Pillar 3 Disclosures

Year ended 31 March 2022

the West Brom

Contents

Summary

Introduction

This document presents the consolidated Pillar 3 disclosures of the West Bromwich Building Society Group (hereafter 'the Group' or 'the Society') as at 31 March 2022.

As a building society there are a number of risks which the Society is inherently exposed to. Holding capital is one important way in which the Society protects members from the impact of a risk event. This report provides detailed qualitative and quantitative information on our capital position, risk profile and risk management framework in accordance with the Disclosure (CRR) Part of the PRA Rulebook.

These Pillar 3 disclosures are presented against a backdrop of ongoing uncertainty brought about by the COVID-19 pandemic and, more recently, the Russian invasion of Ukraine. Throughout the period, the Society has continued to prioritise the wellbeing of our members, colleagues and communities. We have ensured our products, services and premises are safe and accessible and remained operationally and financially resilient at all times.

Key metrics

Table UK KM1 below presents key prudential metrics in relation to capital, leverage, liquidity and funding which, where applicable, have remained in excess of regulatory requirements and the Board's risk appetite throughout the year ended 31 March 2022.

Under the CRD V transitional rules, effective at the reporting date, the Common Equity Tier 1 (CET 1) ratio has increased to 17.0% (2021: 16.4%). The positive impact of profits for the financial year was partially offset by higher exposures, due to mortgage book growth, and a regulatory change to the capital treatment of software intangible assets. These factors contributed to a slight increase in the non-risk based UK leverage ratio to 7.3% (2021: 7.2%). The Society is able to meet all of its total capital and combined buffer requirements with the highest quality CET 1 capital.

On the CRD V full implementation basis, as part of which the Society recognises the full unwind of IFRS 9 transitional arrangements, the CET 1 ratio increased from 15.3% to 16.2% and the leverage ratio, excluding claims on central banks, from 6.5% to 6.9%.

The Society's average Liquidity Coverage Ratio (LCR) over the 12 months to 31 March 2022 was 231% (2021: 177%). These figures differ to the LCR metrics reported in the Annual Report and Accounts which show the position at the year-end date rather than a 12 month average.

UK KM1 - Key metrics template

At 31 March

Figures in £m unless otherwise specified

		a	a	e	e
		Transitional	**Full implementation**	Transitional	Full implementation
		2022	**2022**	2021	2021
	Available own funds (amounts)				
1	Common Equity Tier 1 (CET1) capital	**390.4**	**368.5**	387.6	355.6
2	Tier 1 capital	**390.4**	**368.5**	395.1	355.6
3	Total capital	**412.2**	**390.3**	416.7	377.2
	Risk-weighted exposure amounts				
4	Total risk-weighted exposure amount	**2,299.7**	**2,277.8**	2,360.0	2,328.0
	Capital ratios (as a percentage of risk-weighted exposure amount)				
5	Common Equity Tier 1 ratio (%)	**17.0**	**16.2**	16.4	15.3
6	Tier 1 ratio (%)	**17.0**	**16.2**	16.7	15.3
7	Total capital ratio (%)	**17.9**	**17.1**	17.7	16.2
	Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)				
UK 7a	Additional CET1 SREP requirements (%)[1]	**0.7**	**0.7**	0.7	0.7
UK 7b	Additional AT1 SREP requirements (%)[2]	**0.2**	**0.2**	0.2	0.2
UK 7c	Additional T2 SREP requirements (%)[2]	**0.3**	**0.3**	0.3	0.3
UK 7d	Total SREP own funds requirements (%)	**9.3**	**9.3**	9.3	9.3

UK KM1 - Key metrics template (continued)

	Combined buffer requirement (as a percentage of risk-weighted exposure amount)				
8	Capital conservation buffer (%)	**2.5**	**2.5**	2.5	2.5
UK 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	**-**	**-**	-	-
9	Institution specific countercyclical capital buffer (%)	**0.0**	**0.0**	0.0	0.0
UK 9a	Systemic risk buffer (%)	**-**	**-**	-	-
10	Global Systemically Important Institution buffer (%)	**-**	**-**	-	-
UK 10a	Other Systemically Important Institution buffer	**-**	**-**	-	-
11	Combined buffer requirement (%)	**2.5**	**2.5**	2.5	2.5
UK 11a	Overall capital requirements (%)	**11.8**	**11.8**	11.8	11.8
12	CET1 available after meeting the total SREP own funds requirements (%)	**8.6**	**7.8**	8.4	6.9
	Leverage ratio				
13	Total exposure measure excluding claims on central banks	**5,378.2**	**5,356.3**	5,480.5	5,448.5
14	Leverage ratio excluding claims on central banks (%)	**7.3**	**6.9**	7.2	6.5
	Additional leverage ratio disclosure requirements				
14a	Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)				
14b	Leverage ratio including claims on central banks (%)				
14c	Average leverage ratio excluding claims on central banks (%)				
14d	Average leverage ratio including claims on central banks (%)				
14e	Countercyclical leverage ratio buffer (%)				
	Liquidity Coverage Ratio				
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	**729.7**	**729.7**		
UK 16a	Cash outflows - Total weighted value	**339.3**	**339.3**		
UK 16b	Cash inflows - Total weighted value	**21.0**	**21.0**		
16	Total net cash outflows (adjusted value)	**318.3**	**318.3**		
17	Liquidity coverage ratio (%)	**230.8**	**230.8**	177.2	177.2
	Net Stable Funding Ratio[3]				
18	Total available stable funding				
19	Total required stable funding				
20	NSFR ratio (%)				

Notes
1 At least 56.25% of the additional own funds requirements under SREP must be met with CET1 capital. The figures in row UK 7a show this minimum level.
2 The proportions of additional own funds requirements to be met by AT1 and T2 capital are not prescribed but must not exceed 43.75% and 25% respectively or 43.75% in combination. The figure in row UK 7c of the table shows the maximum level of additional own funds requirements that could be met by T2 capital. The figure in UK 7b shows the maximum residual element of additional own funds requirements that could be met by AT1 if 25% were to be met with T2.
3 Disclosures for the Net Stable Funding Ratio, as set out by the PRA in PS22/21 *Implementation of Basel standards: Final rules* with amendments proposed in CP3/22 *Occasional Consultation Paper - March 2022*, are applicable from 2023.

The Society has elected to adopt the IFRS 9 transitional arrangements laid out in Article 473a of the CRR (as amended during 2020/21) which allow a proportion of relevant expected credit loss provisions to be added back to CET 1 capital. The relief is being phased out over the period to 31 March 2025. Table IFRS 9-FL below shows the Society's key capital ratios with and without the application of IFRS 9 transitional relief. Within the table, capital figures and ratios are reported on the CRD V transitional basis meaning that Tier 1 capital includes £nil (2021: £7.5m) of Additional Tier 1 capital in relation to the Society's Permanent Interest Bearing Shares. The CRR leverage ratio includes central bank claims in the exposure measure.

IFRS 9-FL Comparison of institutions' own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS 9 or analogous ECLs

At 31 March			
		2022	2021
	Available capital (£m)		
1	Common Equity Tier 1 (CET1)	**390.4**	387.6
2	CET1 capital as if IFRS 9 transitional arrangements had not been applied	**368.5**	355.6
3	Tier 1	**390.4**	395.1
4	Tier 1 capital as if IFRS 9 transitional arrangements had not been applied	**368.5**	363.1
5	Total regulatory capital	**412.2**	416.7
6	Total capital as if IFRS 9 transitional arrangements had not been applied	**390.3**	384.7
	Total risk-weighted assets (RWAs) (£m)		
7	Total RWAs	**2,299.7**	2,360.0
8	Total RWAs as if IFRS 9 transitional arrangements had not been applied	**2,277.8**	2,328.0
	Capital ratios (%)		
9	Common Equity Tier 1 ratio	**17.0**	16.4
10	Common Equity Tier 1 ratio as if IFRS 9 transitional arrangements had not been applied	**16.2**	15.3
11	Tier 1 ratio	**17.0**	16.7
12	Tier 1 ratio as if IFRS 9 transitional arrangements had not been applied	**16.2**	15.6
13	Total regulatory capital ratio	**17.9**	17.7
14	Total regulatory capital ratio as if IFRS 9 transitional arrangements had not been applied	**17.1**	16.5
	CRR leverage ratio		
15a	Total leverage ratio exposure measure (£m)	**6,015.2**	5,785.2
15b	Total leverage ratio exposure measure as if IFRS 9 transitional arrangements had not been applied (£m)	**5,993.3**	5,753.2
16	CRR leverage ratio (%)	**6.5**	6.8
17	Leverage ratio as if IFRS 9 transitional arrangements had not been applied (%)	**6.1**	6.3

Disclosure requirements

Regulatory framework

The Society is regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA).

