

PILLAR 3 Disclosures 2022



Contents

1. Overview.....	4
1.1. Purpose.....	4
1.2. Scope of application.....	4
1.3. Regulatory framework for disclosures.....	4
1.4. Basis of preparation	4
1.5. Frequency of disclosures	4
1.6. Review and verification	4
1.7. Summary of key disclosures	5
1.8. Overview of Risk Weighted Exposure Amounts (RWEAs)	6
2. Risk Management Approach.....	7
2.1. Risk statement.....	7
2.2. Declaration	7
2.3. Strategies and Processes to Manage Risks	7
2.3.1. Risk Management framework.....	7
2.3.2. Risk and control management and governance	8
2.3.2.1. Risk governance, Board and Committee structure	8
2.3.3. Stress testing.....	9
2.4. Strategies and process for managing each category of risk.....	10
2.4.1. Principal risks	10
2.5. Strategic risk	10
2.6. Credit risk.....	10
Retail Credit Risk – Loans and advances to customers	10
Wholesale Credit Risk	11
2.7. Liquidity Risks.....	12
2.8. Market Risk (including Interest rate risk in the banking book (IRRBB)).....	13
2.9. Operational Risk	13
2.10. Conduct risk	14
2.11. Legal & Regulatory risk	14
2.12. Other risks.....	15
Climate change	15
3. Capital Resources (Own Funds)	16
3.1. Tier 1 Capital.....	16
3.2. Tier 2 Capital.....	16
3.3. Capital composition (own funds)	16
3.4. Reconciliation of regulatory own funds to balance sheet in the audited financial statements	17
3.5. Adequacy of capital resources.....	17
4. Standardised approach.....	18
4.1. Credit risk exposure and CRM effects	18
4.2. Exposures by asset class	19

4.3.	Use of external credit assessment institutions	19
5.	Liquidity reporting.....	21
5.1.	Liquidity metrics	21
5.1.1.	LCR.....	21
5.1.2.	NSFR.....	21
6.	Remuneration.....	22
6.1.	Information relating to the bodies that oversee remuneration.....	22
6.2.	Information relating to the design and structure of the remuneration system	22
6.3.	Description of the ways in which current and future risks are taken into account in the remuneration processes.....	24
6.4.	The ratios between fixed and variable remuneration set in accordance with point (g) of Article 94(1) CRD.	24
6.5.	Description of the ways in which the institution seeks to link performance during a performance measurement period with levels of remuneration.	24
6.6.	An overview of how amounts of individual variable remuneration are linked to institution-wide and individual performance.	24
6.7.	Information on the criteria used to determine the balance between different types of instruments awarded including shares, equivalent ownership interest, options and other instruments.	25
6.8.	Description of the ways in which the institution seeks to adjust remuneration to take account of long-term performance.	25
6.9.	Quantitative information on remuneration	26
7.	Attestation.....	28

TABLES

Table		Title	Page
1	UK M1	Key metrics	5
2	UK OV1	Overview of risk weighted exposure amounts	6
3	CC1	Composition of regulatory own funds	16
4	CC2	Reconciliation of regulatory own funds to balance sheet in the audited financial statements	17
5	CR4	Standardised approach – Credit risk exposure and CRM effects	18
6	CR5	Standardised approach - exposure classes and risk weights	19
7	-	Maturity and credit profile of treasury investments	20
8	LIQ1	Quantitative information of LCR	21
9	LIQ2	Net Stable Funding Ratio	21
10	UK REM1	Remuneration awarded in the financial year	26
11	UK REM5	Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff) awarded in the financial year	27

1. Overview

1.1. Purpose

The purpose of this document is to provide background information on the Society's capital position and approach to risk management.

1.2. Scope of application

This disclosure document applies to the Newbury Building Society (PRA Firm Reference Number 206077) for the year ended 31 October 2022.

1.3. Regulatory framework for disclosures

The Basel framework is structured around three pillars which govern minimum capital requirements, outline the supervisory review framework and promote market discipline through disclosure requirements.

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 Prudential Regulation Authority (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;
Pillar 3:	Disclosure of key information about risk exposures, the management of those risks and capital adequacy.

The Pillar 3 Disclosures have been prepared in accordance with the Disclosure Part of the PRA Rulebook which includes revised disclosure requirements applicable from 1 January 2022 following the UK implementation of the remaining provisions from Capital Requirements Regulation II (CRR II).

This Pillar 3 Disclosure document should also be read in conjunction with the Society's Annual Report & Accounts for the year ended 31 October 2022.

1.4. Basis of preparation

The Society meets the criteria for being a small and non-complex institution as introduced in the CRR II and incorporated into the Disclosure section of the PRA Rulebook under Article 433b. The disclosures in this document have therefore been prepared applying the concept of derogation for small and non-complex organisations.

Unless otherwise stated all information relates to the Society's assets as at 31 October 2022.

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

1.5. Frequency of disclosures

In accordance with the derogation provided in Article 433b of the PRA Rulebook, this document is updated annually to ensure that the disclosures, verification and frequency remain appropriate and is based on the Society's most recent audited financial statements.

1.6. Review and verification

The disclosures presented within this document are subject to the same level of internal verification as that applicable to the management report included in the Society's financial statement disclosures. Where appropriate the Pillar 3 disclosures are reconciled to and conform with the externally audited information in the Society's Annual Report & Accounts. This document has also been subject to second-line oversight, reviewed by the Society's Risk Committee and approved by the Society's Board in December 2022 alongside the Annual Report & Accounts.

1.7. Summary of key disclosures

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

Table 1: UKM1 – Key metrics

		31 October	
		2022	2021
Available own funds			
1	Common Equity Tier 1 (CET1) capital	£100.7m	£88.4m
2	Tier 1 capital	£100.7m	£88.4m
3	Total capital	£102.2m	£89.9m
Risk-weighted exposure amounts			
4	Total risk weighted exposure amounts	£464.8m	£431.0m
Capital ratios (expressed as a percentage of risk-weighted exposure amounts)			
5	Common Equity Tier 1 ratio	21.7%	20.5%
6	Tier 1 ratio	21.7%	20.5%
7	Total capital ratio	22.0%	20.9%
Additional own-funds requirements based on SREP (expressed as a percentage of risk-weighted exposure amounts)			
7a	Additional CET1 SREP requirements	-	-
7b	Additional AT1 SREP requirements	-	-
7c	Additional T2 SREP requirements	-	-
7d	Total SREP own funds requirements	8%	8%
Combined buffer requirement (expressed as a percentage of risk-weighted exposure amounts)			
8	Capital conservation buffer	2.5%	2.5%
9	Institution specific countercyclical capital buffer	-	-
9a	Systemic risk buffer	-	-
11	Combined buffer requirement	2.5%	2.5%
11a	Overall capital requirements	10.5%	10.5%
12	CET1 available after meeting the total SREP own funds requirement	13.7%	12.5%
Leverage ratio (A)			
13	Leverage ratio total exposure measure	£1,162.6m	£1,091.3m
14	Leverage ratio	8.7%	8.1%
Liquidity coverage ratio (B)			
15	Total high-quality liquid assets (HQLA) (Weighted value – average)	£305.2m	£312.5m
16a	Cash outflows – total weighted value	£110.9m	£93.1m
16b	Cash inflows – total weighted value	£12.7m	£9.0m
16	Total net cash outflows (adjusted value)	£98.2m	£84.1m
17	Liquidity Coverage Ratio	311%	372%
Net Stable Funding Ratio (C)			
18	Total available stable funding	£1,335m	£1,206m
19	Total required stable funding	£853m	£783m
20	NSFR ratio	156.4%	154.0%

Notes:

- A) Leverage ratio stated after exclusion of qualifying central bank exposures
- B) Additional disclosures provided in section 5.1.1.
- C) Information as at 30 September. Additional disclosures provided in section 5.1.2.

