PILLAR 3 DISCLOSURE

For the year ended 30 November 2023

Suffolk Building Society

Contents

1. Executive summary

1.1. Introduction

Suffolk Building Society is a mid-tier regional building society, ranked 21st in the UK by asset size from a total of 43 societies according to the latest data held by the Building Societies Association. The Society attracts deposits from members and other retail customers, using the funding received to offer a range of mortgage products through its extensive broker network and direct mortgage sales team.

The Society operates through nine full service branches and one agency. The Society does not offer unsecured lending or transactional current accounts. Mortgage brokers make significant use of the Society's broker portal to administer lending applications.

The Society has clearly defined Values, Vision and Mission Statements which emphasise the importance of member interests, the wider community and the need to support savers and borrowers alike. The Society rebranded in November 2021 to the Suffolk Building Society and took the opportunity to refine its Mission and Values as part of this process.

1.2. Summary key metrics

Tier 1 Capital Ratio

The Society increased Tier 1 capital to £44.1m at the end of the reporting period 30th November 2023 (2022: £41.5m). This represents a Tier 1 capital ratio of 14.4% (2022: 14.6%). The minimum Tier 1 capital ratio required is 6%, whilst the minimum Common Equity Tier 1 (CET1) ratio is 4.5%.

Total Capital Ratio

Society total capital stood at 30 November 2023 was £45.0m (2022: £42.2m). The total capital ratio was 14.7% (2022: 14.7%).

Leverage Ratio (LR)

The Society Leverage Ratio excluding central bank balances was 5.7% (2022: 5.8%). The Society is not required to achieve a minimum regulatory Leverage Ratio of 3.25%, which is prescribed to firms with retail deposits exceeding £50bn.

Liquidity Coverage Ratio (LCR)

The Society's November 2023 Liquidity Coverage Ratio stood at 218% (November 2022: 154%). This measure exceeded the UK regulatory minimum of 100%, implemented with effect from January 2018.

Capital summary

The Society held £19.5m of total capital in excess of Pillar 1 and Pillar 2A capital requirements at November 2023 (2022: £18.2m surplus).

Table 1: Capital summary

	2023 **£m**	2022 £m
Pillar 1 capital requirement	24.5	23.0
Pillar 2A capital requirement	1.0	1.0
Pillar 1 + Pillar 2A capital requirement	**25.5**	**24.0**
Total own funds	45.0	42.2
Capital exceeding Pillar 1 + Pillar 2A capital requirement	**19.5**	**18.2**

Table 2: Key metrics template (UK KM1)

	2023 **£m**	2022 £m
Available own funds (amounts)		
Common Equity Tier 1 (CET1 Capital)	44.1	41.5
Tier 1 capital	44.1	41.5
Total capital	45.0	42.2
Risk-weighted exposure amounts		
Total risk-weighted exposure amount	306.1	287.4
Capital ratios (as a percentage of risk-weighted exposure amount)		
Common Equity Tier 1 ratio (%)	14.4%	14.6%
Tier 1 ratio (%)	14.4%	14.6%
Total capital ratio	14.7%	14.7%
Additional own funds requirements based in SREP (as a percentage of risk-weighted exposure amount)		
Additional CET1 SREP requirements (%)	0.3%	0.3%
Additional AT1 SREP requirements (%)	0.0%	0.0%
Additional T2 SREP requirements (%)	0.0%	0.0%
Total SREP own funds requirements (%)	8.3%	8.3%
Combined buffer requirement (as a percentage of risk-weighted exposure amount)		
Capital conservation buffer (%)	2.5%	2.5%
Conservation buffer due to macro-prudential or systemic risk (%)	0.0%	0.0%
Institution specific countercyclical buffer (%)	2.0%	0.0%
Systemic risk buffer (%)	0.0%	0.0%
Globally Systemically Important Institution buffer (%)	0.0%	0.0%
Other Systemically Important Institution buffer (%)	0.0%	0.0%
Combined buffer requirement (%)	4.5%	2.5%
Overall capital requirements (%)	12.8%	10.8%
CET1 available after meeting the total SREP own funds requirements (%)	6.1%	6.1%
Leverage ratio		
Total exposure measure excluding claims on central banks	769.25	718.55
Leverage ratio excluding claims on central banks (%)	5.7%	5.8%
Liquidity Coverage Ratio		
Total high quality liquid assets (HQLA) (Weighted value - average)	95.7	116.5
Cash outflows - Total weighted value	65.9	72.0
Cash inflows - Total weighted value	6.9	5.6
Total net cash outflows (adjusted value)	59.1	66.4
Liquidity coverage ratio (Weighted value - %)	162%	175%

Net Stable Funding Ratio		
Total available stable funding	792.0	735.4
Total required stable funding	543.2	493.9
NSFR ratio (%)	146%	149%

2. Introduction

2.1. Requirements

The Basel Committee on Banking Supervision (BCBS) introduced the Basel ll framework in 2007. This was replaced by the Capital Requirements Directive (CRD) and Capital Requirements Regulation (CRR) from January 2014. The local implementation of the CRD rules and associated guidance are enforced in the UK by the Prudential Regulation Authority (PRA).