The Basel III framework of the Basel Committee on Banking Supervision (BCBS) was developed to improve the banking sector's ability to absorb shocks arising from financial and/or economic stress. The framework is structured around three 'pillars' whereby Pillar 1 represents minimum capital requirements, Pillar 2 the supervisory review process and Pillar 3 market discipline.

The Basel III reforms brought in by EU regulations, namely the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD), were retained in UK law on departure from the EU. The Fifth Capital Requirements Directive (CRD V) and Second Capital Requirements Regulation (CRR II), as implemented via the PRA Rulebook, refine and continue to implement Basel III in the UK. Changes effective from 1 January 2022 include revisions to the leverage ratio, the net stable funding ratio, counterparty credit risk, market risk, exposures to central counterparties, interest rate risk in the banking book, maximum distributable amounts and reporting and disclosure requirements. The PRA has elected to revoke the revised capital treatment of intangible software assets, implemented in the EU during 2020/21 as part of its 'CRR quick fix' package, meaning that all such assets must now be fully deducted from capital.

These Pillar 3 disclosures are prepared in accordance with the Disclosure (CRR) Part of the PRA Rulebook which, with effect from 1 January 2022, prescribes the format of disclosures via templates in order to promote transparency, consistency and comparability of information between firms. Comparative information is not provided for certain disclosures adopted for the first time in 2022.

The BCBS released 'Basel III: Finalising post-crisis reforms to the Basel III framework' in December 2017. Having been delayed in response to the pandemic, the reforms are now expected to take effect from 1 January 2025. As the reforms include significant revisions to the Standardised approaches for credit and operational risk, they are being closely monitored for internal planning purposes.

Policy

The Board has adopted a formal policy, underpinned by internal processes, systems and controls, to comply with Pillar 3 disclosure requirements.

Basis and frequency of disclosure

This document sets out the 2022 Pillar 3 disclosures for the Society prepared in accordance with the rules laid out in the Disclosure (CRR) Part of the PRA Rulebook.

The disclosures in relation to key metrics will be published semi-annually. All other disclosures will be issued on an annual basis, as a minimum, and more frequently if appropriate. The disclosures have been published in conjunction with the Society's 2022 Annual Report and Accounts. The Pillar 3 disclosures do, in some instances, vary from those reflected in the Annual Report and Accounts due to differences between regulatory and accounting treatments and disclosure requirements. This is explained further in the 'Scope of application of the regulatory framework' section.

Non-material, proprietary or confidential information

The Disclosure (CRR) Part of the PRA Rulebook allows institutions to omit one or more of the required disclosures if information provided by such disclosures is not regarded as material or if it would be regarded as proprietary or confidential.

There is a requirement to calculate and maintain regulatory capital ratios on both a Group and an Individual Consolidated ('Solo') basis. However, for West Bromwich Building Society, there are no material differences between the Group and Solo consolidation figures. Therefore, the disclosures in this document are presented on a Group basis only.

The Society does not disclose key ratios and figures relating to its risk appetites, as they are considered to be proprietary information as per CRR Article 432.

Templates which are not relevant to the Society or for which the reporting thresholds are not met at the reporting date are excluded from these Pillar 3 Disclosures.

Location and verification

These disclosures have been reviewed by the Audit Committee (AC) on behalf of the Society's Board and are published on the West Bromwich Building Society website (www.westbrom.co.uk). These disclosures have not been, and are not required to be, subject to independent external audit, and do not constitute any part of the Society's financial statements; however, some of the information within the disclosures also appears in the Society's audited 2022 Annual Report and Accounts.

Attestation by Board member

I confirm that, to the best of my knowledge, the Society's Pillar 3 disclosures for the year ended 31 March 2022 comply with the Disclosure (CRR) Part of the PRA Rulebook and have been prepared in accordance with the Society's Pillar 3 Disclosure Policy.

Ashraf Piranie
Group Finance & Operations Director

Scope of application of the regulatory framework

Preparation and basis of consolidation

The qualitative information below meets the disclosure requirements referenced in tables *UK LIA – Explanations of differences between accounting and regulatory exposure amounts and UK LIB – Other qualitative information on the scope of application*.

The Group's Pillar 3 Disclosures are presented on a consolidated basis for the year ended 31 March 2022. There are no differences between the accounting and regulatory scopes of consolidation. For this reason Table *UK LI3 - Outline of the differences in the scopes of consolidation (entity by entity)* is not disclosed. However, different accounting and prudential treatments apply to certain commercial mortgages held by unconsolidated structured entities:

- The Group, through subsidiary company West Bromwich Commercial Limited, has entered into securitisation transactions by which it sold commercial mortgage assets to structured entities, Sandwell Commercial Finance No. 1 Plc (Sandwell 1) and Sandwell Commercial Finance No. 2 Plc (Sandwell 2). Following the transactions, the Group had limited exposure to credit losses on the securitised assets as the risk was transferred, in part, to third party investors who purchased the loan notes issued by the structured entities.
- Sandwell 1 and Sandwell 2 are not consolidated into the Group accounts but the securitised commercial mortgages continue to be recognised in the Group financial statements reflecting the fact that the derecognition criteria of IFRS 9, 'Financial Instruments', and its predecessor IAS 39, were not met at the time of the securitisation transactions.
- For capital purposes a deduction is made against capital available for the residual risk to the Group pertaining to Sandwell 1 and Sandwell 2. This treatment is adopted because the significant credit risk associated with the securitised exposures is considered to have been transferred to third parties.
- The differences between the accounting and prudential treatments of the Sandwell 1 and Sandwell 2 mortgages mean that the regulatory carrying values of 'Loans and advances to customers' and 'Trade and other receivables' are, in aggregate, £7.1m lower than the accounting carrying values within Table UK LI1 below.

As shown in table UK LI2, other differences between accounting and regulatory exposures arise due to the inclusion of off-balance sheet items, subject to credit conversion factors, for prudential purposes. Furthermore, the exposure value of derivatives calculated under the regulatory counterparty credit risk framework does not equate to their accounting carrying value determined under International Financial Reporting Standards (IFRS). By way of derogation from point (b) of paragraph 7 of CRR Article 473a, the Society has elected to include the value of IFRS 9 transitional relief within its total exposure measure and risk weight it at 100% when calculating own funds requirements. The exposure relating to IFRS 9 transitional arrangements is the primary component of 'Other differences' within table UK LI2.

With the PRA's permission and in accordance with Article 9 of the CRR, the Society incorporates its subsidiaries in the calculation of its requirement under Article 6(1) of the CRR and meets its individual reporting requirements on a 'Solo consolidated' basis. These Pillar 3 Disclosures are presented on a Group consolidated basis being materially equivalent to the Solo consolidated basis.

There are no material current or foreseen practical or legal impediments to the prompt transfer of capital resources or repayment of liabilities between the Society and its subsidiary undertakings.

Within this document references to the Society are to the regulatory group unless otherwise indicated.