1.8. Overview of Risk Weighted Exposure Amounts (RWEAs)

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

		Risk weighted exposure amounts (RWEAs)	Risk weighted exposure amounts (RWEAs)	Total own funds requirements
		2022	2021	2022
		£m	£m	£m
1	Credit risk (excluding CCR) <i>Of which:</i>	426.9	395.1	34.2
2	The standardised approach	426.9	395.1	34.2
3	The foundation IRB (FIRB) approach	-	-	-
4	Slotting approach	-	-	-
4a	Equities under the simple risk weighted approach	-	-	-
5	Advanced IRB (AIRB) approach	-	-	-
6	Counterparty credit risk (CCR) <i>Of which:</i>	2.2	4.0	0.2
7	The standardised approach	1.3	2.4	0.1
8	Internal model method (IMM)	-	-	-
8a	Exposures to a CCP	-	-	-
8b	Credit valuation adjustment (CVA)	0.9	1.6	0.1
9	Other CCR	-	-	-
15	Settlement risk	-	-	-
22a	Large exposures	-	-	-
23	Operational risk <i>Of which:</i>	35.6	31.9	2.8
23a	Basic indicator approach	35.6	31.9	2.8
23b	Standardised approach	-	-	-
23c	Advanced measurement approach	-	-	-
24	Amounts below the thresholds for deduction (subject to 250% risk weight) (for information)	-	-	-
29	TOTAL	464.8	431.0	37.2

2. Risk Management Approach

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

2.1. Risk statement

Risk appetite is the level of risk the Society is prepared to accept whilst pursuing its business strategy as a mutual organisation set up for the benefit of its members, recognising a range of possible outcomes as the business plan is implemented.

The Board will not seek out strategic options which have a potential to create losses to capital.

The Society's Risk Appetite Statement consists of an overall Risk Appetite Statement followed by the individual Principal Risk Appetite and assignment of one of the four risk levels: Averse, Cautious, Open, Hungry. The Society has a **Cautious** risk appetite across all six of the seven of the identified Principal risks, including the sub-categories. The Society has an **Averse** risk appetite for Conduct and Culture.

The **risk culture** is normal behaviour exhibited by all employees regarding risk awareness, risk taking, risk management and treating customers fairly. The Board sets the tone from the top with risk owners and risk champions implementing this tone throughout the Society. The overall tone set by the Board is underpinned by various policies and these policies enable risk champions, and their teams, to disseminate the Society's culture and values across all areas of the business. The Risk team conduct a biennial risk culture assessment which is reviewed by the Risk Committee and, where considered necessary, actions are implemented. Exemplary conduct is expected from everyone in the organisation.

The Risk Committee reviews both the key risk indicators for each principal risk and the output from a range of stress tests to ensure that risk levels remain, and will continue to remain, within the Society's agreed risk appetite.

The Society has elected to omit specific details relating to individual risk appetite measures as they are considered proprietary information as per CRR article 432.

2.2. Declaration

In accordance with the requirements of CRR article 435(1) the Society's Board are satisfied that the risk arrangements in place at the Society are adequate with regard to the Society's profile and strategy.

2.3. Strategies and Processes to Manage Risks

2.3.1. Risk Management framework

The Society operates in a business environment that contains a wide range of financial and non-financial risks which are managed under the Risk Management Framework (RMF). The RMF documents the Society's formal structure for managing risk and the Board's risk appetite and provides the foundation for achieving risk management objectives through:

- Defining risk appetite;
- Detailing the three lines of defence model;
- Setting out committee roles and responsibilities;
- Identifying roles responsible for key risks and oversight of risk decisions;
- Documenting the main risk management processes;
- Describing the key risks faced by the Society and how they are managed and mitigated; and
- Listing out the key risk policies in use by the Society.

The Board is ultimately responsible for the effective management of risk. The RMF, including the risk appetite statement and principal risk policies, are approved by the Board following a review and recommendation by the Risk Committee. The Board delegates oversight of the implementation of the RMF to the Risk Committee. The Chief Risk Officer, who is an Executive Director on the Board, oversees the effective implementation of the RMF, including the review of risks and uncertainties in the business.

The Society adopts a three lines of defence model which ensures a clear separation between the ownership and management of risk and controls (first line), oversight, support, and challenge (second line) and internal audit assurance (third line).

The three lines of defence approach is illustrated below:



First line – Business Directors and Managers

The role of first line is to manage the risk environment including maintenance of risk registers, risk MI and management and reporting of risk events. There is a rolling programme of controls testing.

Second line – Risk Management Department

Second line provides oversight and challenge of first line risk management including risk submissions and risk event reporting. They independently review principal risk policies and attend and challenge at monthly Executive meetings covering principal risks. They review first line controls testing and deliver risk training. Second line provides risk commentary to the Risk Committee.

Third line - Internal Audit

The role of Internal Audit is to consider the adequacy of the Society's control environment and to test its effectiveness. This is done through a rolling three-year plan which looks to address all areas, with a focus on areas considered to be higher risk. This plan is prepared by the Internal Audit team and considered and approved by the Audit Committee. The Audit Committee then considers all reports from Internal Audit and progress against identified actions. The Audit Committee may ask for further work to be done if this is felt necessary. The Internal Auditors provide an annual opinion on the overall control environment and the Audit Committee reports routinely to the Board on the control environment.