In December 2016 the European Banking Authority (EBA) published guidance on Pillar 3 disclosures following revised BCBS requirements which were issued in January 2015. The Society has implemented these changes throughout this document, in accordance with EBA/GL/2016/11 version 2.

This framework seeks to improve the ability of banks and building societies to absorb shocks arising from financial and economic stresses by governing the amount of capital required in order to provide security for shareholders, members and depositors.

The CRD comprises three main elements, or Pillars, as follows:

Pillar 1: Minimum capital requirements
Pillar 2: Firm specific capital requirements
Pillar 3: Disclosure requirements.

Suffolk Building Society has adopted a Pillar 3 Disclosure Reporting Policy. The Policy is approved by the Board and sets out requirements for ensuring the appropriateness of disclosures, including the incorporation of changes to legislation. The Policy also covers the verification and frequency of disclosures. This document has been completed in accordance with the Pillar 3 Disclosure Reporting Policy.

Under Pillar 1, the Society has followed the Standardised Approach for credit risk and the Basic Indicator Approach for operational risk when calculating minimum capital requirements.

Following the most recent capital annual assessment, the PRA concluded that the Society qualified for the 'refined approach' as set out in paragraphs 5.12A – 5.12B of Supervisory Statement 31/15. Under this approach, the variable P2A requirements are adjusted to reflect the potentially higher credit risk capital allocations relative to the Internal Ratings Based (IRB) approach. In the Society's case, the current 'credit overs' fully offset other P2A variable add-ons.

Therefore, the Total Capital Requirements (TCR) for the Society are 8% of RWAs plus a fixed add-on for pension risk of £1.0m and a net PRA Buffer of 0%.

2.2. Scope

Pillar 3 disclosures are published on an annual basis, although more frequent disclosures will be made if there is a material change in the nature of the Society's risk profile during any particular year. The Society has no subsidiaries and therefore prepares Pillar 3 disclosures as a solo entity.

2.3. Verification and sign off

All figures and commentaries within this document have been subject to internal review and verification. However, these disclosures are not required to be subject to external verification and have not therefore been externally audited. This disclosure is approved for publication by the Society Board.

Some information in this report is drawn from the audited Annual Report of the Society. The Annual Report is prepared in accordance with FRS102, with recognition and measurement provisions of IAS39 applied. The presentation currency of the annual accounts is Sterling.

2.4. Reporting

This document may be obtained from the Society website at www.suffolkbuildingsociety.co.uk.

3. Capital resources

3.1. Own funds

Common Equity Tier 1 (CET1) capital incorporates total accounting reserves as stated in the Annual Report. This comprises of retained earnings, revaluation reserves and available-for-sale reserves. Intangible assets, incorporating capitalised software costs, are deducted from Tier 1 capital in accordance with regulatory requirements.

The Society Tier 1 capital stood at £44.1m (2022: £41.5m). Tier 2 capital solvency consists solely of the collective impairment provisions.

Table 3: Own funds

	2023	2022
	£m	£m
Common Equity Tier 1 (CET1) capital: instruments and reserves		
Retained Earnings	45.8	42.6
Accumulated other comprehensive income	1.0	1.0
Common Equity Tier 1 (CET1) capital before regulatory adjustments	46.8	43.6
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
Intangible assets	(2.7)	(2.0)
Total regulatory adjustments to Common Equity Tier 1 (CET1)	(2.7)	(2.0)
Common Equity Tier 1 (CET1) capital	44.1	41.5
Tier 1 capital (T1 = CET1)	44.1	41.5
Tier 2 (T2) capital: instruments and provisions		
Credit risk adjustments	0.9	0.7
Tier 2 (T2) capital before regulatory adjustments	0.9	0.7
Tier 2 (T2) capital	0.9	0.7
Total own funds (T1 + T2)	45.0	42.2
Total risk weighted assets	**306.1**	**287.4**
Capital ratios and buffers		
Common Equity Tier 1 (as a percentage of total risk exposure amount)	14.4%	14.6%
Tier 1 (as a percentage of total risk exposure amount)	14.4%	14.6%
Total capital (as a percentage of total risk exposure amount)	14.7%	14.7%
Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	9.0%	7.0%
of which: capital conservation buffer requirement	2.5%	2.5%
of which: countercyclical buffer requirement	2.0%	0.0%
Common Equity Tier 1 available to meet buffers (as a percent of risk exposure amount)	9.9%	10.0%

3.2. Capital instruments

The Society had no capital instruments at the reporting date.

4. Capital requirements

4.1. Overview

The Society maintains a strategic planning framework, the details of which are reviewed by the Society's Board at least annually to take account of current and changing economic conditions. The process culminates in the production of a three-year corporate plan with detailed budgets and targets covering the following year's activities.

The corporate plan forms the foundation of the Society's Internal Capital Adequacy Assessment Process (ICAAP). Through the ICAAP review and approval process, the Board assesses the Society's capital requirements under a range of business as usual and stress scenarios. Capital appetites are formed through the ICAAP process with clear metrics for minimum capital requirements.