UK LI1 - Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

At 31 March 2022

		a	b	c	d	e	f	g
				Carrying values of items				
		Carrying values as reported in published financial statements £m	Carrying values under scope of regulatory consolidation £m	Subject to the credit risk framework £m	Subject to the CCR framework £m	Subject to the securitisation framework £m	Subject to the market risk framework £m	Not subject to own funds requirements or subject to deduction from own funds £m
	Assets							
1	Cash and balances with the Bank of England	652.0	652.0	652.0	-	-	-	-
2	Loans and advances to credit institutions	73.2	73.2	51.4	21.8	-	-	-
3	Investment securities	286.9	286.9	227.8	-	58.6	-	0.5
4	Derivative financial instruments	52.4	52.4	-	52.4	-	-	-
5	Loans and advances to customers	4,778.3	4,771.0	4,771.0	-	-	-	-
6	Current tax assets	-	-	-	-	-	-	-
7	Deferred tax assets	27.1	27.0	10.2	-	-	-	16.8
8	Trade and other receivables	2.2	2.4	2.4	-	-	-	-
9	Intangible assets	10.2	10.2	-	-	-	-	10.2
10	Investment properties	147.3	147.3	147.3	-	-	-	-
11	Property, plant and equipment	22.8	22.8	22.8	-	-	-	-
12	Retirement benefit asset	14.9	14.9	-	-	-	-	14.9
13	**Total assets**	6,067.3	6,060.1	5,884.9	74.2	58.6	-	42.4
	Liabilities							
1	Shares	4,183.6	4,183.6	-	-	-	-	4,183.6
2	Amounts due to credit institutions	1,116.7	1,116.7	-	40.8	-	-	1,075.9
3	Amounts due to other customers	114.6	107.5	2.9	-	-	-	104.6
4	Derivative financial instruments	11.5	11.5	-	11.5	-	-	-
5	Debt securities in issue	171.2	171.2	-	-	-	-	171.2
6	Current tax liabilities	0.3	0.3	-	-	-	-	0.3
7	Deferred tax liabilities	14.7	14.7	-	-	-	-	14.7
8	Trade and other payables	14.0	14.0	-	-	-	-	14.0
9	Provisions for liabilities	0.5	0.5	-	-	-	-	0.5
10	Subordinated liabilities	22.9	22.9	-	-	-	-	22.9
11	**Total liabilities**	5,650.0	5,642.9	2.9	52.3	-	-	5,587.7

UK LI1 - Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories (continued)

At 31 March 2021

		a	b	c	d	e	f	g
				Carrying values of items				
		Carrying values as reported in published financial statements £m	Carrying values under scope of regulatory consolidation £m	Subject to the credit risk framework £m	Subject to the CCR framework £m	Subject to the securitisation framework £m	Subject to the market risk framework £m	Not subject to own funds requirements or subject to deduction from own funds £m
	Assets							
1	Cash and balances with the Bank of England	316.5	316.5	316.5	-	-	-	-
2	Loans and advances to credit institutions	107.3	107.3	52.3	55.0	-	-	-
3	Investment securities	276.5	276.5	207.2	-	68.5	-	0.8
4	Derivative financial instruments	6.5	6.5	-	6.5	-	-	-
5	Loans and advances to customers	4,852.3	4,838.1	4,838.1	-	-	-	-
6	Current tax assets	0.2	0.2	0.2	-	-	-	-
7	Deferred tax assets	21.3	21.3	6.7	-	-	-	14.6
8	Trade and other receivables	2.6	3.0	3.0	-	-	-	-
9	Intangible assets	16.3	16.3	7.4	-	-	-	8.9
10	Investment properties	143.0	143.0	143.0	-	-	-	-
11	Property, plant and equipment	24.9	24.9	24.9	-	-	-	-
12	Retirement benefit asset	1.1	1.1	-	-	-	-	1.1
13	Total assets	5,768.5	5,754.7	5,599.3	61.5	68.5	-	25.4
	Liabilities							
1	Shares	4,234.1	4,234.1	-	-	-	-	4,234.1
2	Amounts due to credit institutions	751.8	751.8	-	1.2	-	-	750.6
3	Amounts due to other customers	90.9	77.0	3.1	-	-	-	73.9
4	Derivative financial instruments	40.5	40.5	-	40.5	-	-	-
5	Debt securities in issue	217.9	217.9	-	-	-	-	217.9
6	Current tax liabilities	-	-	-	-	-	-	-
7	Deferred tax liabilities	7.6	7.6	-	-	-	-	7.6
8	Trade and other payables	12.4	12.4	-	-	-	-	12.4
9	Provisions for liabilities	0.6	0.6	-	-	-	-	0.6
10	Subordinated liabilities	22.8	22.8	-	-	-	-	22.8
11	Total liabilities	5,378.6	5,364.7	3.1	41.7	-	-	5,319.9

UK LI2 - Main sources of differences between regulatory exposure amounts and carrying values in financial statements

At 31 March 2022

		a	b	c	d	e
			Items subject to			
		Total £m	Credit risk framework £m	Securitisation framework £m	CCR framework £m	Market risk framework £m
1	**Assets carrying value amount under the scope of regulatory consolidation (as per template LI1)**	**6,017.7**	**5,884.9**	**58.6**	**74.2**	**-**
2	**Liabilities carrying value amount under the regulatory scope of consolidation (as per template LI1)**	**55.2**	**2.9**	**-**	**52.3**	**-**
3	**Total net amount under the regulatory scope of consolidation**	**5,962.5**	**5,882.0**	**58.6**	**21.9**	**-**
4	**Off-balance-sheet amounts**	**163.1**	**163.1**	**-**	**-**	
5	*Differences in valuations*	**(0.4)**	**(0.4)**	**-**	**-**	
6	*Differences due to different netting rules, other than those already included in row 2*	**-**	**-**	**-**	**-**	
7	*Differences due to consideration of provisions*	**-**	**-**	**-**	**-**	
8	*Differences due to the use of credit risk mitigation techniques (CRMs)*	**2.9**	**2.9**	**-**	**-**	
9	*Differences due to credit conversion factors*	**(130.5)**	**(130.5)**	**-**	**-**	
10	*Differences due to Securitisation with risk transfer*	**-**	**-**	**-**	**-**	
11	*Other differences*	**20.9**	**22.2**	**-**	**(1.3)**	
12	**Exposure amounts considered for regulatory purposes**	**6,018.5**	**5,939.3**	**58.6**	**20.6**	**-**

At 31 March 2021

		a	b	c	d	e
			Items subject to			
		Total £m	Credit risk framework £m	Securitisation framework £m	CCR framework £m	Market risk framework £m
1	Assets carrying value amount under the scope of regulatory consolidation (as per template LI1)	5,729.3	5,599.3	68.5	61.5	-
2	Liabilities carrying value amount under the regulatory scope of consolidation (as per template LI1)	44.8	3.1	-	41.7	-
3	Total net amount under the regulatory scope of consolidation	5,684.5	5,596.2	68.5	19.8	-
4	Off-balance-sheet amounts	261.7	254.0	-	7.7	
5	*Differences in valuations*	(0.3)	(0.3)	-	-	
6	*Differences due to different netting rules, other than those already included in row 2*	1.4	-	-	1.4	
7	*Differences due to consideration of provisions*	-	-	-	-	
8	*Differences due to the use of credit risk mitigation techniques (CRMs)*	3.1	3.1	-	-	
9	*Differences due to credit conversion factors*	(203.2)	(203.2)	-	-	
10	*Differences due to Securitisation with risk transfer*	-	-	-	-	
11	Other differences	33.7	31.8	-	1.9	
12	Exposure amounts considered for regulatory purposes	5,780.9	5,681.6	68.5	30.8	-

Risk management approach

The following narrative information is provided in accordance with the disclosure requirements referenced in table *UK OVA – Institution risk management approach* with further details given in the *Credit risk and credit risk mitigation (CRM), Counterparty credit risk, Market risk, Operational risk, Interest rate risk in the banking book (IRRBB), Other risks and Liquidity and funding risk* sections of these Pillar 3 disclosures.

Concise risk statement approved by the Board

Effective management of risks and opportunities is essential to achieving the Society's objectives. The Board aims to manage effectively all the risks that arise from its activities and believes that its approach to risk management reflects an understanding of actual and potential risk exposures, the quantification of the impact of such exposures and the development and implementation of controls that manage exposures within the Board's agreed risk appetite.

In order to identify the key risk categories most relevant to the Society, the Board considered an overall risk universe relating to firms in the financial services sector. This has been distilled into nine Principal Risk categories as shown below.

The main risks we manage are:

- Capital risk;
- Credit risk;
- Market risk, including interest rate risk;
- Margin compression risk;
- Operational risk;
- Liquidity risk;
- Pension liability risk;
- Business risk; and
- Retail conduct risk.

The Society appoints a Principal Risk Owner for each Principal Risk. A risk framework must be defined and documented which comprises of a Risk Policy, risk management framework and procedures. The Principal Risk Owner is required to certify to the design and operating effectiveness of the risk management framework used to manage the risk. The risk management framework and policies are subject to control testing oversight by the Second Line risk function on an ongoing basis. All policies must adhere to the Society's approved Governance Policy and Guidance.

The Society's activities are governed by its constitution, principles and values. The Board have also agreed a set of Risk Appetite Statements which describe the Board's risk appetite in terms of the principal risk categories indicated above. These Risk Appetite Statements drive corporate planning activity, including capital and liquidity planning, as well as providing the basis for key risk measures which set out the level of risk that the Society is willing to accept or tolerate. The Board reviews and approves risk appetite on an annual basis, or more frequently in the event of changes to the risk environment, with the aim of ensuring that it is consistent with the Society's strategy, business and regulatory environment.

