounts		**Risk weighted exposure amounts (RWEAs)**		**Total own funds requirements**
		a	**b**	**c**
		30 Nov 2023	**30 Nov 2022**	**30 Nov 2023**
		£m	£m	£m
1	**Credit risk (excluding CCR)**	**258.3**	**250.3**	**20.7**
2	Of which the standardised approach	258.3	250.3	20.7
6	**Counterparty credit risk - CCR**	**2.1**	**2.8**	**0.2**
7	Of which the standardised approach	1.1	1.3	0.1
UK 8b	Of which credit valuation adjustment - CVA	1.0	1.5	0.1
15	**Settlement risk**	**-**	**-**	**-**
16	**Securitisation exposures in the non-trading book (after the cap)**	**-**	**-**	**-**
20	**Position, foreign exchange and commodities risks (Market risk)**	**-**	**-**	**-**
UK 22a	**Large exposures**	**-**	**-**	**-**
23	**Operational risk**	**22.9**	**20.3**	**1.8**
UK 23a	Of which basic indicator approach	22.9	20.3	1.8
24	Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)	-	-	-
29	**Total**	**283.3**	**273.4**	**22.7**

Note – Certain rows of this table have not been presented as they are not applicable to the Society.

5 Remuneration disclosures

5.1 Information relating to the body that oversees remuneration

The Remuneration Committee was established to oversee remuneration policy and remuneration outcomes at the Society. The purpose of the Committee is set out in section 3.1.1. The Committee met five times during the year ended 30 November 2023.

The Society's Remuneration Policy is reviewed by the Remuneration Committee annually. The Policy applies to all directors and staff within the Society, including those classified as Remuneration Code staff under the Financial Conduct Authority's Remuneration Code.

The Society carried out an external salary benchmarking exercise during the year, and expects to undertake this every three years.

5.2 Material Risk Takers (MRTs)

The Board considers MRTs to be those directors and staff whose professional activities have a material impact on the Society's risk profile. It is the responsibility of the Society's Nominations & Governance Committee to identify MRTs.

Accordingly, for the year ended 30 November 2023, eight non-executive directors (including three in place for only part of the year), four executive directors, and eight senior managers (including two in place for only part of the year) were designated as being MRTs in accordance with the Remuneration Code.

The Remuneration Committee is responsible for setting the remuneration of the MRTs to ensure that their remuneration does not encourage inappropriate risk taking, and also to ensure they are rewarded appropriately and fairly to encourage enhanced performance and promote the long-term success of the Society. The Remuneration Committee maintains a list of the Society's MRTs, detailing their respective remuneration.

5.3 Remuneration policy

The Society's Remuneration Policy was reviewed by the Remuneration Committee during the year, with no material amendments made.

In setting remuneration, the Remuneration Committee takes into consideration salaries payable and other benefits provided to executive directors and other senior management of other comparable organisations in the financial sector that are similar in size and complexity.

The Committee exercises independent judgement and discretion when authorising remuneration outcomes, taking account of Society and individual performance and wider circumstances, underpinned by the objective to promote the Society's strategic objectives. All remuneration schemes and policies are flexible enough to enable the Committee to use discretion to override formulaic outcomes.

The Society assesses performance using a balanced scorecard covering four key pillars of member and community, people, excellence and financial. These are all underpinned by the Society's risk, culture and values, to encourage and reward against a broad range of key metrics that are in the long term interests of the Society's members and other stakeholders.

The Committee has absolute discretion to reduce any bonus allocation available if it decides that acceptable standards or performance levels have not been met, with no bonuses guaranteed. This is consistent with the Society's risk appetite and is designed to support the overall financial stability of the Society and its strategic priorities.

Policy for non-executive directors

Non-executive director fees are reviewed annually by the Chair of the Board and the Chief Executive. This review is based on comparable data from other building societies and similar financial service organisations, and performance reviews. No director or individual is involved in setting their own remuneration. Remuneration comprises a basic fee, with supplementary payments for committee Chairs. Non-executive director fees are not pensionable, and the individuals do not participate in any incentive schemes or receive any other benefits. The remuneration of the Chair of the Board is reviewed on an annual basis by the Committee, without the Chair present, again using comparable external data.

Policy for executive directors and other MRTs

The remuneration for executive directors and other MRTs reflects responsibilities and roles within the Society. The overall policy of the Board, as recommended by the Committee, is set out below:

- The remuneration of executive directors and other MRTs (consisting of basic salary, performance related bonus, pension arrangements and other benefits) should be competitive with those of other comparable organisations in the financial sector, in order to attract and retain high calibre individuals with the necessary skills and experience for the Society to succeed;

- Bonuses are payable against the achievement of both Society and individual objectives. The Society operates a balanced scorecard approach regarding measuring performance under four key pillars of member and community, people, excellence and financial. These are all underpinned by the Society's risk, culture and values, to encourage and reward against a broad range of key metrics that are in the long term interests of the Society's members and other stakeholders. Such variable remuneration is paid in the form of cash and is capped at 15% of fixed remuneration;

- Performance reviews of the executive directors and MRTs should be carried out at least annually, to assess their performance in meeting individual and strategic objectives;

- The Committee treats any departing executive directors and MRTs fairly, and is careful to consider the interests of members and ensure that there are no rewards for failure; and

- Executive directors and MRTs are entitled to be paid their basic salary and contractual benefits (including pension contributions) during their notice period. The Society has the discretion to pay these as a lump sum payment in lieu of notice.

Due to the type and level of variable remuneration paid, the Society did not have a policy on deferral or vesting criteria in place during the year.

Further information on the role of the Remuneration Committee in determining remuneration policy and practice is set out in the Corporate Governance section and the Remuneration Committee report within the Annual Report & Accounts.

5.4 Quantitative remuneration disclosures

Table 4: Template UK REM1 - Remuneration awarded for the financial year ended 30 November 2023 £k			a MB Supervisory function	b MB Management function	c Other senior management	d Other identified staff
1	Fixed remuneration	**Number of identified staff**	**8**	**4**	**8**	**-**
2		**Total fixed remuneration**	**246**	**785**	**657**	**-**
3		Of which: cash-based	246	785	657	-
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	-	-	-	-
9	Variable remuneration	**Number of identified staff**	**-**	**3**	**6**	**-**
10		**Total variable remuneration**	**-**	**33**	**45**	**-**
11		Of which: cash-based	-	33	45	-
12		Of which: deferred	-	-	-	-
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	-	-	-	-
16		Of which: deferred	-	-	-	-
17	**Total remuneration (2 + 10)**		**246**	**818**	**702**	**-**

Table 6: Template UK REM5 - Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff) £k		a	b	c	e	g	j
		Management body remuneration			Business areas		
		MB Supervisory function	MB Management function	Total MB	Retail banking	Corporate functions	Total
1	**Total number of identified staff**						**20**
2	Of which: members of the MB	8	4	12			
3	Of which: other senior management				3	5	
4	Of which: other identified staff				-	-	
5	**Total remuneration of identified staff**	**246**	**818**	**1,031**	**305**	**397**	
6	Of which: variable remuneration	-	33	33	21	24	
7	Of which: fixed remuneration	246	785	1,064	284	373	

Note – Columns for business areas where there are no identified staff have not been presented.