4.2. Pillar 1 capital

Under the Standardised Approach for credit risk, the Society applies a risk weighting to the value of each exposure class. 8% capital is held against each risk weighted asset.

Under the Basic Indicator Approach for operational risk, the Society calculates its average net income over the previous three years. The three-year average net income is multiplied by 15% to generate an own funds requirement.

Table 4: UK OV1 - Overview of risk weighted exposure amounts

	Risk weighted Exposure amounts (RWEAs)		**Total own funds requirements**
	2023	2022	**2023**
	£m	£m	**£m**
Credit risk (excl. CCR)	**272.6**	254.0	**22.4**
Of which Standardised Approach	272.6	254.0	22.4
Counterparty credit risk – CCR	**1.4**	2.9	**0.1**
Of which Standardised Approach	0.8	1.4	0.0
Of which Credit Valuation Adjustment (CVA)	0.6	1.5	0.1
Large exposures	**1.0**	3.5	**0.0**
Operational risk	**30.9**	26.7	**2.6**
Of which Basic Indicator Approach	30.9	26.7	2.6
Amounts below the thresholds for deduction (subject to 250% risk weight)	**0.3**	0.3	**0.0**
TOTAL	**306.1**	287.4	**25.0**

The Society uses derivative instruments to manage interest rate risk. Counterparty credit risk is the risk that the counterparty to the derivative instrument could default. The risk is managed through careful selection of counterparties and the use of cash collateralisation against contract positions when appropriate. A Pillar 1 capital add-on is calculated to provide for counterparty credit risk.

To calculate interest rate contract exposures for capital purposes, the Society adopts the Mark-to-Market Method. Under this method, interest rate contracts with positive market values are assigned a capital add-on based on the residual maturity and notional value of each contract.

4.3. Pillar 2 capital

Pillar 2A capital requirements represent Society specific risks not fully captured under Pillar 1 capital requirements, with Pillar 2B capital requirements representing forward-looking risks to which the Society may become exposed. Pillar 2A risks are assessed through the annual ICAAP internal assessment, with Pillar 2B risks assessed through scenario stress testing.

Following a Supervisory and Evaluation Review Process (SREP), the PRA will assess firm specific requirements. The Society is not required to disclose firm specific Pillar 2 capital requirements.

4.4. Capital conservation buffer

The capital conservation buffer is designed to ensure institutions build capital buffers which can be drawn upon in times of stress. At 30 November 2023, UK firms are required to hold a capital conservation buffer of 2.50%.

4.5. Countercyclical buffer

The Financial Policy Committee (FPC) sets the countercyclical capital buffer applicable to UK credit exposures. A rate of 2% of risk weighted assets was applicable to UK exposures at November 2023.

The FPC updated its guidance on the path for the UK countercyclical capital buffer rate. The rate increased to 1.0% with effect from 13th December 2022. Additionally, it was also announced that the FPC would increase the rate further to 2.0% in Q2 2022, an increase that took effect in Q2 2023 following the usual 12 month implementation period.

The Society is not exposed to credit risk outside of the UK so does not apply countercyclical buffers for non-UK jurisdictions.

4.6. Other capital buffers

The Society is not a globally systemically important institution (G-SII) and hence does not meet the criteria for additional buffers to be applied. Additionally, the Society is not subject to the systemic risk buffer (SRB), which became applicable to ring fenced banks and large building societies from January 2019.

The Banking Act provides for a modified insolvency regime for building societies. As such, the Society's Minimum Requirement for own funds and Eligible Liabilities (MREL) is set equal to regulatory capital requirements, meaning no additional capital is required.

5. Risk management

5.1. The Society's Risk Statement and Enterprise Risk Management Framework (ERMF)

The Society is committed to being an independent mutual organisation owned by its members, and our overarching focus is to promote the sustainability and success of the Society by meeting the needs of our members and complying with regulatory requirements.

To support this the Society has implemented an Enterprise Risk Management Framework to ensure risk is understood, managed, reported and appropriate business decisions made to deliver the corporate plan. The ERMF is embedded throughout the Society and ensures the business operates with a generative risk management culture.

The following elements are considered key attributes of the ERMF:

- Risk Appetites – levels of risk the Board is willing to take to achieve Society objectives
- Risk Strategy – how the Society will manage risks within agreed Risk Appetites
- Control Environment – a risk operating model based on three lines of defence
- Risk Management Information – monthly reporting dashboards
- Incident Reporting – a tool for recording and escalating risk incidents
- Risk Assessments – a formalised risk and control assessment methodology
- Horizon Scanning – forward identification of potential risks
- Stress Testing & Scenario Analysis – to ensure the Society is financially and operationally resilient.

5.2. Risk appetites

Risk appetites quantify the type and level of risk the Board is willing to accept in achieving the objectives of the Society. Principle risk types are defined as Level 1 risks and ownership is assigned to a nominated member of the Society's Executive or direct report of the Chief Executive Officer.