The Society does not disclose key ratios and figures relating to its risk appetite, as they are considered to be proprietary information as per CRR article 432.

Risk governance structure

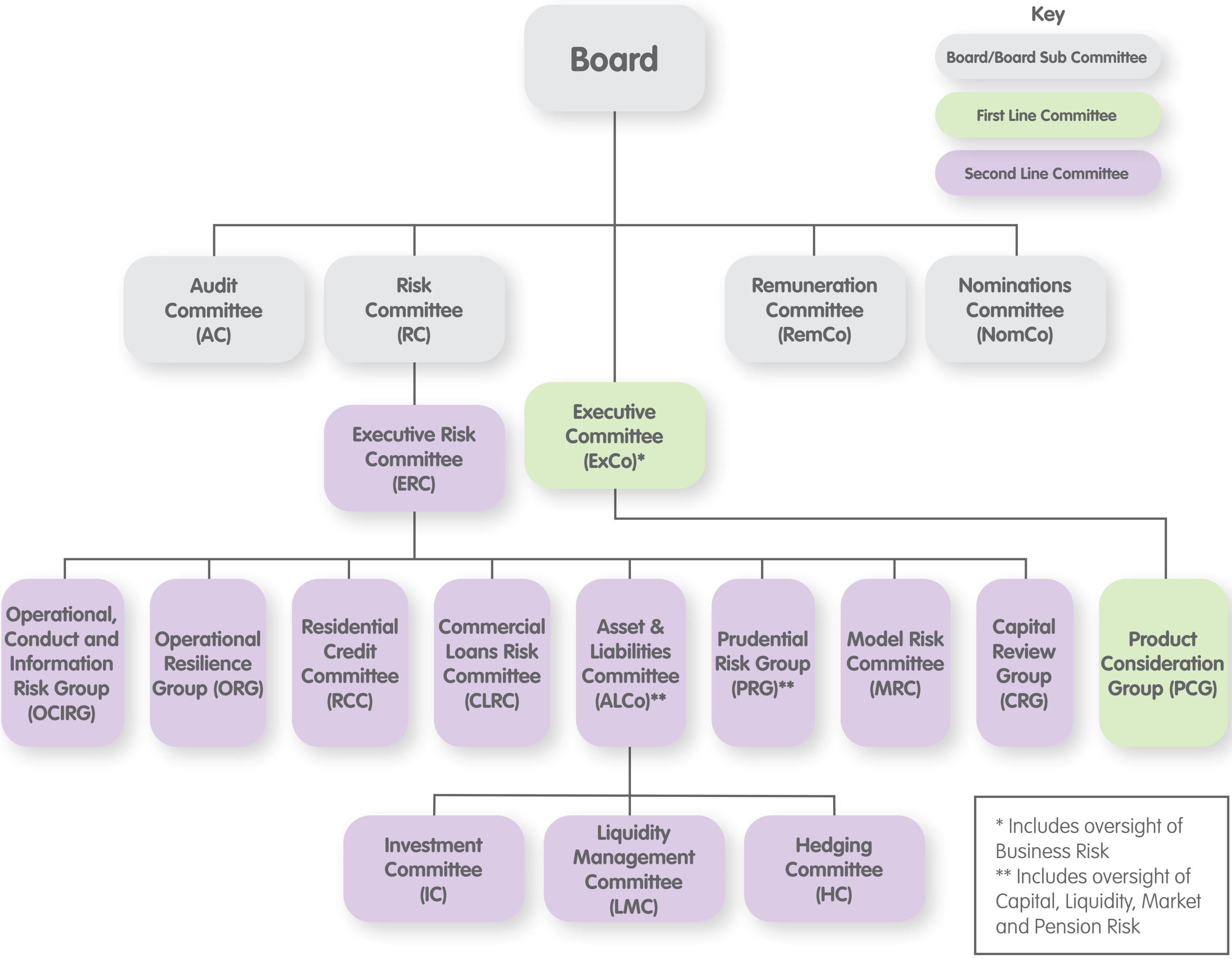
During the year risk governance was provided by a structure consisting of 11 key risk management committees. Each principal risk has a committee with overall responsibility for managing the risk category and making recommendations to the Executive Risk Committee (ERC):

- **Risk Committee (RC)** – This committee, chaired by a Non-Executive Director and comprising four other Non-Executive Directors, is responsible for the oversight and management of the principal and key strategic risks identified by the Board.
- **Executive Risk Committee (ERC)** – This Committee is chaired by the Chief Risk Officer and is responsible for providing the Executive and the RC with an enterprise wide view of the risk profile of the Society, including current and potential risks. The ERC is also accountable for driving the detailed implementation of the Society's Risk Management Framework.
- **Assets & Liabilities Committee (ALCo)** – This Committee is chaired by the Group Finance & Operations Director and is responsible for overseeing the assets and liabilities risk including the assessment of exposure to counterparty credit, market, liquidity, pension liability, basis and interest rate risk.
- **Prudential Risk Group (PRG)** – This Committee is chaired by the Chief Risk Officer and is responsible for risk management oversight responsibilities pertaining to specialist areas of prudential risk.
- **Residential Credit Committee (RCC)** – This Committee is chaired by the Chief Risk Officer and is responsible for monitoring the Society's residential lending activity and its exposure to credit risks in the retail loan books.
- **Commercial Loans Risk Committee (CLRC)** – This Committee is chaired by the Chief Risk Officer and is responsible for monitoring the Society's exposure to credit risks in the commercial loan book.
- **Operational, Conduct & Information Risk Group (OCIRG)** – This Group is chaired by the Chief Risk Officer and is responsible for the oversight of the management of operational and retail conduct risks arising from the Society's business activities. It also maintains oversight and governance of Information Risk across the Society and challenges the effectiveness of the controls in place to mitigate Information Risk (including cyber security). One of its purposes is to support and drive the information risk governance agenda and provide oversight that effective information governance best practice mechanisms are in place within the Society.

Risk governance structure (continued)

- **Operational Resilience Group (ORG)** – This group is chaired by the Group Finance & Operations Director and reviews activities relating to the development and delivery of the Society's Operational Resilience Plan and Business Continuity and Disaster Recovery Risk Management Framework, important components against which to manage operational resiliency.
- **Capital Review Group (CRG)** – This Group is chaired by the Group Finance & Operations Director and is responsible for reviewing the Society's capital requirements.
- **Model Risk Committee (MRC)** – This Committee is chaired by the Chief Risk Officer and is responsible for overseeing the Society's exposure to model risk across the business.
- **Audit Committee (AC)** – Comprising four Non-Executive Directors, the Committee provides the Board with assurance regarding the integrity of the financial statements and the adequacy and effectiveness of the Society's risk management frameworks.

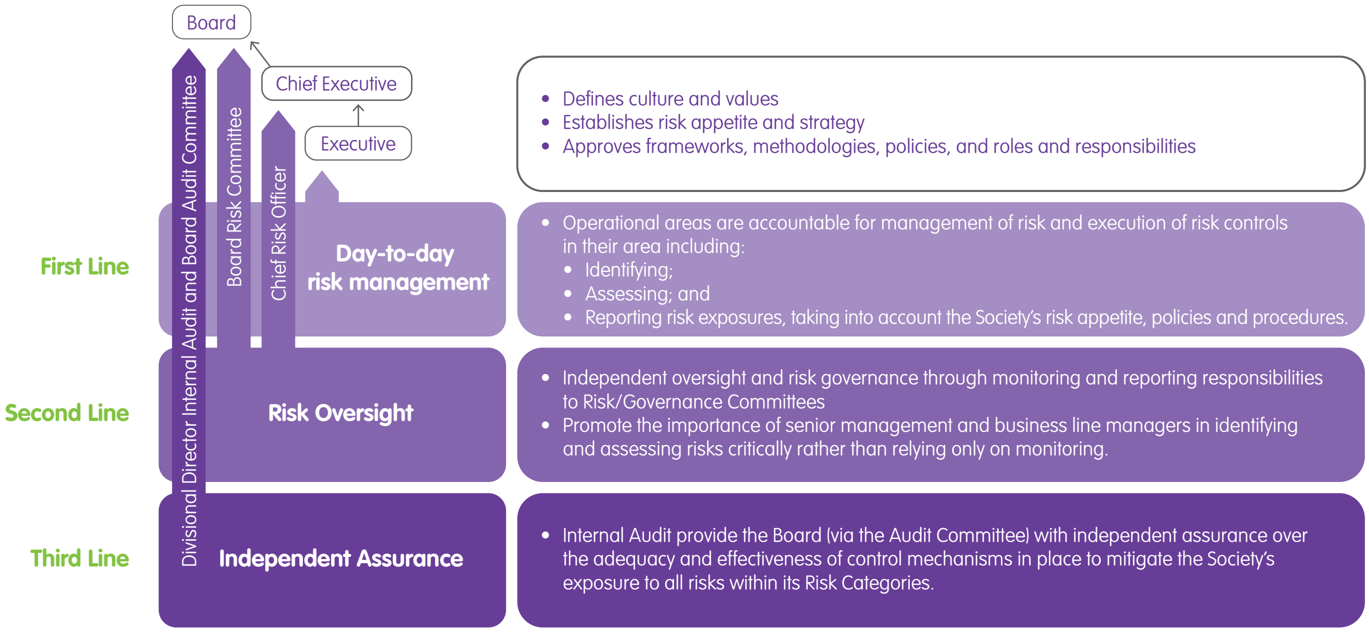
Independent assurance is provided by the Internal Audit function which has a direct reporting line into the Audit Committee (AC).