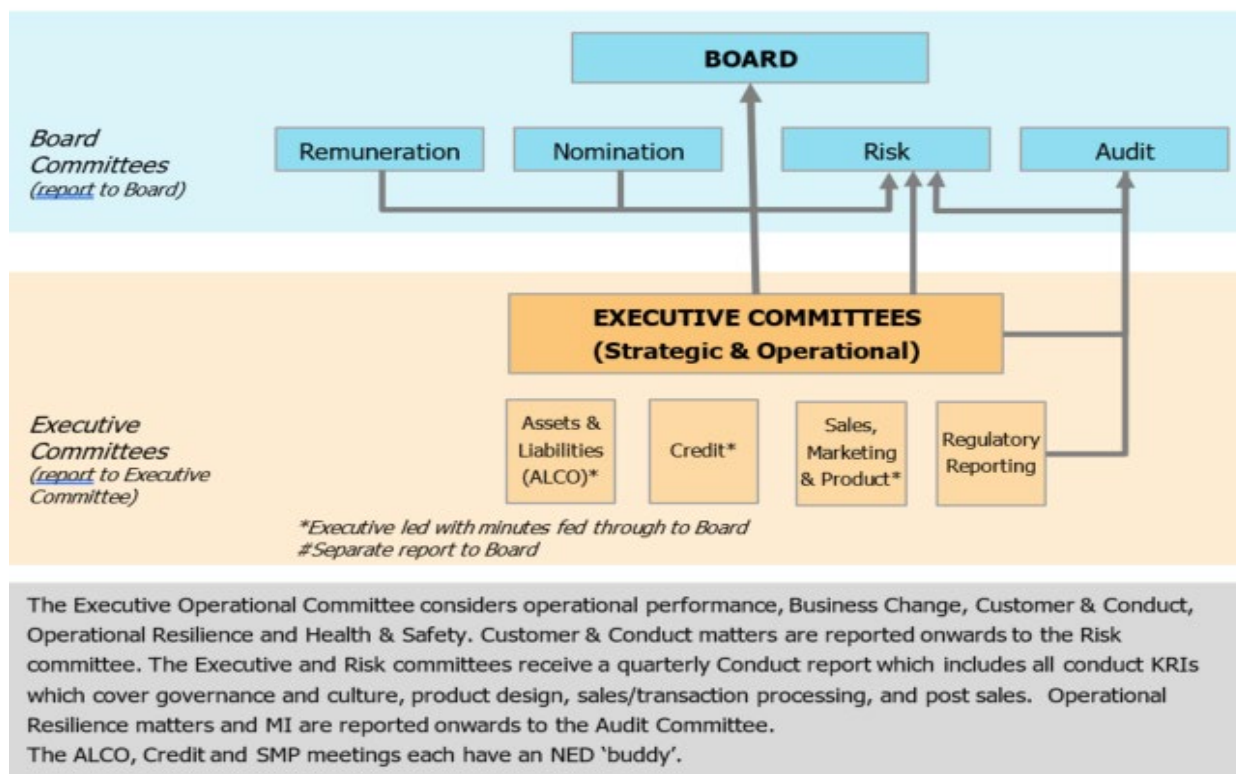
In addition, the risk management framework incorporates the requirements of the PRA's Supervisory Statement SS20/15 "Supervising building societies' treasury and lending activities". Specifically, the Society has adopted the Limited Lending Approach and the Matched Treasury Approach to risk management from SS20/15.

2.3.2. Risk and control management and governance

2.3.2.1. Risk governance, Board and Committee structure

The Board has in place a governance framework which includes both Non-Executive and Executive led committees. The Executive-led committees of Credit, ALCO and Sales, Marketing and Product also have one or more Non-Executive Directors also in attendance. A Non-Executive Director in attendance provides feedback to the main Board following each meeting of the committee. The Board also receive minutes of all the meetings.

Board and Committee structure



A description of the responsibilities and activities of the Board and Board Committees is provided in the Corporate Governance Report of the Society's Annual Report & Accounts. Terms of References are available on the Society's website www.newbury.co.uk

2.3.3. Stress testing

Stress testing is a risk management tool used by the Society to understand the impact of severe but plausible scenarios on its business model. The Society has a Board-approved Stress & Scenario Testing Policy which is a fundamental element within the Society's RMF. The objectives of the Society's stress testing programme and scenario analysis are to:

- 1 Understand the levels of capital and liquidity that is required to ensure sustainability of the Society in all reasonably foreseeable circumstances; and
- 2 Understand the level of extreme stress that would cause failure (reverse stress testing) so the Board can consider whether this is acceptable or should be further mitigated. This will inform the level of the Society's risk appetite and the resulting key risk indicators.

Capital: The Society uses a prescribed Internal Capital Adequacy Assessment Process (ICAAP) to identify capital risks and stress testing is undertaken as part of this process.

Liquidity: The Society uses a prescribed Internal Liquidity Adequacy Assessment Process (ILAAP) to identify liquidity risks and stress testing is also undertaken as part of this process. Liquidity stress tests are performed on a monthly basis with results reported to ALCO and the Risk Committee. These stress tests help identify any shortfalls in the Society's levels of liquidity in a range of scenarios.

The PRA carry out an assessment of the Society and issue firm-specific minimum capital and liquidity levels based on their assessment of the risks faced by the Society, including under stressed conditions.

Other: The Society also undertakes interest rate risk stress testing to ensure that the impact of changes in interest rates on its earnings and economic value remains within risk appetite and that the Society holds sufficient capital to cover potential losses arising from changes in interest rates. Interest rate risk scenarios model and evaluate the impact of a range of positive and negative changes to interest rate bases (Bank Rate and Sonia) on interest income. The output from all processes is used to inform Board risk appetite, policies, management actions and contingency plans.

2.4. Strategies and process for managing each category of risk

2.4.1. Principal risks

The principal risks are those risks that the Board has defined as being of primary importance to the Society and which must be managed to achieve its objectives. Formally defining the principal risks enables communication to all stakeholders, by the Board, on how it stays in control by aligning risk/reward decisions to its business model and strategy.

Each principal risk has a Risk Owner within the Society and there are Risk Champions in each business area to support the effective operation of the RMF. The Board approves the policies which set out how the principal risks are managed. The Risk Committee's terms of reference detail which policies are reviewed before recommendation to the Board for approval. These policies relating to credit risk, liquidity risk and financial risk management are reviewed and approved by the Board at least annually.

The Society's principal risks are: Strategic, Credit, Liquidity, Market, Operational, Conduct & Culture and Legal & Regulatory. Each are covered below.

2.5. Strategic risk

Strategic risk is the risks resulting from the Society's strategic decisions which have the potential to reduce the Society's profit levels and contribution to capital, thereby threatening the financial strength of the Society. In particular, it is the risk on the Society's business model and strategic objectives as a result of macroeconomic, regulatory, political or other factors.

The Board will not seek out strategic options which have a potential to create losses to capital, although will consider options that could result in reduced profit in the short to medium term provided that the capital ratio remains within appetite.

Strategic issues are regularly discussed at Board meetings and the Board provides robust challenge of the corporate plan. The Society maintains strong levels of capital and liquidity which provide financial resilience in periods of stress. This is assessed through regular stress testing of both capital and liquidity.

The Society maintains its capital level at a level significantly in excess of regulatory requirements and internal risk appetite limits. The Internal Capital Adequacy Assessment Process (ICAAP) provides a qualitative and quantitative assessment of the level of capital needed to support the Society's current risks and future risks, including under stressed scenarios. It is updated on an annual basis and approved by the Board following recommendation from the Risk Committee.

2.6. Credit risk

Credit risk is the risk that mortgage loan customers or treasury counterparties default on their obligation to repay the Society.

Retail Credit Risk – Loans and advances to customers

Mortgage credit risk is controlled in accordance with the Board-approved Lending Policy, which is aligned with a cautious risk appetite, and by strict controls over lending mandates. Lending is done on prudent terms, is maintained within carefully controlled limits and is subject to regular Credit Committee and Board reviews, together with reviews undertaken by 2nd and 3rd line risk functions. The Risk Committee also reviews the risk appetite position.