Table 5: Level 1 risk appetites

Risk appetite objective	Level 1 risk
Financial risk To manage profit volatility within defined parameters with capital and liquidity at levels that allow the Society to operate effectively in both normal and stressed conditions.	-Capital -Liquidity and funding -Interest rate risk in the banking book -Wholesale credit risk -Financial reporting -Model risk
Retail credit risk To manage and control credit risk within defined limits and exposures and to underwrite more complex mortgages for our customers that fit with our underwriting expertise.	-Lending quality -Problem debt management -Credit monitoring -Concentration risk -Climate change
Operational risk To develop and maintain cost-effective and operationally resilient systems, infrastructure and processes (including those provided by a 3rd party) to deliver the corporate strategy. To have the right number of skilled and motivated people in place. To retain and develop the best talent.	-Information security & records management (inc. data quality) -Systems -Change Management -Third party suppliers -Fraud -People risk

Conduct risk To deliver good customer outcomes consistent with the Society vision. The Society foundations are in the delivery of compliant products, processes and systems which determine customer interactions and how customers are treated. The Society will seek full compliance with appropriate regulations.	-Product design -Sales - savings -Sales - mortgages -Post sales - savings -Post sales - mortgages -Governance and culture -Legal risk -Financial crime -Compliance oversight

Each risk appetite statement is supported by Board agreed metrics which include rationales, triggers and limits. Risk appetite measures are both forward and backward looking, allowing trends to be assessed and potential movements outside of appetite to be identified.

5.3. Control environment

The control environment represents the way the Society manages risks on a day-to-day basis. Policies and procedures ensure the Society operates in a way that is consistent with agreed risk appetites.

The Society has implemented a three line of defence model. Business units are responsible for the first line of defence (FLOD), ensuring policies and procedures are adhered to. Business units ensure risks are managed within appetite, with controls assessed for both adequacy and effectiveness. Second line of defence (SLOD) testing is completed by the Risk & Compliance Team, ensuring adequate oversight and appropriate challenge is provided to first line of defence activity. Third line of defence measures represent reviews undertaken independent of the Society, such as internal and external audit.

Stress testing is completed as part of the Corporate Plan, ICAAP, ILAAP & Recovery Plan with the aim of testing the Society's capital adequacy or liquidity position in the face of a severe shock and ensuring the business model remains viable. The design and results of stress testing are reviewed by the Board regularly to ensure the Society is able to withstand shocks such as changes in interest rates, unexpected liquidity outflows, falls in house prices and rises in unemployment.

Scenario analysis is completed to assess the impact of other severe but plausible events on the Society. These scenarios cover operational and conduct related events as well as the Society's operational resilience scenario testing.

5.4. Risk culture

Risk culture describes the attitudes, behaviours and norms displayed by Society employees and non-executive directors. The Society strives to operate with a generative risk management culture, with risks proactively identified and mitigated before they materialise.

The Society undergoes regular internal assessments from its second line of defence to provide a qualitative review of the prevailing risk culture. The outcomes of such assessments are reported to the Board for review and determination of any subsequent actions to be implemented.

5.5. Risk committee structure

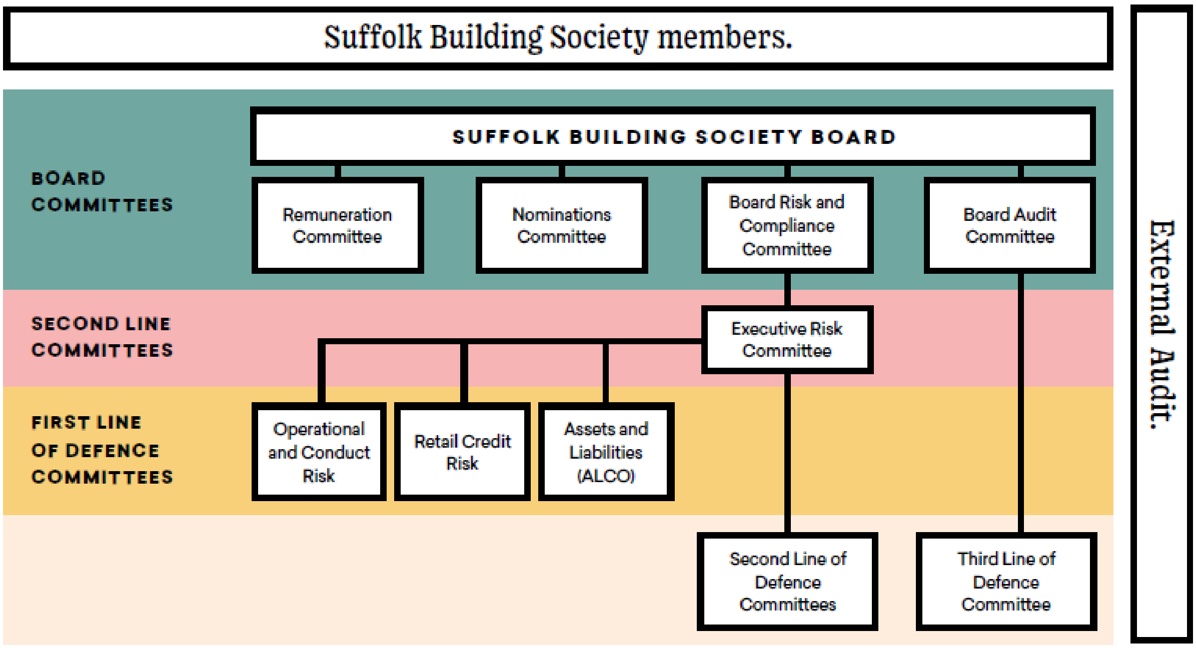
The Society operates with a three-tier committee structure. The Board is responsible for assessing principal risks facing the Society and setting risk appetites. The Board therefore acts as the most senior risk committee. The Board Risk & Compliance Committee and Audit Committee report directly to the Board on risk related matters.