Risk governance structure (continued)

Three Lines of Defence

The Society operates a Three Lines of Defence model as the basis for its Risk Management Framework, which is illustrated below.



Under this model, business areas are the First Line of Defence. They are responsible and accountable for the ongoing management of risk in their area. This includes identifying, measuring, managing, monitoring and reporting risk exposures, taking into account the Society's risk appetite and its policies and procedures and ensuring appropriate controls and assessments are in place to mitigate them.

Independent oversight and risk governance is provided by the Second Line of Defence risk management functions and their monitoring and reporting responsibilities to Risk/Governance Committees, operating in accordance with the Society's policy infrastructure. The Second Line must always promote the importance of senior management and business line managers (First Line) in identifying and assessing risks critically rather than relying only on monitoring conducted by the Risk function.

Finally, under the Third Line, Internal Audit provides the Board (via the Audit Committee) with independent assurance over the adequacy and effectiveness of control mechanisms in place to mitigate the Society's exposure to all risks within its Risk Categories. This is reflected also in the work undertaken by External Audit in reviewing the Report and Accounts.

Risk culture

Everyone in the Society has a responsibility for managing risk. Individual ownership of risk and the importance of a strong culture that is supported by the Society's Values are key to successfully embedding the Risk Management Framework within the Society. In particular:

- The Board assesses whether the Society's purpose, values and their expectations around risk culture have been clearly defined and communicated throughout the organisation, and that they are properly understood by executive management;
- The Society's 'Target Culture Framework' translates the cultural expectations into a behavioural framework. Measurement towards the framework is by way of the 'Culture Dashboard' reported quarterly to senior management; and
- When conducting reviews, Internal Audit provide an opinion on the risk management culture.

Declaration on the adequacy of risk management arrangements

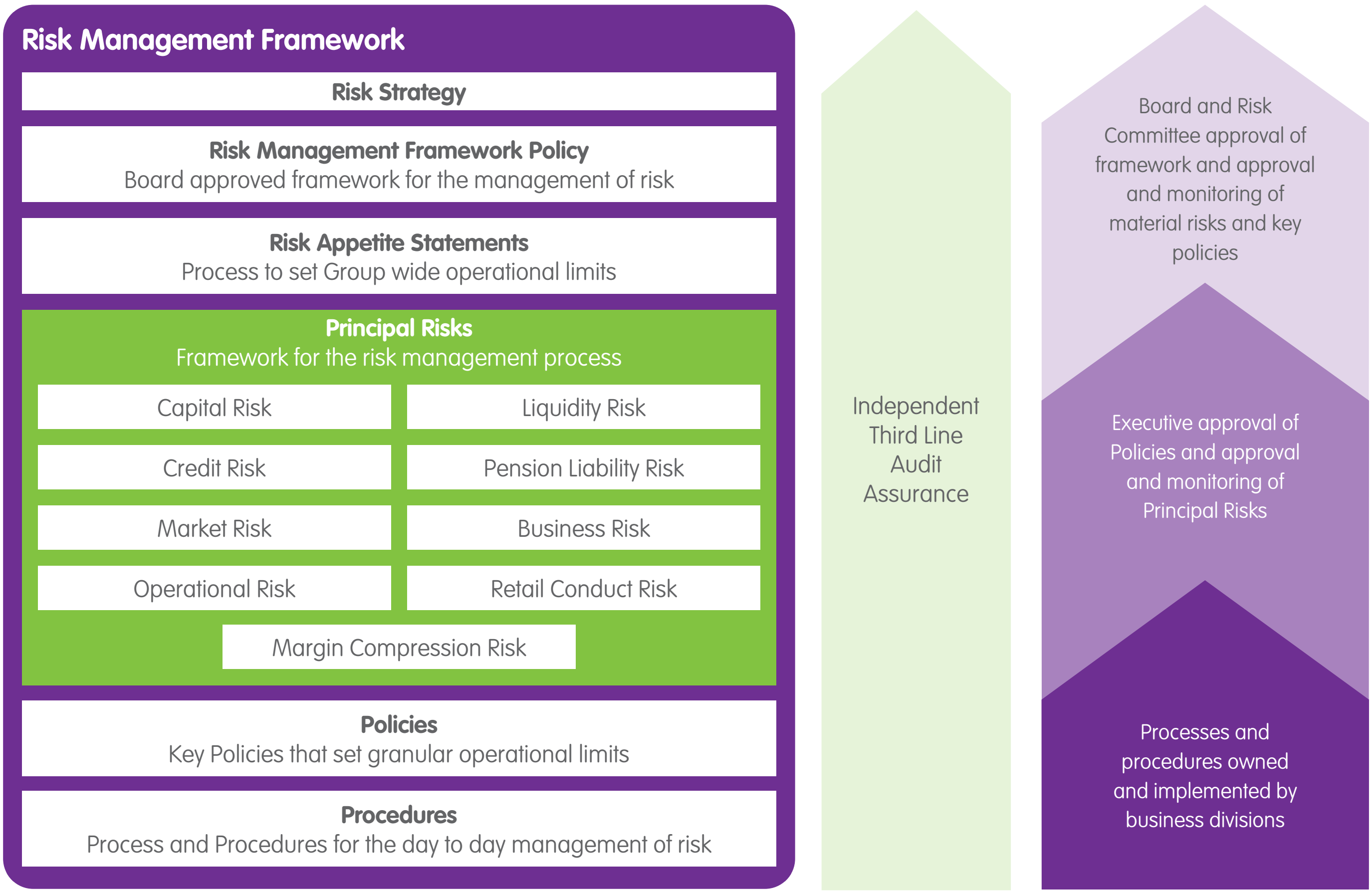
The Society assesses itself against the UK Corporate Governance Code (the Code) principles, and whilst it is not required to comply with the Code as it applies to publicly listed companies, it does have regard to the Principles where it is considered relevant.

The Society's Audit, Risk and Internal Control are reviewed under the Code and the Board is satisfied that it has complied with Principle C of the UK Code which requires the Board to establish a framework of prudent and effective controls, which enable risk to be assessed and managed.

The Board confirms, in accordance with point (e) of Article 435(1) CRR, that the Society's risk management systems and arrangements are adequate with regard to its risk profile and strategy.

Reporting on key risk measures

Reporting of key risk measures and escalation of issues across the 'Three Lines of Defence' is critical in demonstrating that a risk management framework is designed and operating effectively. The risk management process consists of five key stages: Identify; Measure; Manage; Report; and Monitor. These stages are used to set clear standards for the consistent management of risk in each of the Principal Risk categories on page 11. Reporting on the key risk measures occurs through the distribution of reports on the Principal Risks to RC as shown in the chart below.



Risk measurement quantifies the risks to the organisation to assess and select the appropriate means of managing the risk and to enable appropriate resources to be dedicated to the management and mitigation of that risk.

The Risk Management Framework governs that appropriate systems, methodologies and models should be selected for risk measurement and their limitations/weaknesses understood and taken into account where possible. The Society considers the consistent application of planned and stressed conditions into the tools used to measure risk. This is described in more detail below.