Whilst the Policy allows lending in a limited number of niche areas which may be considered to have a greater degree of risk, this is mitigated by the fact that these are areas where the Society either has significant experience or has set non-material limits and each application is carefully underwritten by an experienced team.

Forbearance

The Society has various forbearance options to support customers who may find themselves in financial difficulty:

- Temporary conversion from capital and interest to interest only repayment (interest only concessions)
- Temporary extension of mortgage term to reduce monthly repayments (term extensions)
- Reduced payment concessions, where the customer makes an agreed underpayment for a period
- Arrangements to make part payments to repay arrears over an agreed period (payment plans)
- Payment holidays where previous overpayments have accrued
- Change of repayment date to better suit customer's income and expenditure profile
- Change of method by which payments are made
- Capitalisation of arrears where borrower has maintained repayments for an agreed period
- Freezing of interest on arrears where borrower has been granted breathing space under the Government Debt Respite Scheme.

In some cases, more than one forbearance solution is offered, for example where a customer can afford to pay more than just interest and combines with a part repayment. Capitalisation is usually an exception and is approved by Credit Committee.

Wholesale Credit Risk

Wholesale credit risk is the risk of losses due to a wholesale Treasury counterparty being unable to meet their financial obligations. The Society's exposure to wholesale credit risk results from investments in financial instruments held within the liquidity portfolio and from transactions to hedge interest rate risk.

The credit risk capital requirement for the various categories of loans and treasury investments influences the Society's appetite for such exposures. Limits and exposures are regularly monitored and stressed to ensure compliance with the Board's risk appetite. The Society is a participant in the Bank of England (BoE) Sterling Monetary Framework (SMF) and, as at 31 October 2022 is signed up to the Discount Window Facility (DWF) and the Term Funding Scheme with additional incentives for SME lending (TFSME), which was closed to new drawings in October 2021.

Under TFSME the Bank lends the Society cash against the security of mortgage assets which are used as collateral against any drawdown.

Counterparty credit risk

Counterparty credit risk is controlled through adherence to the Board-approved Treasury Policy and is regularly reviewed by ALCO with oversight by the Risk Committee. The Policy defines prudent limits, relating to quality and quantity, on credit exposures to individual and groups of counterparties. The counterparty limits are developed predominantly by reference to credit ratings and other market and financial data and any new counterparties are approved by the ALCO in accordance with the Treasury Policy. Management monitor limits on a daily basis and ALCO monitors limits and KPIs on a monthly basis.

Treasury activities are tightly controlled and are also a focussed area of internal and external audit.

On-balance sheet items

The Society has exposures to banks in its treasury portfolio. These exposures are held for liquidity management purposes. New bank counterparties for treasury investments must be authorised by the Bank of England to accept deposits and have either a UK Sovereign rating or an individual minimum Fitch long term credit rating of A. The Society's longstanding banker is NatWest (RBS), which is A+ rated. The Society's Board approved Treasury Policy also permits the Society to hold exposures with unrated institutions in the form of deposits placed with other building societies. The Society conducts an internal

credit assessment on these institutions. Exposures to these institutions are assigned a risk weight according to the credit quality step they fall into.

Table 7 on page 20 sets out the maturity and credit profile of treasury investments at 31 October 2022.

Off-balance sheet items

With regard to off-balance sheet items the Society has interest rate swaps (IRS) with single A rated counterparties (or better).

Interest rate swap derivative instruments are covered under collateralised agreements. Depending on the market value of the instruments this results in either the Society or the swap counterparty depositing collateral funds with the corresponding counterparty. This mitigates the credit risk to either counterparty from any exposure created by movement in the market value of derivatives. Any movement in collateral is based on the market value of the swaps and does not consider the creditworthiness of the swap counterparty or the Society (although the Society is an unrated institution and therefore cannot be subject to a ratings downgrade).

The Society does not use credit derivatives and therefore has not provided disclosures required under CRR article 439.

2.7. Liquidity Risks

Liquidity risk is the risk of the Society failing to meet its financial obligations as they fall due, ultimately resulting in the inability to support normal business activity and failure to meet regulatory liquidity requirements. This includes the funding risk of not being able to find new funding to replace outflows or maturing facilities.

The Society relies on its access to sources of funding to finance the origination of new mortgage business and working capital. If access to funding became restricted, either through market movements or regulatory or government action, this might result in the scaling back or cessation of new lending or other actions as set out in the Society's recovery plan.

The Liquidity Policy is contained within the Treasury Policy, which is reviewed by the ALCO, the Risk Committee and annually approved by the Board. Liquidity is maintained within the Board approved risk appetite limits. Monthly stress tests are conducted which help to determine the level of liquidity required to withstand all reasonably foreseeable liquidity stresses. The Society also has a contingency funding plan in place to manage sudden or extreme outflows. The results of stress testing and the liquidity position are reported to the ALCO and the Risk Committee and appropriate action is undertaken, if required.

Liquidity stress testing is reviewed annually as part of the Internal Liquidity Adequacy Assessment Process (ILAAP) to ensure that all liquidity risk drivers are considered. The ILAAP is an assessment of the Society's exposure to liquidity risk across its planning horizon. The ILAAP is reviewed by the Risk Committee and approved by the Board at least annually.

The Society's policy is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations in funding in order to retain public confidence and to enable the Society to meet its financial obligations. This is achieved through maintaining an adequate level and quality of liquid assets, through wholesale funding and through management control of the growth of the business.

This results in the Society holding a significant amount of highly-liquid assets, mostly in the form of deposits with the Bank of England, to satisfy the Board's liquidity risk appetite. As a market participant in the Sterling Monetary Framework the Society has also pledged assets to the Bank of England as collateral, providing access to additional liquidity. The Society also maintains adequate deposits on call or overnight with other major banking organisations to meet operational cash flow needs without drawing on buffer-qualifying liquid assets.

It is a requirement for all Banks and Building Societies to construct plans that detect possible failure and minimise the consequences of failure should it occur. The Society has a Board-approved Recovery Plan

that outlines a menu of options the Society could credibly take to recover from a stress – whether Society specific or market-wide. The Society also has a Board-approved Resolution Plan containing prescribed information necessary for the Bank of England to establish an orderly resolution of the Society in the event that recovery cannot be achieved. Both documents are updated at least annually.

2.8. Market Risk (including Interest rate risk in the banking book (IRRBB))

Market risk includes interest rate risk and basis risk. The Society is exposed to market risk in the form of changes (or potential changes) in the general level of interest rates, changes in the relationship between short and long-term interest rates and divergence of interest rates for different balance sheet elements (basis risk). The Society is not directly exposed to equity, foreign currency or commodity risk.

Market risk is controlled by setting Board approved limits to control non-administered business (e.g. fixed rate mortgages) therefore ensuring the majority of assets are on an administered interest rate. To mitigate the risks associated with non-administered assets, hedging contracts are used in accordance with the Board-approved Treasury Policy. Market risk is regularly reviewed by the ALCO.