The Board Risk & Compliance Committee acts as a second line of defence within the Society's risk management framework. The Committee assists the Board in fulfilling its oversight responsibilities by receiving regular reports from management committees. This enables the Committee to assess the risks involved in the Society's business and to consider the principal risks identified by Management and determine if they are appropriate. The Committee is responsible for ensuring the Society complies with the Board's risk appetite and reviews the Society's future risk strategy for capital, liquidity, credit, reputational, conduct and operational risk in line with the business strategy. This Committee convened on five occasions in the 2022/23 reporting period.

The Audit Committee oversees all internal and external audit related matters and as such is within the Society's third line of defence. The Committee reviews the Society's financial reporting arrangements and assesses the effectiveness of its internal controls and risk management framework. The Committee makes recommendations to the Board and reports on its activities. Minutes of the meetings are circulated to the Board of Directors, along with a report from the Chairman of the Audit Committee highlighting key issues for Board review. This Committee convened on seven occasions in the 2022/23 reporting period.

In addition to the Board committees, the Executive Risk Committee monitors and oversees the Society's risk profile in accordance with the ERMF and Board risk appetite. The Executive Risk Committee reports to the Board Risk & Compliance Committee. The Committee is part of the Society's second line of defence. The Committee supports the Board Risk & Compliance Committee by providing oversight of the adequacy of the Society's application and embedding of ERMF tools and processes. This Committee convened on eleven occasions in the 2022/23 reporting period.

Chart 1: Committee structure



5.6. Risk committee structure

The Society Board considers that the risk management arrangements are adequate with regard to the Society's profile and strategy.

6. Liquidity risk

6.1. Overview

The Society's management of liquidity aims to ensure sufficient liquid assets, both in amount and quality, are maintained to cover anticipated cash flows under stressed operating conditions. This will ensure the Society is able to meet all its financial obligations even during times of distress. This is quantified through the Internal Liquidity Adequacy Assessment Process (ILAAP) and is further verified through reverse stress testing of various adverse scenarios which may impact the Society.

6.2. Liquidity Coverage Ratio

The Society's Liquidity Coverage Ratio (LCR) was 218% at 30 November 2023. This ratio is derived by dividing high quality liquid assets held by the forecast of 30-day net cash outflows under a stress scenario.

A minimum regulatory LCR requirement of 100% has been applicable from January 2018. The Society LCR has been significantly above the minimum requirement since implementation and is expected to remain above requirements throughout the three-year corporate plan.

Table 6: Quarterly LCR*

Quarter ended	December 2022 £m	March 2023 £m	June 2023 £m	September 2023 £m	**November 2023 £m**
Liquidity buffer	117.4	114.6	106.9	97.4	**95.7**
Total net cash outflows	67.9	67.9	66.8	62.5	**59.1**
Liquidity Coverage Ratio	173%	169%	160%	156%	**162%**

*The Society LCR ratio is stated on a quarterly basis using an average of the liquidity buffer and net cash outflows over the preceding 12 months in accordance with European Banking Authority Guidelines (EBA/GL/2017/01).

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7. Interest rate risk

7.1. Overview

Interest rate risk is the risk the Society is exposed to movements in interest rates paid to savers and received from borrowers. Where practical, the Society seeks to naturally hedge interest rate risk by matching fixed rate savings product maturities to fixed term mortgage lending. Where natural hedging cannot be achieved, interest rate swaps are used to manage interest rate exposures.

The main activities undertaken by the Society which give rise to interest rate risk are:

- Management of the investment of capital and other non interest-bearing liabilities
- Issue of fixed rate savings products
- Fixed rate mortgage lending
- Fixed rate treasury investing
- Timing differences between asset, liability and swap maturities

The Society has adopted the Matched approach to interest rate risk as defined by the PRA, operating within the exemptions permitted within section 9A of the Building Societies Act 1986. The Matched approach aims to use standard hedging instruments to manage the interest rate risks associated with offering fixed rate retail products. Standard instruments include interest rate swaps.

Interest rate risk management is undertaken by the Society Treasury Team, who report directly to the Chief Financial Officer. The Society's interest rate risk management includes a regular review of the products used for hedging purposes by senior management, supported by monthly review by the ALCO and the Board. In addition, interest rate gap and basis risk analysis are performed monthly and presented to the ALCO and Board for review.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Society's financial assets and financial liabilities to various standard and non-standard interest rate scenarios. Interest rate sensitivity is calculated using a discounted cash flow analysis based on immediate 200 basis point parallel shifts in interest rates.