Performance against risk appetite measures and operational limits is reviewed regularly by the ERC and the RC.

ERC ensures that a co-ordinated management approach is taken by the first line across all risk categories. RC and AC continue to provide oversight and advice on risk management controls to the Board. The RC met 8 times and the AC met 4 times within the financial year ending 31 March 2022.

Risk management strategies

The Society continues to focus on the needs of savers and borrowers and a key part of the risk culture is to put the interests of current and future members, as a whole, first. The Society has defined quantitative and qualitative risk parameters within which it is prepared to operate. This is captured within the Board approved risk appetite statements for each of the Principal Risks and reflected in frameworks and policies that either limit, or where appropriate prohibit, activities that could be detrimental.

These parameters are designed to ensure the Society delivers acceptable returns, generates capital to support delivery of the business plan and support the exit of non-core business, balancing speed with economic cost. The Society's strategy and new lending activity focuses on residential properties and good quality borrowers who can demonstrate their ability to meet their ongoing mortgage payments. This strategy was unchanged during the COVID-19 pandemic period.

Risk management and control

Risk management and control involves identifying an appropriate strategy to address the risk in question. This includes one of the following approaches:

- Accept the risk – normally selected where the cost of mitigating is more than the loss if the risk materialises;
- Avoid the risk – by terminating the activity that generates the risk;
- Transfer the risk – by transferring to a third party, the issuance of insurance; or
- Mitigate the risk – by putting appropriate controls and assessments in place.

The selection of the appropriate strategy should demonstrate clear and documented consideration of the alternatives, an analysis of the expected return and the associated risk. An appropriate risk management approach should be selected by the required accountable individuals, Executive Risk Committee or ultimately Risk Committee.

An analysis of the expected return for risk plays a significant role in all processes across the Society including (and not limited to): the pricing of a new product range; the decision to enter a new market; the setting of risk appetite; the decision to sell or hold a commercial asset; and the case for new strategic investment.

Stress testing

The Society uses stress testing as a key management tool to gain a better understanding of the resilience of the Society to external and internal shocks. These tests form a key part of the Society's capital and liquidity assessment and are designed to confirm that it has sufficient capital and liquid resources to support effective forward-looking strategic plans and to ensure it stays within its risk appetites. The Society's approach to stress testing has been self-assessed as fully compliant with the requirements of the PRA's SS3/18, Model risk management principles for stress testing. The Society now has a model to assess the exposure to climate change, specifically future flood and subsidence risk

The Society undertakes scenario tests to understand and manage the impact of the occurrence of these events and for more severe scenarios has developed a Recovery Plan that details the options available to the Society and any potential obstacles to recovery.

Governance arrangements

The information below is presented in accordance with table *UK OVB – Disclosure on governance arrangements* in application of Article 435(2) CRR.

Number of directorships held by the Board

The following table shows the number of directorships held by each Board member. Executive and non-executive directorships of Group and non-Group entities are included, irrespective of whether the directorship is with an entity which pursues a commercial objective.

At 31 March 2022

Director	Number of directorships
Dave Dyer	2
Anne Gunther	5
Manjit Hayre	1
Julie Hopes	5
John Maltby	4
Victoria Mitchell	4
Ashraf Piranie	6
Lynne Shamwana	6
David Thomas	3
Jonathan Westhoff	7

Selection criteria for Board members

The Nominations Committee, comprised of 3 Non-Executive Directors (NEDs) and chaired by the Society Chair, is responsible for Board recruitment. The size and composition of the Board is reviewed regularly and the skills, capabilities and relative experience is assessed against the particular strengths that will be needed to deliver the Society's purpose and strategy. Any gaps are noted and either overcome via development plan or channelled into succession plans for future recruitment.

The annual assessment of the Board actual skills and competencies is completed using a matrix where Board Members perform a self-assessment, which is then calibrated by the Society Chair and a two-way feedback session is held to discuss the outcomes and agrees areas of focus for the individual. The Nominations Committee then reviews the implications for the Board at a collective level. The skills that are assessed include the following: Accounting/Finance, Law/Regulation, Marketing experience, Information technology, Public relations, Risk management, Human resource management, CEO/Senior management experience, Strategy development and implementation, Digital, Operations Management, Change/Project Management and Customer Proposition/Strategy. The competencies that are assessed include the following: Leading self by being aware of Personal, Impact, Accountability, Initiative, Resilience, Integrity and Personal Development Needs. Business competencies: Managing Risk, Thinking Strategically and Creatively, Using Analysis to Drive Insights, Maintaining Customer Focus and Being an Advocate of Change. Additionally for the Chairs of Committees and Executive Directors: Be an Inspiring Leader who: Motivates others, Manages relationships, Agile, Makes decisions, Communicates effectively, Coaches others, Delegates and influences. The Board experience of all members is also noted.

Diversity policy for Board members

The Society has in place an Equity, Inclusion and Diversity Policy and is committed to valuing and including all, irrespective of their intersectionality. This includes Board level and there is a widespread recognition that greater inclusion brings a rich diversity of thought which enables better fulfilment of purpose. Having been a member of Women in Finance since its inception, the Society has a good gender balance on its Board, 4/10 members are female. Ethnicity is also a priority and it is pleasing to report that 2/10 members are from an ethnic minority. The Society's recruitment policy and remuneration policy have been made, reviewed and amended from a diversity perspective to ensure that there are no factors that would inhibit the progression of a person with any given intersectionality.

The diversity of the Board is a key factor that is considered when going into any recruitment exercise.

Risk Committee and number of meetings

The Board is responsible for the Society's overall risk strategy, the design and implementation of the Risk Management Framework Policy and the material Society Risk Appetite Statements.

The Risk Committee is responsible for the oversight and management of the principal and key strategic risks identified by the Board.

The Risk Committee met eight times during the year ended 31 March 2022.

Information flow

Details on the flow of risk information to the Society's Board and key risk management committees is given in the *Risk management approach, Credit risk and credit risk mitigation (CRM), Counterparty credit risk, Market risk, Operational risk, Interest rate risk in the banking book (IRRBB), Other risks and Liquidity and funding risk* sections of these Pillar 3 disclosures.

Own funds

The tables *UK CC1* and *UK CC2* below show the composition of the Society's own funds on a regulatory basis reconciled to the audited financial statements at 31 March 2022.

UK CC1 - Composition of regulatory own funds

At 31 March		(a) Amounts 2022 £m	(b) Source based on reference numbers/ letters of the balance sheet under the regulatory scope of consolidation	(a) Amounts 2021 £m
Common Equity Tier 1 (CET1) capital: instruments and reserves				
1	Capital instruments and the related share premium accounts	**127.0**	E1	127.0
	of which: Core capital deferred shares	**127.0**	E1	127.0
2	Retained earnings[1]	**249.6**	E3	245.9
3	Accumulated other comprehensive income (and other reserves)	**10.5**	E3, E4, E5	4.7
UK-3a	Funds for general banking risk	**-**		-
4	Amount of qualifying items referred to in Article 484 (3) CRR and the related share premium accounts subject to phase out from CET1	**-**		-
5	Minority interests (amount allowed in consolidated CET1)	**-**		-
UK-5a	Independently reviewed interim profits net of any foreseeable charge or dividend[1]	**20.5**	E3	3.5
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**407.6**		381.1
Common Equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments (negative amount)	**(0.4)**		(0.3)
8	Intangible assets (net of related tax liability) (negative amount)	**(10.2)**	A8	(8.9)
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)	**(16.8)**	A6	(14.6)
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	**-**		-
12	Negative amounts resulting from the calculation of expected loss amounts	**-**		-
13	Any increase in equity that results from securitised assets (negative amount)	**-**		-
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	**-**		-
15	Defined-benefit pension fund assets (negative amount)	**(11.2)**	A11, L7	(0.9)
16	Direct, indirect and synthetic holdings by an institution of own CET1 instruments (negative amount)	**-**		-
17	Direct, indirect and synthetic holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	**-**		-
18	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	**-**		-
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	**-**		-
UK-20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	**(0.5)**		(0.8)
UK-20b	of which: qualifying holdings outside the financial sector (negative amount)	**-**		-
UK-20c	of which: securitisation positions (negative amount)	**(0.5)**		(0.8)
UK-20d	of which: free deliveries (negative amount)	**-**		-
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount)	**-**		-