Interest rate risk is the risk of mismatches between the dates on which interest receivable on assets and interest payable on liabilities are reset to market rates, impacting on profitability and the value of the Society's assets and liabilities. **Basis risk** is the risk that assets and liabilities re-price on a different basis as interest rates change.

The Society has adopted the "Matched" approach to interest rate risk, as defined by the PRA, which aims to undertake the hedging of individual transactions within an overall strategy for structural hedging, based on a detailed analysis of the statement of financial position.

The sensitivity to changes in interest rates impacts the following activities:

1. Management of the investment of reserves and other net non-interest-bearing liabilities;
2. Fixed rate funding; and
3. Fixed rate mortgage and treasury lending.

Amortising interest rate swaps are used, where appropriate, to manage the above risks. In addition, swaps are used to manage risks arising from a net exposure to an interest rate basis type e.g. SONIA. The Society also monitors prepayment levels on fixed rate mortgages and aims to set the Early Repayment Charge consistent with the interest rate risk exposure.

To quantify the risk across the entire balance sheet the interest rate gap is stressed for parallel interest rate stress. The Society uses a parallel shift in interest rates of 2% and sets a risk appetite for the outcome not to result in a loss of economic value exceeding 3.5% of the Society's reserves. The results are reported to ALCO at each meeting.

2.9. Operational Risk

Operational risk is the risk of losses, damage and/or the availability of important business services resulting from inadequate or failed internal processes, people, technology (systems) or from facilities, information (data) and third parties, or from external events. Therefore, operational risks can potentially arise from all the Society's activities, across all business areas.

Operational risk also incorporates conduct risk and legal and regulatory risk which is the risk of fines, public censure, limitations on business or restitution costs arising from failing to understand, interpret, implement and comply with legal and regulatory requirements. Legal and Regulatory change is closely monitored and reported to the Executive Committee and Board.

The Society has robust processes and controls in place for all operational areas, which are designed to mitigate this risk and the Society uses software to help manage the risk by providing a single source of data for risk events, actions, horizon scanning and controls testing.

Whilst effective operational risk management will help to mitigate the likelihood and impact of operational risk it is not possible to eradicate the risk. To ensure operational resilience, the Society protects against

disruption resulting from operational risk events (such as cyber or data loss) by having controls in place to reduce risk exposures (prevention), having clear tolerances on what can be absorbed and having actions in place to respond beyond these points (response), and having clear plans and arrangements in place to respond to and recover from incidents and to learn and adapt from operational disruption (recovery). A range of metrics and risk limits are used to monitor the Society's ability to recover from an operational risk event in line with the defined risk tolerances for the key business services.

The Society has a Business Continuity Plan which is kept under regular review and is designed to ensure that any breakdown in systems would not cause significant business disruption. The Society also maintains insurance arrangements to cover certain operational losses including, for example, cyber disruption and fraud.

The Board is aware of the significant operational losses that have occurred in other businesses, particularly relating to cyber-attacks. The security of systems has been a key focus in recent years, with ongoing developments to ensure that we continue to meet best practice requirements. Over the past year the Society has strengthened its cyber security position, including engaging with a new security provider for increased monitoring and threat prevention.

The Operational Resilience framework, which includes the Operational Risk and Resilience Policy, the Business Continuity Plans and the Third Party Arrangements Policy, is reviewed by the Executive Committee and Risk Committee receive, who also receive management information relating to operational risk and resilience. The Audit Committee is responsible for assessing the effectiveness of the system of inspection and control.

To monitor its operational risks, the Society records all its risks and quantifies these through risk likelihood and impact, together with a reduction in impact from application of the controls assigned to each risk. This allows us to establish a residual risk remaining after operation of controls for each business area within the Society.

The Society operates the Basic Indicator Approach for the purpose of calculating its operational risk Pillar 1 capital requirement. In addition, the Society conducts stress testing to determine whether additional capital should be held in Pillar 2A. Given the low risk nature of the Society and its risk appetite, it is considered unlikely that any operational issues would exceed the Pillar 1 requirement, so no additional capital is held.

2.10. Conduct risk

Conduct risk is the risk of developing systems, behaviour and attitudes within the Society which do not deliver fair customer outcomes, or which create an environment which does not result in staff being open, honest, and doing the right thing. This can result in the risk of reputational loss, customer redress or regulatory fines.

The Society is committed to treating customers fairly and this is underpinned by the Society's Conduct Risk Framework, which is regularly reviewed and the Society's averse risk appetite for Conduct and Culture risks. The Customer Committee monitors conduct risk at an operational level, with oversight provided by the Risk Committee. The implementation of the new Consumer Duty, due in 2023, is being overseen by the Board.

2.11. Legal & Regulatory risk

The risk of fines, public censure, limitations on business or restitution costs arising from failing to understand, interpret, implement and comply with legal and regulatory requirements.

Legal and Regulatory change is closely monitored and reported to the Executive Committee and Board. Horizon scanning for legal and regulatory change is well embedded to ensure timely changes are made to any announced changes of law or regulation.

2.12. Other risks

Climate change

The Society also recognises the risks and challenges posed by climate change. While the financial risks from climate change may only crystallise in full over longer time horizons, they are becoming apparent now. The Society recognises two risks: physical and transitional. Physical risks relate to specific weather events such as flooding, or longer-term events such as rising sea levels. A key element of this risk is to property, both the Society's own properties and properties held as security for lending. This year the Society commissioned an updated report to assess the risks to the mortgage portfolio from climate change, this did not highlight any concerning areas of risk within the portfolio, although it may lead to changes to lending policy and pricing strategy.

Transitional risks can arise from the process of adjustment towards a low-carbon economy. This could lead to a changing regulatory expectation in terms of the way the Society is expected to run its own business, including who it uses as suppliers. It may also impact property held as security, for example the energy efficiency expectations of mortgaged properties.

The Society is increasingly mindful of these risks when making business decisions, including mortgage underwriting ones. The Finance Director has responsibility for monitoring climate change risk at an operational level, with oversight provided by the Risk Committee.

The Society aspires to be a sustainable business which works in a socially responsible and environmentally friendly way by minimising our carbon footprint and helping our customers and communities live more sustainably. The Board understand that the Society's operations have an impact on the environment and has identified three areas of strategic focus to realise its environmental ambition. These are set out in the Climate Risk disclosures provided in the Strategic Report section of the Society's Annual Report & Accounts.

3. Capital Resources (Own Funds)

The Society's capital resources are calculated in accordance with Pillar 1 of the CRD. The scope of these resources as at 31 October 2022 relate to the Society only. The Society has no subordinated debt, permanent interest-bearing shares, core capital deferred shares or any other capital instruments.

3.1. Tier 1 Capital

Tier 1 capital comprises the general reserve, which contains the accumulated profits of the Society, revaluation reserve and available for sale reserve, all net of regulatory adjustments. For this reason, the prescribed disclosures on "capital main features" or "terms and conditions" are not provided.

3.2. Tier 2 Capital

Tier 2 capital is comprised of the collective provision for bad and doubtful debts.