Interest rate risk exposures, such as basis risk (the risk of loss arising from changes in the relationship between interest rates which have similar but not identical characteristics; for example, SONIA and Bank of England Base Rate) and prepayment risk (the risk of loss arising from early repayments of fixed rate mortgages and early withdrawal of fixed rate savings) are monitored closely and reported monthly to the ALCO.

Table 7: Interest rate risk

	<3 months £m	>3 months <1 year £m	>1 year <5 years £m	>5 years £m	Non - defined maturity £m	**Total** **£m**
Total assets after derivatives	683.3	114.2	343.0	-	10.0	1,150.5
Total liabilities after derivatives	624.7	154.6	318.8	-	57.4	1,150.5
Off-balance sheet exposures	(4.4)	0.2	4.2	-	0.0	0.0
Total interest rate sensitivity gap	**54.2**	**(40.2)**	**33.3**	**-**	**(47.4)**	**0.0**
Sensitivity to general reserves						
Parallel shift of +2%	(0.1)	0.2	0.2	-	-	0.4
Parallel shift of -2%	0.1	(0.2)	(0.2)	-	-	(0.4)

Note: a hyphen indicates no value; 0.0 indicates value but rounded down to 1 decimal place.

8. Wholesale credit risk

8.1. Overview

The Society has exposures to banks and building societies through its treasury portfolio. These exposures are held for liquidity management purposes. Treasury activity is controlled by the Society Treasury Policy, which clearly details approved counterparties and exposure limits. Management monitor exposure limits daily, reporting exposures to the ALCO monthly.

The Society has nominated Fitch as its external credit rating agency. Fitch ratings of treasury counterparties are used to determine credit quality steps (CQS) applicable to portfolio holdings. In turn, credit quality steps determine the weighting to be applied to exposures to calculate risk weightings for each treasury portfolio asset.

Unrated investments in peer building societies are assigned a credit rating assessed based on a financial analysis of each institution, in line with a documented policy.

9. Operational risk

9.1. Overview

Operational risk is the risk that customers or staff suffer detriment from inadequate policies and procedures, or failure caused by the Society not operating in accordance with agreed polices and guidelines. Operational risks also arise from external sources, such as through fraud from unconnected parties. The Society is highly protective of its customers and staff and as such, the Board have a minimal appetite for operational risk.

9.2. Framework

The Society has fully embedded an enterprise-wide risk management framework (ERMF) which helps guard against operational risk arising. The ERMF introduces a range of operating policies and procedures which have been impact assessed to ensure the Society is operating in line with Board appetite.

All operational risk events are recorded and continually assessed to identify trends arising, where mitigating action can then be taken. Where customers or staff are found to have suffered detriment, the Society acts swiftly to ensure appropriate redress is provided.

The Society guards against the following level 1 operational risk categories:

- Fraud
- Employee risk, "People Risk"
- Information security and records management
- Systems
- Third party supplier / provider
- Change Risk

The Society operates with a generative risk management culture. This means the Society is proactive in identifying opportunities for risks to arise and ensures appropriate actions are taken in advance. In recent years, the Society has implemented operational risk scenario workshops. These workshops consider how events with varying probability of occurrence may play out and provide staff with appropriate foresight to manage situations and minimise operational risk in the future. These are also used to determine a range of extreme but plausible operational risk scenarios with the impact of those scenarios assessed as part of the ICAAP.

The Society performs an annual self-assessment of its operational resilience to ensure it can deliver its important business services to members within acceptable tolerances under a range of different threats.

9.3. Operational risk governance

The Society operates a three lines of defence model. This means responsibility for guarding against operational risk events arising lies with operational business areas. Business areas are therefore responsible for identifying operational risks pertinent to their activities.

Second line of defence is performed by the Risk and Compliance Team, which provides oversight of the operational risk framework. The Risk and Compliance Team have a direct reporting line to the Executive Risk Committee and are responsible for ensuring the quality of the ERMF.

10. Other risks

10.1. Pension risk

Pension risk is defined as the risk that the value of defined benefit pension scheme assets will be insufficient to meet the estimated liabilities. The Society has funding obligations to one defined benefit pension scheme which is closed to new members. The present value of the defined benefit scheme obligations saw a significant decrease during the year as the discount rate used to value the liabilities increased from 4.45% at 30 November 2022 to 5.3% at 30 November 2023. The Scheme holds a number of Liability Driven Investments ("LDIs") as a partial hedge against its defined benefit obligations and the value of these LDI funds decreased during the year as a result of the increase in discount rates. A schedule of obligations was agreed between the Society and the scheme's Trustees following the last triennial valuation of the scheme at 30 November 2021 to address, by November 2024, the funding deficit that existed at the valuation date.