UK CC1 - Composition of regulatory own funds (continued)

22	Amount exceeding the 17,65% threshold (negative amount)	-		-
23	of which: direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-		-
25	of which: deferred tax assets arising from temporary differences	-		-
UK-25a	Losses for the current financial year (negative amount)	-		-
UK-25b	Foreseeable tax charges relating to CET1 items except where the institution suitably adjusts the amount of CET1 items insofar as such tax charges reduce the amount up to which those items may be used to cover risks or losses (negative amount)	-		-
27	Qualifying AT1 deductions that exceed the AT1 items of the institution (negative amount)	-		-
27a	Other regulatory adjustments to CET1 capital (including IFRS 9 transitional adjustments when relevant)	21.9		32.0
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(17.2)**		6.5
29	**Common Equity Tier 1 (CET1) capital**	**390.4**		387.6
Additional Tier 1 (AT1) capital: instruments				
30	Capital instruments and the related share premium accounts	-		-
31	of which: classified as equity under applicable accounting standards	-		-
32	of which: classified as liabilities under applicable accounting standards	-		-
33	Amount of qualifying items referred to in Article 484 (4) CRR and the related share premium accounts subject to phase out from AT1 as described in Article 486(3) CRR	-		-
UK-33a	Amount of qualifying items referred to in Article 494a(1) CRR subject to phase out from AT1	-		-
UK-33b	Amount of qualifying items referred to in Article 494b(1) CRR subject to phase out from AT1	-		7.5
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	-		-
35	of which: instruments issued by subsidiaries subject to phase out	-		-
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	-		7.5
Additional Tier 1 (AT1) capital: regulatory adjustments				
37	Direct, indirect and synthetic holdings by an institution of own AT1 instruments (negative amount)	-		-
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-		-
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-		-
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-		-
42	Qualifying T2 deductions that exceed the T2 items of the institution (negative amount)	-		-
42a	Other regulatory adjustments to AT1 capital	-		-
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	-		-
44	**Additional Tier 1 (AT1) capital**	-		7.5
45	**Tier 1 capital (T1 = CET1 + AT1)**	**390.4**		395.1
Tier 2 (T2) capital: instruments				
46	Capital instruments and the related share premium accounts	21.8	L10	21.6
47	Amount of qualifying items referred to in Article 484 (5) CRR and the related share premium accounts subject to phase out from T2 as described in Article 486(4) CRR	-		-
UK-47a	Amount of qualifying items referred to in Article 494a (2) CRR subject to phase out from T2	-		-
UK-47b	Amount of qualifying items referred to in Article 494b (2) CRR subject to phase out from T2	-		-
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	-		-
49	of which: instruments issued by subsidiaries subject to phase out	-		-
50	Credit risk adjustments	-		-
51	**Tier 2 (T2) capital before regulatory adjustments**	**21.8**		21.6

UK CC1 - Composition of regulatory own funds (continued)

Tier 2 (T2) capital: regulatory adjustments				
52	Direct, indirect and synthetic holdings by an institution of own T2 instruments and subordinated loans (negative amount)	**-**		-
53	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	**-**		-
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	**-**		-
55	Direct, indirect and synthetic holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	**-**		-
UK-56a	Qualifying eligible liabilities deductions that exceed the eligible liabilities items of the institution (negative amount)	**-**		-
UK-56b	Other regulatory adjustments to T2 capital	**-**		-
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**-**		-
58	**Tier 2 (T2) capital**	**21.8**		21.6
59	**Total capital (TC = T1 + T2)**	**412.2**		416.7
60	**Total Risk exposure amount**	**2,299.7**		2,360.0
Capital ratios and buffers		**%**		%
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	**17.0**		16.4
62	Tier 1 (as a percentage of total risk exposure amount)	**17.0**		16.7
63	Total capital (as a percentage of total risk exposure amount)	**17.9**		17.7
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)	**7.7**		7.7
65	of which: capital conservation buffer requirement	**2.5**		2.5
66	of which: countercyclical buffer requirement	**0.0**		0.0
67	of which: systemic risk buffer requirement	**-**		-
UK-67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	**-**		-
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	**8.6**		8.4
Amounts below the thresholds for deduction (before risk weighting)				
72	Direct and indirect holdings of own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	**-**		-
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 17.65% thresholds and net of eligible short positions)	**-**		-
75	Deferred tax assets arising from temporary differences (amount below 17,65% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met)	**10.2**	A6	6.7
Applicable caps on the inclusion of provisions in Tier 2				
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	**-**		-
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	**27.4**		28.2
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	**-**		-
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	**-**		-

Notes

1 Within table CC1, distributions to CCDS holders for previous periods are recognised within 'Retained earnings'. Interim and expected final distributions for the current financial year are reported within 'Independently reviewed interim profits net of any foreseeable charge or dividend'. Comparatives have been reanalysed to reflect this mapping.

2 Certain rows of the template which are not applicable in the UK or only applicable between 1 Jan 2014 and 1 Jan 2022 have not been presented.

UK CC2 - Reconciliation of regulatory own funds to balance sheet in the audited financial statements

At 31 March 2022

		a	b	c
		Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
		£m	£m	
	Assets			
1	Cash and balances with the Bank of England	**652.0**	**652.0**	A1
2	Loans and advances to credit institutions	**73.2**	**73.2**	A2
3	Investment securities	**286.9**	**286.9**	A3
4	Derivative financial instruments	**52.4**	**52.4**	A4
5	Loans and advances to customers	**4,778.3**	**4,771.0**	A5
6	Deferred tax assets	**27.1**	**27.0**	A6
7	Trade and other receivables	**2.2**	**2.4**	A7
8	Intangible assets	**10.2**	**10.2**	A8
9	Investment properties	**147.3**	**147.3**	A9
10	Property, plant and equipment	**22.8**	**22.8**	A10
11	Retirement benefit asset	**14.9**	**14.9**	A11
12	**Total assets**	**6,067.3**	**6,060.1**	
	Liabilities			
1	Shares	**4,183.6**	**4,183.6**	L1
2	Amounts due to credit institutions	**1,116.7**	**1,116.7**	L2
3	Amounts due to other customers	**114.6**	**107.5**	L3
4	Derivative financial instruments	**11.5**	**11.5**	L4
5	Debt securities in issue	**171.2**	**171.2**	L5
6	Current tax liabilities	**0.3**	**0.3**	L6
7	Deferred tax liabilities	**14.7**	**14.7**	L7
8	Trade and other payables	**14.0**	**14.0**	L8
9	Provisions for liabilities	**0.5**	**0.5**	L9
10	Subordinated liabilities	**22.9**	**22.9**	L10
11	**Total liabilities**	**5,650.0**	**5,642.9**	
	Members' interests and equity			
1	Core capital deferred shares	**127.0**	**127.0**	E1
2	Subscribed capital	**7.8**	**7.8**	E2
3	General reserves	**279.1**	**279.1**	E3
4	Revaluation reserve	**3.1**	**3.1**	E4
5	Fair value reserve	**0.3**	**0.3**	E5
6	**Total members' interests and equity**	**417.3**	**417.3**	

Capital requirements

Approach to assessing the adequacy of internal capital

The information below is presented in accordance with table *UK OVC – ICAAP information* in application of points (a) and (c) of Article 438 CRR.

Capital risk management and reporting

Capital is held to provide a cushion to absorb losses that may occur during the economic cycle. In assessing the adequacy of its capital, the Society considers its risk appetite, the material risks to which it is exposed and the appropriate management strategies for each of the material risks, including whether or not capital provides an appropriate mitigant.

The Society considers its overall capital requirement as part of its Internal Capital Adequacy Assessment Process.

The regulatory capital adequacy of the Society (on a Solo consolidated and a regulatory Group basis, being materially the same) is reported to the regulator quarterly. The Society's capital requirements are reviewed on a monthly basis and the results of its monitoring are reported to the CRG, ERC, RC and the Board.

Minimum capital requirement - Pillar 1

Pillar 1 of the Capital Requirements Regulation (CRR) prescribes the minimum level of regulatory capital which the Society must hold for specified risks. The Society has adopted the Standardised Approach (TSA) for calculating its Pillar 1 capital requirements with respect to credit risk and operational risk.

Under TSA, assets subject to credit risk are allocated to standardised exposure classes and their values adjusted, following rules set out in the CRR, to reflect the underlying risk. The resultant risk-weighted exposure amounts (RWEAs) are multiplied by 8% to determine the own funds requirements under Pillar 1.