3.3. Capital composition (own funds)

The following table is a summary of the Society's capital resources as at 31 October 2022:

Table 3: CC1 – Composition of regulatory own funds

Common Equity Tier 1 (CET1) capital: instruments and reserves		£m
1	Capital instruments and the related share premium accounts	-
2	Retained earnings	100.0
3	Accumulated other comprehensive income (and other reserves)	0.7
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	100.7
7	Additional value adjustments (negative amount)	-
8	Intangible assets (net of related tax liability) (negative amount)	-
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount)	-
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	-
29	Common Equity Tier 1 (CET1) capital	100.7
Tier 2 (T2) capital: instruments		
50	Credit risk adjustments	1.5
58	Tier 2 (T2) capital	1.5
59	Total capital (TC = T1 + T2)	102.2
60	Total Risk exposure amount	464.8
Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	21.7%
62	Tier 1 (as a percentage of total risk exposure amount)	21.7%
63	Total capital (as a percentage of total risk exposure amount)	22.0%
64	Institution CET1 overall capital requirement (CET1 requirement in accordance with Article 92 (1) CRR, plus additional CET1 requirement which the institution is required to hold in accordance with point (a) of Article 104(1) CRD, plus combined buffer requirement in accordance with Article 128(6) CRD) expressed as a percentage of risk exposure amount)	10.5%
65	of which: capital conservation buffer requirement	2.5%
66	of which: countercyclical buffer requirement	-
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	13.7%

3.4. Reconciliation of regulatory own funds to balance sheet in the audited financial statements

There are no differences between the scope of regulatory and accounting consolidation. A reconciliation of equity attributable to members per the Statement of Financial Position to regulatory capital is shown below.

Table 4: CC2 - Reconciliation of regulatory own funds to balance sheet in the audited financial statement

Assets per published financial statements	£m
Society assets per statutory balance sheet	1,453.4
Adjustments:	
Derivatives adjustment	(1.3)
Regulatory deductions: Intangible assets	-
Off balance sheet items	11.7
Credit risk exposure	1,463.8

Reserves per published financial statements	£m
Accounting capital resources – reserves	100.7
Adjustments:	
Collective impairment provisions	1.5
Regulatory deductions: Intangible assets	-
Regulatory capital resources	102.2

3.5. Adequacy of capital resources

The Total Capital Requirement (TCR) is the amount and quality of capital that a firm must hold to comply with its capital requirements under Pillar1 and Pillar 2A, as confirmed by the PRA. The Overall Capital Requirement takes into account requirements arising from the application of capital buffers.

The Society seeks to maintain at all times capital resources that are considerably in excess of regulatory requirements. The Society undertakes an Internal Capital Adequacy Assessment Process (ICAAP) each year which is designed to ensure the Society at all times maintains sufficient levels of capital resources to mitigate the principal risks set out in section 2 above across the Society's financial planning period under normal and severe but plausible stressed conditions.

As at 31 October 2022 the Society held capital resources in excess of the regulatory requirements as set out below.

	Notes	£m
Amount of regulatory capital resources		102.2
Capital requirements:		
- Pillar 1 capital requirement		37.2
- Pillar 2A requirements		-
Total Capital Requirement (TCR)		
- Capital Conservation buffer	1	11.6
- Countercyclical buffer	1	-
Overall Capital Requirement (OCR)		48.8
Excess capital resources		53.4

Note:

- As at 31 October 2022 the Society was required to hold 2.5% of risk weighted assets as its Capital Conservation Buffer. The UK Countercyclical Buffer increased to 1% of risk weighted assets with binding effect from 13 December 2022 and will increase to 2% with binding effect from 5 July 2023.

4. Standardised approach

4.1. Credit risk exposure and CRM effects

Standardised exposures in the table below are stated on two different bases (pre credit conversion factor (CCF) and pre credit risk mitigation(CRM) and post-CCF and CRM. Exposures are stated net of credit risk adjustment exposures.

Table 5: CR4 - standardised approach – Credit risk exposure and CRM effects

Row	EXPOSURE CLASSES	Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWAs and RWAs density	
		On-balance sheet exposures	Off balance sheet exposures	On-balance sheet exposures	Off balance sheet amount	RWAs	RWAs density (%)
		£m	£m	£m	£m	£m	
1	Central governments or central banks	311.0	-	311.0	-	-	0%
2	Regional government or local authorities	-	-	-	-	-	-
3	Public sector entities	-	-	-	-	-	-
4	Multilateral development banks	-	-	-	-	-	-
5	International organisations	-	-	-	-	-	-
6	Institutions	11.8	-	11.8	-	3.6	30.2%
7	Corporates	-	-	-	-	-	-
8	Retail	7.7	-	7.7	-	5.8	75.0%
9	Secured by mortgages on immovable property	1,096.8	58.3	1,096.8	11.7	393.2	35.5%
10	Exposures in default	6.5	-	6.4	-	6.4	100.2%
11	Exposures associated with particularly high risk	-	-	-	-	-	-
12	Covered bonds	-	-	-	-	-	-
13	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
14	Collective investment undertakings	-	-	-	-	-	-
15	Equity	-	-	-	-	-	-
16	Other items	18.4	-	18.4	-	17.9	97.8%
17	TOTAL	1,452.2	58.3	1,452.1	11.7	426.9	

4.2. Exposures by asset class

Table 6: CR5 - standardised approach

Row	EXPOSURE CLASS £m									TOTAL	Of which unrated
		0%	10%	20%	35%	50%	75%	100%	150%		
1	Central governments or central banks	311.0	-	-	-	-	-	-	-	311.0	311.0
2	Regional government or local authorities	-	-	-	-	-	-	-	-	-	-
3	Public sector entities	-	-	-	-	-	-	-	-	-	-
4	Multilateral development banks	-	-	-	-	-	-	-	-	-	-
5	International organisations	-	-	-	-	-	-	-	-	-	-
6	Institutions	-	-	7.8	-	4.0	-	-	-	11.8	8.0
7	Corporates	-	-	-	-	-	-	-	-	-	-
8	Retail exposures	-	-	-	-	-	7.7	-	-	7.7	7.7
9	Exposures secured by mortgages on immovable property	-	-	-	1,099.7	-	-	8.8	-	1,108.5	1,108.5
10	Exposures in default	-	-	-	-	-	-	6.4	-	6.4	6.4
11	Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-	-
12	Covered bonds	-	-	-	-	-	-	-	-	-	-
13	Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-
14	Units or shares in collective investment undertakings	-	-	-	-	-	-	-	-	-	-
15	Equity exposures	-	-	-	-	-	-	-	-	-	-
16	Other items	0.3	-	-	-	-	-	18.1	-	18.4	18.4
17	TOTAL	311.3	-	7.8	1,099.7	4.0	7.7	33.3	-	1,463.8	1,460.0

4.3. Use of external credit assessment institutions

The Society makes limited use of External Credit Assessment Institutions (ECAIs) for its standardised exposures, applying only to the Institutions Exposure Class.

The table below sets out the maturity and credit profile of treasury investments at 31 October 2022.