10.2. Conduct risk

Conduct risk arises when a firm's behaviour results in inappropriate or poor outcomes for customers. The Society's culture is based upon ensuring that each member has a right to expect that their relationship with the Society will be conducted in a fair and consistent manner. The Society recognises members as the owners with individual requirements and expectations, and this approach is demonstrated within the conduct risk framework. The Society is also committed to ensuring members receive good outcomes that are consistent with the FCA's Consumer Duty requirements.

10.3. Compliance and legal risk

Compliance and legal regulatory risk is the risk that the Society breaches a regulatory or legal requirement. As a result, the Society has policies and procedures in place to ensure compliance with the regulations that affect the business. The volume and complexity of compliance with these regulatory issues may impact the Society's ability to compete and grow. The Board will continue to monitor regulatory changes to ensure that the Society continues to meet all its regulatory requirements.

10.4. Financial crime risk

Financial crime risk is the risk that the Society or members are targeted by criminals seeking to benefit from the proceeds of crime, commit fraud or fund acts of terrorism. The Society conducts an annual risk assessment of its exposure to financial crime and maintains a robust set of financial crime procedures.

10.5. Cybercrime risk

Cybercrime risk is the risk that a criminal uses technology in order to exploit the Society's systems, for the purposes of causing harm to either the Society itself or members. The Society combats cybercrime by operating internal controls and collaborating with external technology specialists to monitor the Society's systems. Cybercrime risk is increasing and those seeking to commit cyber-based crimes are finding new ways to exploit systems every day. The Society takes the risk of cybercrime very seriously and a working group is in place to monitor and address emerging cybercrime threats.

10.6. Climate risk

In accordance with policy statement PS11/19 – Enhancing banks' and insurers' approaches to managing the financial risks from climate change (April 2019), the Society carried out an assessment to determine its exposure to physical risks and transitional risks of climate change. Financial risks from climate change arise through two primary channels, or 'risk factors': physical and transitional:

- Physical risks arise as a result of increasing frequency and severity of extreme weather events.
- Transitional risks arise as the UK moves towards a low carbon economy, with changes introduced to building energy efficiency standards and rapid technological evolution in areas such as transport.

Regulatory guidance in this area continues to develop relatively quickly as the authorities continue to gather the information needed to enable them to set regulatory requirements. Consequently, management monitor developments via the Society's horizon scanning process and will continue to take appropriate action as new information and guidance becomes available.

The Society's climate risk appetite is to manage the Society's exposure to financial risks arising from climate change now and in the long term such that any residual exposures are adequately covered by its capital position. The Society's appetite is to adopt a strategic and proportionate approach to the identification, assessment, mitigation / monitoring and disclosure of climate change risks impacting the Society such that no members are treated unfairly, the Society is carbon neutral in our own operations by 2030, the Society's reputation is untarnished and the Society's business strategy and model remain viable.

The modelling undertaken by third party experts shows that the Society is currently not exposed to a material climate change risk (modelling extends to 2050) but this will be closely monitored. The scenario analysis shows that the Society has more theoretical exposure to transitional risks due to tightening energy efficiency requirements than physical risks such as flooding. Management also includes some modelling to assess the impact of climate change with respect to Pillar 2a Capital add-ons in the annual ICAAP. No add-on is deemed necessary in the latest version.

Management have concluded that the time horizon for these potential losses is likely to extend beyond its current planning horizon and therefore no additional P2A capital is required currently. However, government policy is evolving at a pace that could lead to the EPC transition risk crystallising within the next 10 years. The Society has considered this risk within its strategy and is taking steps to offer education and additional borrowing facilities to existing mortgage customers to improve the energy efficiency of their property. Any other precautionary actions to mitigate the physical and transitional risks within the scenarios are included in the Society's Climate Change Risk Assessment and Mitigation Plan.

11. Remuneration

11.1. Material Risk Takers

The following disclosures are made in accordance with Article 450 of the CRR. For the purpose of this article, individuals filling the following positions during 2022/23 were considered to be Material Risk Takers (MRTs) within the Society:

- Non-Executive Directors
- Chief Executive Officer
- Chief Financial Officer
- Chief Operating Officer
- Chief Commercial Officer
- Chief Risk Officer
- Head of Credit Management and Mortgages

11.2. Remuneration Committee

The Society Remuneration Committee performs the duties set out in the Committee Terms of Reference. The Terms of Reference are reviewed and approved by the Board of Directors annually.

The Committee's main role is to approve the remuneration and incentive schemes for the Society's Executive and senior management.

The Remuneration Committee ensures that the Society Remuneration Policy is:

- Consistent with and promotes sound and effective risk management and does not encourage risk-taking that exceeds the level of tolerated risk of the Society;
- In line with the Society's business strategy, objectives, values and long-term interests;
- Constructed to include measures to avoid conflicts of interest;
- Adopted and regularly reviewed by the Society Board; and
- Subject at least annually to independent review for compliance with policies and procedures adopted by the Society Board.

The Remuneration Committee consists of five Non-Executive Directors. The Chief Executive and Chief Operating Officer attend by invitation only but take no part in the discussion of their own salary. Three Remuneration Committee meetings were held in the year ended 30 November 2023.