Table 7:

	Maturity profile £m				£m
Minimum credit rating	<8 days	<1month	<3 months	>3 months	Total
AAA to AA-	-	-	-	-	-
A+ to A-	3.8	-	-	-	3.8
Building Societies (Unrated)	4.0	-	4.0	-	8.0
Central governments and banks	306.0	-	5.0	-	311.0
TOTAL	313.8	-	9.0	-	322.8

5. Liquidity reporting

5.1. Liquidity metrics

The Society calculates and expresses its liquidity requirement in terms of a percentage of savings and deposits liabilities and also in terms of survival days in a prescribed stress. The Society also reports liquidity using the regulatory measures of Liquidity Coverage Ratio (LCR) and Net Stable Funding Requirement (NSFR).

5.1.1. LCR

The Society's LCR at 31 October 2022 was 311% (2021: 372%), highlighting a strong liquidity position compared to the minimum regulatory requirement for 100%. The information in table 8 presents the Society's average LCR based on end of month observations over the preceding 12 months to each quarter end date for the financial year ended 31 October 2022.

Table 8: LIQ1 Quantitative information of LCR

		Quarter ended on			
		October 2022	July 2022	April 2022	January 2022
Number of data points used in the calculation of averages		12	12	12	12
1	High Quality Liquid Assets £m	313.3	302.3	284.3	261.4
16	Net cash outflows £m	89.0	85.0	81.1	79.8
20	Cash inflows £m	10.3	9.6	9.5	9.2
23	LCR %	351.9%	355.7%	350.5%	327.6%

The LCR reported at 31 October 2022 (311%) was lower than the average LCR maintained throughout the year principally due to the significant increase in the level of mortgage pipeline offered at the end of the financial year and following the repayment of £5m from wholesale borrowings in October 2022.

The Society's liquidity comprises almost entirely of amounts deposited with the Bank of England. Over the course of the financial year ended 31 October 2022 the Society purchased UK Treasury bills with a value of £5m, which were held at 31 October 2022 (2021: none). All of the Society's liquidity is sterling denominated. There are no currency mismatches.

5.1.2. NSFR

The Society reports its NSFR on a quarterly basis. The table below sets out the Society's NSFR as at 30 September 2022 (being the closest date of regulatory submission to the Society's financial year end) and for the four preceding quarters.

Table 9: LIQ2 – Net Stable Funding Ratio

		Quarter ended on				
		September 2022	June 2022	March 2022	December 2021	September 2021
		Weighted value (average)				
14	Total available stable funding (ASF) £m	1,335	1,335	1,331	1,284	1,206
33	Total Required Stable Funding (RSF) £m	853	811	809	811	783
34	Net Stable Funding Ratio %	156.4%	164.8%	164.4%	164.8%	154.0%

The growth in available stable funding can be attributed to growth in retail balances across the period together with the drawdown of £59m from TFSME in October 2021. The increase in required stable funding reflects growth in mortgage balances and a higher requirement for other assets. There have been no material changes to the Society's funding strategy or structure during the year.

6. Remuneration

6.1. Information relating to the bodies that oversee remuneration

Composition and mandate of remuneration committee

The Board has established a Remuneration Committee, which consists of three Non-Executive Directors with the Chief Executive, Chief Risk Officer and the Head of People attending by invitation. The terms of reference for the Committee is available on the Society's website, at the Annual General Meeting or by writing to the Company Secretary. A summary is set out below:

- Ensure the Society complies with best practice and the applicable legal and regulatory requirements
- Set, and recommend to the Board, a Remuneration Policy for Executive Directors and Material Risk Takers
- Set remuneration, including the approval of targets and performance related pay schemes
- Ensure role profiles and service contracts of Executive Directors are aligned to the Remuneration Policy

The Remuneration Committee is also responsible for determining the terms and conditions of other members of senior management, who are considered Material Risk Takers, in consultation with the Chief Executive. These are the Head of Customer Service, the Head of Sales and Marketing the Head of Risk & Company Secretary, the Head of People and the Head of IT & Business Change.

The Remuneration Committee assesses whether any performance related payments should be made taking into account reports, where applicable, from the Risk and Compliance functions.

Whilst a binding vote on Remuneration report is not considered appropriate for a building society of our size and nature, if more than 25% of the turnout vote against the report, the Remuneration Committee will take steps to ascertain and address the concerns of the Membership.

The Committee met four times during the financial year ended 31 October 2022. Proceedings are formally minutes and minutes distributed to all Board members.

Use of external consultants

In setting remuneration, the Committee considers the remuneration levels and structure of other building societies that are similar in size and complexity, as well as external market conditions. Periodically, a report may be commissioned from external consultants to assist in this process. The Committee did not use the services of an external consultant during the reporting period.

Material risk takers

The Nomination Committee has determined that, as at 31 October 2022, all of the current Non-Executive Directors and the three Executive Directors, as well as senior management roles reporting directly to the Executive Directors, are classified as Material Risk Takers (MRTs) and subject to the Remuneration Code. The individuals in the senior management roles are subject to the same variable pay performance targets and rewards as the Executive Directors.

The Remuneration and Nomination Committees do not consider that any members of staff who are not members of the Board or the Executive management team should be classified as MRTs.

6.2. Information relating to the design and structure of the remuneration system

Overview of the key features of and objectives of remuneration policy

The Society's objective when setting remuneration is to ensure that it supports the Society's business strategy, risk appetite and long-term objectives, and is consistent with the interests of the Society's members. Remuneration is set at a level to be sufficiently attractive to recruit and retain and the right people. The Remuneration Committee also ensures that variable remuneration does not undermine the objectivity of the risk and compliance functions. The Policy is structured around 6 core objectives:

- Attract and retain good people that share our values
- Motivate employees to optimise achievements
- Achieve long term business objectives and strategy to ensure the sustainability of the business
- Encourage a prudent approach to risk management
- Align the interests of employees with the interests of members
- Comply with statutory and regulatory requirements

As well as recruiting the right people, the Society believes Performance Related Pay (PRP) is inherently important for maintaining enthusiasm and motivating employees to behave in accordance with our culture and to maximise achievements for the Society. We use the following principles to ensure schemes meet this objective:

- Any PRP scheme, targets and objectives must be communicated to employees at the outset and employees will be given the resources to make targets achievable, albeit stretching.
- PRP schemes will be based on a range of measures designed to meet the objectives of the Society. Therefore PRP schemes may include measures for achieving financial targets (including profitability), creating the platform for sustainable growth, improving customer satisfaction and developing employees, all within the framework of prudent risk taking and strong regulatory compliance. The PRP schemes can incentivise individual, departmental and Society performance.
- The Society does not offer any guaranteed bonuses. Any payment will only be made after rigorous performance evaluation.
- The scheme must be affordable for the Society, so payment will only be made if we are sufficiently profitable during the period. Achievement of targets and making subsequent payment under a PRP scheme must not weaken the Society's capital position in comparison to the start point.

There are no individuals currently remunerated at EUR 1 million equivalent or more.

Information on the criteria used for performance measurement and ex ante and ex post risk adjustment.