Annually, the Executive Team together with the Chairman are responsible for setting the Non-Executive Directors' fees. The Board, with the exception of the Chairman, agree the Chairman's fee on an annual basis.

11.3. Remuneration policy

The Society's policy is to reward Directors and MRTs according to their expertise, experience and overall contribution to the successful performance of the Society and reflects their roles and responsibilities within the Society. The Executive Directors' benefit package is designed to motivate decision making in the long-term interests of the Society and members as a whole. The policy was reviewed during the year, and no changes were deemed necessary.

A performance-related pay scheme operated during the year for MRTs, excluding Non-Executive Directors. To manage the risks that this could lead to staff being rewarded for decisions which are not in line with the Board's risk appetite for now and the future, and that the Society can withstand future economic shocks, this was carefully designed to encourage achievement of targets that maintain the financial strength and integrity of the Society, to embed of the Society's risk management framework and to recognise performance factors that contributed to the Society's overall business, future prospects and member objectives. The Remuneration Committee may reduce or cancel the variable remuneration in view of the above targets not being met.

All variable pay awards are subject to malus and clawback arrangements, for both cash awards received and deferred elements. Circumstances allowing for this include a material downturn in financial performance, a material restatement of the financial statements, a material failure of risk management, or conduct issues concerning an individual. The Remuneration Committee has the ability to claw back any payments at any time during the 3-year period after the payment has been made, and also has the ability to reduce or cancel any variable remuneration awarded but not yet paid.

There are three main elements of remuneration for Society employees:

- Base salary
- Benefits (pension, car and healthcare)
- Variable pay.

At least one third of performance related pay for MRTs is deferred for three years to ensure consistent performance is delivered over the longer term. As part of the process, the Remuneration Committee sets targets that maintain the financial strength and integrity of the Society, that embed the Society's risk management framework and recognise performance factors that contributed to the Society's overall business and plan targets, and member objectives. The Remuneration Committee also assesses any payment that should be made under the scheme prior to recommendation for Board approval. Variable pay is set so that it is a maximum of 20% of salary.

The level of fees payable to Non-Executive Directors is assessed using information from comparable organisations (building societies of a similar size). Remuneration comprises a basic fee with a supplementary payment for holding the position of Chairman of a Committee, Deputy Chairman or Senior Independent Director. This fee reflects the additional responsibilities and time commitments of these positions.

Fees for Non-Executive Directors are not pensionable and Non-Executive Directors do not take part in any incentive scheme or receive any other benefits. Non-Executive Directors do not have employment contracts with the Society.

The Society ensures that staff in internal control operate independently of the businesses they oversee. Variable remuneration is based on performance assessed by the Chief Risk Officer, who is independent from the business which internal control oversees. In turn, the Chief Risk Officer has their variable remuneration based on performance assessed by the Remuneration Committee, ensuring that they are remunerated independently of the business.

No severance payments were made to any employees during the reporting period, and there is no guaranteed variable remuneration.

No staff received remuneration greater than EUR 1m. Details of the remuneration for executive and non-executive directors can be found in the Society's Annual Report and Accounts 2023.

Table 8: REM1 Remuneration awarded for the financial year

		a MB Supervisory function	b MB Management function	c Other senior management	d Other identified staff
Fixed Remuneration	Number of identified staff	7	3	3	-
	Total fixed remuneration	212	631	346	-
	Of which: cash-based	212	631	346	-
Variable Remuneration	Number of identified staff	-	3	3	-
	Total variable remuneration	-	103	54	-
	Of which: cash-based	-	103	54	-
	Of which: deferred	-	34	18	-
Total Remuneration		212	734	400	-

Table 9: REM3 - Deferred remuneration

	a	b	c	f	g	h
Deferred and retained remuneration	**Total amount of deferred remuneration awarded for previous performance periods**	**Of which due to vest in the financial year**	**Of which vesting in subsequent financial years**	**Total amount of adjustment during the financial year due to ex post implicit adjustments**	**Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year**	**Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods**
MB Management function	72	23	49	-	23	49
Cash-based	72	23	49	-	23	49
Other senior management	39	7	32	-	7	32
Cash-based	39	7	32	-	7	32

Table 10: REM5 – Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile

	a	b	c	i	j
	Management body remuneration			**Business areas**	
	MB Supervisory function	**MB Management function**	**Total MB**	**All other**	**Total**
Total number of identified staff					13
Of which: members of the MB	7	3	10	3	
Total remuneration of identified staff	212	734	947	400	
Of which: variable remuneration	-	103	103	54	
Of which: fixed remuneration	212	631	842	346	

11.4. Board appointments

Recruitment to the Society Board is determined by the Society's Board Recruitment Policy. This policy requires that in selecting suitable candidates to be Members of the Board the Society will evaluate the balance of skills, experience, independence, knowledge, and diversity.

The Society aims to maintain a balance on its Board committees and is aware of the advantages that this may bring. Candidates for Directorships are assessed based on their skills and expertise. Applicants are sought from varied geographical, social, economic, environmental, business, and cultural backgrounds.