The financial and non-financial metrics included in the PRP scheme rules are clear, measurable and agreed by the Remuneration Committee at the start of each performance year as part of the corporate plan. Risk and Controls objectives are clearly stated as part of these objectives. Individuals have objectives set throughout the performance year which are documented and measured and assessed during the end of year appraisal process. The CEO will make recommendations to the Remuneration Committee who have the discretion to decide whether an individual's, or the Society's performance is such that the payment of variable remuneration is not justified.

A deferral period is in place to allow for any risks to be taken into consideration by the Remuneration Committee. Malus and Clawback is also included in the scheme rules for three years past the end of the scheme to allow for any risk event to crystallise.

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

Employees in control functions are subject to the same remuneration and reward process as all other employees in the Society. In accordance with its terms of reference, the Remuneration Committee oversees the remuneration of senior managers in the risk management and compliance function, ensuring it is not appropriately weighted to variable pay and that the method for determining remuneration does not compromise the objectivity of those individuals.

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

There is no guaranteed variable remuneration and therefore the Society has no specific policy on this matter. The Society does have a redundancy policy which outlines that only statutory redundancy payments will be made.

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

The remuneration targets and objectives are based on the approved corporate plan. The plan considers a range of risks and is stress-tested to ensure the level of risk it contains is consistent with the Society's risk appetite. The plan risks are assessed by the CRO and reviewed by the Risk Committee in advance of its approval by the Board.

The PRP schemes (both short and long term) include controls measures that reduce payments if they are not met.

6.4. The ratios between fixed and variable remuneration set in accordance with point (g) of Article 94(1) CRD.

The ratios for annual variable remuneration range from 0% to 25% which ensures that no employee earns more than one third of total remuneration in the form of variable remuneration.

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

An overview of main performance criteria and metrics for institution, business lines and individuals.

The Society operates two performance related pay schemes with objectives relating to a balance of financial performance, customer service and sustainable growth over a multi-year timeframe:

1. An annual scheme based on the Society's key performance measures of profitability, control of costs, risk management controls, growth in mortgages, and increases in member numbers. A maximum of 10% of salary (prior to any salary sacrifice) can be earned annually for achievement of these targets, which includes a maximum 3.5% of salary based on personal contribution.
2. A three-year long term incentive plan based on business performance benchmarked against peer group Societies and team and individual performance based on strategic development of the business. This pays a maximum of 15% of salary after three years (equivalent to 5% per annum) and includes a maximum 3% based on individual contribution.

It should be noted that the Remuneration Committee have made the decision to close the three-year scheme at the end of this financial year. A new medium term incentive plan will be in place for the Executives for the next two years that has a stronger link to the deliverables of our corporate plan. This is intended to pay a maximum of 20% over two years and removes the payment for individual contribution in favour of a collective team-based reward.

Performance related payments are not pensionable and are paid in cash through payroll.

Fundamental prerequisites for any performance related payments include compliance, ethical standards and appropriate risk management. Misconduct or misstatement would lead to non-payment of performance related pay.

Non-Executive directors

The level of fees payable to Non-Executive Directors is assessed using information from comparable organisations. Remuneration comprises a basic fee with supplementary payments for the Chair of the Board and the other Non-Executive Directors classified as Senior Managers, for regulatory purposes, to reflect the additional responsibilities of these positions. Fees for Non-Executive Directors are not pensionable and Non-Executive Directors do not participate in any incentive schemes or receive any other benefits. Non-Executive Directors have letters of appointment and these are available for inspection prior to the AGM or at the Society's registered address.

6.6. An overview of how amounts of individual variable remuneration are linked to institution-wide and individual performance.

Awards are made based on an assessment of Society-wide performance and individual performance against an agreed set of corporate plan objectives.

Awards are also subject to review and approval by the Remuneration Committee, with recommendations from the Chief Executive.

6.7. Information on the criteria used to determine the balance between different types of instruments awarded including shares, equivalent ownership interest, options and other instruments.

The Society's only instrument is cash, reflecting our mutual status and the absence of any other instruments listed on capital markets.

Information of the measures the institution will implement to adjust variable remuneration in the event that performance metrics are weak, including the institution's criteria for determining "weak" performance metrics.

In setting the annual targets, the Remuneration Committee agree a scale of appropriate performance and an associated reduction in the level of payment. This is clearly stated in advance of the objectives being agreed and communicated. The Remuneration Committee have the discretion to decide whether an individual or the Society performance is such that the payment of variable remuneration is not justified.

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

An overview of the institution's policy on deferral, payout in instrument, retention periods and vesting of variable remuneration including where it is different among staff or categories of staff.

The Society's only instrument is cash, reflecting our mutual status and the absence of any other instruments listed on capital markets. Up to 5% variable pay is deferred for six months and will be payable unless issues have come to light regarding the performance of the individual or performance of the Society.

Information of the institution's criteria for ex post adjustments (malus during deferral and clawback after vesting, if permitted by national law).

Malus applies until payment is made and clawback applies for three years from the end of the scheme period.

6.9. Quantitative information on remuneration

Table 10: UK REM1 – Remuneration awarded in the financial year

£000s			Management Body			
			Supervisory function	Management function	Other senior management	Other identified staff
1	Fixed remuneration	Number of identified staff	9	5	4	-
2		Total fixed remuneration	£205	£784	£306	-
3		Of which: cash based	£205	£768	£304	-
7		Of which: other forms	-	£16	£2	-
9	Variable Remuneration	Number of identified staff	9	5	4	-
10		Total variable remuneration	-	£136	£49	-
11		Of which: cash based	-	£136	£49	-
12		Of which: deferred	-	-	-	-
17	Total remuneration (2+10)		£205	£920	£355	-

No special payments were made to any staff whose professional activities have a material impact on the Society's risk profile.

There was no deferred remuneration payable in the last financial year. The only scheme that has deferral is the LTIP for Executives, as described above.

Table 11: UK REM5 – Information on remuneration of staff whose professional activities have a material impact on institutions’ risk profile (identified staff) awarded in the financial year

		Management body remuneration			Business areas						
	£000	MB Supervisory function	MB Management function	TOTAL MB	Investment banking	Retail banking	Asset management	Corporate functions	Independent internal control functions	All other	TOTAL
1	Total number of identified staff										18
2	Of which: members of the MB	9	5	14							
3	Of which: other senior management							4			
4	Of which: other identified staff										
5	Total remuneration of identified staff	£205	£920	£1,125				£355			
6	Of which: variable remuneration	-	£136	£136				£306			
7	Of which: fixed remuneration	£205	£784	£989				£49			

Note: Remuneration information for Other senior management has been aggregated and presented within “Corporate functions” to prevent the disclosure of remuneration information for individuals that is not required to be published elsewhere.

7. Attestation

The Board confirms to the best of its knowledge that the disclosures provided according to the Disclosure Part of the PRA Rulebook (CRR) instrument 2021 have been prepared in accordance with the internal control processes agreed upon at the management body level.

Approved by the Newbury Building Society Board and signed on its behalf by:

Darren Garner
Finance Director
21 December 2022

Contact information

In the event that a user of this disclosure document should require further explanation on the disclosures given, please write to the Company Secretary at Newbury Building Society, 90 Bartholomew Street, Newbury, Berkshire, RG14 5EE.