For operational risk, own funds requirements under TSA are based on three year historical net income multiplied by factors of between 12% and 18%, depending on the underlying business being considered.

Supervisory review process - Pillar 2

Pillar 2 encapsulates Pillar 2a and Pillar 2b capital to be maintained in addition to the Pillar 1 requirement. Risks not fully addressed by, or those risks outside the scope of, Pillar 1 are covered by Pillar 2a whilst the PRA buffer (also referred to as Pillar 2b) is held to absorb losses that may arise under a severe stress scenario, to the extent that these are not covered by the combined buffer (see below).

Capital buffers

To promote the conservation of capital the CRR requires the holding of supplementary CET 1 capital buffers, known in aggregate as the combined buffer, which are calculated as a percentage of Risk Weighted Assets (RWAs) and can be drawn down in periods of stress. The combined buffer comprises the Capital Conservation Buffer (CCoB), Countercyclical Buffer (CCyB), the buffer for global systemically important institutions (G-SIIs) and (for ring-fenced banks and the largest building societies) the other systemically important institutions buffer (O-SII buffer). To the extent that the PRA considers the combined buffer to be insufficient a PRA Buffer can be added to a firm's capital requirement under Pillar 2b.

The following table shows the constituent elements of the PRA's capital framework and the quality of capital that can be used to meet the requirements. Capital used to meet the firm-specific Pillar 1, Pillar 2a and Pillar 2b capital requirements may not be used to satisfy the combined buffer.

Approach to assessing the adequacy of internal capital (continued)

Capital buffers (continued)

PRA Buffer (Firm-specific)	Firm-specific buffer assigned by the PRA if CCoB and CCyB buffers are considered to be insufficient to absorb losses in a severe stress scenario. May also be assigned based on PRA's assessment of significant risk management and governance weaknesses and/or supervisory judgement.	
Capital Conservation Buffer (CCoB)	Used to absorb losses in periods of economic and financial stress. Set at 2.5%.	Combined buffer
Systemic Buffers	Set at 0% for the Society, being a building society with deposits less than £25bn Set by the PRA for applicable institutions in the UK with reference to the impact of failure.	Combined buffer
Countercyclical Buffer (CCyB)	Set in the UK by the Bank of England's Financial Policy Committee (FPC) within a range of 0% to 2.5%. Used to ensure financial institutions build up capital in favourable conditions which can be utilised in economic downturns. Set at 0% at 31 March 2022 and due to increase to 1% in December 2022.	Combined buffer
Pillar 2a	Firm-specific calculation for risks not fully captured under Pillar 1.	Total capital requirement
Pillar 1	Firm-specific calculation based upon individual firms' risk weighted assets but a minimum of 8%.	Total capital requirement

100% of this requirement to be met by Common Equity Tier 1.

A minimum of 56.25% of this requirement to be met by Common Equity Tier 1. A maximum of 25% may be met by Tier 2 capital.

Internal Capital Adequacy Assessment Process (ICAAP)

On an annual basis the Society conducts an ICAAP which is used to assess the Society's capital adequacy and determine the levels of capital required going forward to support the current and future risks of the business. The ICAAP incorporates expected future capital requirements, within the context of current and anticipated future risks under multiple stressed scenarios. An allocation of capital is made for each of the following risks facing the Society:

- Credit risk from mortgages;
- Credit risk from Treasury assets and derivatives;
- Concentration risk (which can exacerbate credit exposures);
- Market risk;
- Residential property holding risk;
- Interest rate risk;
- Margin compression risk (including basis risk);
- Operational risk; and
- Pension liability risk.

The capital allocation is based on regulatory requirements for credit risk and operational risk (Pillar 1) with additional (Pillar 2a) allocations to reflect the degree of residual risk that remains after allowing for the effect of the risk controls operated by the Society. The Pillar 2a allocation of capital is a point in time assessment which reflects risks that are not captured or not adequately captured in Pillar 1.

A further capital allocation is made based on a forward-looking assessment, which examines the Society's business plans and subjects them to economic and operational stresses over a five year planning horizon. The severity and duration of the stress scenarios are determined by reference to a severe stress scenario published by the Bank of England (BoE). The Society incorporates further second order stresses, including assumed significant increases in retail funding costs, to make its ICAAP stress even more severe than the scenario published by the BoE.

The output from the capital adequacy assessment is reviewed by the CRG, PRG/ERC and RC prior to the finalisation of the ICAAP and submission to the Board for formal approval as part of the corporate planning process. The Society continues to be strongly capitalised and maintains its capital substantially above current regulatory requirements.

The ICAAP is used by the PRA in its Supervisory Review and Evaluation Process (SREP) through which it sets the Society's Total Capital Requirement (TCR). The TCR covers the Society's Pillar 1 and Pillar 2a requirements. The PRA also considers whether a PRA Buffer is required.

Total capital requirement (TCR)

At 31 March 2022, the Society's TCR (i.e. the sum of Pillar 1 and Pillar 2a capital) of £213.5m is equivalent to 9.3% of risk weighted assets. The Society continues to comfortably meet this requirement using CET 1 capital alone.

Overview of risk-weighted exposure amounts

The table below shows risk-weighted exposure amounts (RWEAs) analysed by risk type and approach as at 31 March 2022 and the prior year-end date. Total own funds requirements at 31 March 2022 are derived by multiplying the corresponding RWEAs by 8%.

UK OV1 - Overview of risk weighted exposure amounts

At 31 March		Risk weighted exposure amounts (RWEAs)		Total own funds requirements
		a	b	c
		2022	2021	2022
		£m	£m	£m
1	Credit risk (excluding CCR)	2,187.3	2,255.0	175.0
2	Of which the standardised approach	2,187.3	2,255.0	175.0
3	Of which the foundation IRB (FIRB) approach	-	-	-
4	Of which slotting approach	-	-	-
UK 4a	Of which equities under the simple riskweighted approach	-	-	-
5	Of which the advanced IRB (AIRB) approach	-	-	-
6	Counterparty credit risk - CCR	5.0	4.9	0.4
7	Of which the standardised approach	-	-	-
8	Of which internal model method (IMM)	-	-	-
UK 8a	Of which exposures to a CCP	0.2	1.0	-
UK 8b	Of which credit valuation adjustment - CVA	2.6	2.5	0.2
9	Of which other CCR	2.2	1.4	0.2
15	Settlement risk	-	-	-
16	Securitisation exposures in the non-trading book (after the cap)	5.9	7.1	0.5
17	Of which SEC-IRBA approach	-	-	-
18	Of which SEC-ERBA (including IAA)	5.9	7.1	0.5
19	Of which SEC-SA approach	-	-	-
UK 19a	Of which 1250%	-	-	-
20	Position, foreign exchange and commodities risks (Market risk)	-	-	-
21	Of which the standardised approach	-	-	-
22	Of which IMA	-	-	-
UK 22a	Large exposures	-	-	-
23	Operational risk	101.5	93.0	8.1
UK 23a	Of which basic indicator approach	-	-	-
UK 23b	Of which standardised approach	101.5	93.0	8.1
UK 23c	Of which advanced measurement approach	-	-	-
24	Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)	25.5	16.6	2.0
29	Total	2,299.7	2,360.0	184.0

Notes
1 Certain rows of the template which are not applicable in the UK have not been presented.

Countercyclical buffer

The countercyclical buffer (CCyB) is calculated by applying a weighted average of country countercyclical buffer rates, based on the geographical distribution of relevant exposures, to the overall capital requirements of the Society. The following templates disclose information relevant for the calculation of the countercyclical buffer in application of point (a) of Article 440 of the CRR.

Credit exposures relevant for the calculation of CCyB are determined in accordance with Article 140(4) of Directive (EU) 2013/36 and, in particular, exclude exposures to central governments, central banks, multilateral development banks and institutions. In accordance with Regulation (EU) 1152/2014, as foreign credit exposures represent less than 2% of the Society's aggregate risk weighted exposures, all exposures have been allocated to the UK.

UK CCyB1 - Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer

At 31 March 2022

		a	b	c	d	e	f	g	h	i	j	k	l	m
		General credit exposures		Relevant credit exposures – Market risk				Own fund requirements						
		Exposure value under the standardised approach	Exposure value under the IRB approach	Sum of long and short positions of trading book exposures for SA	Value of trading book exposures for internal models	Securitisation exposures Exposure value for non-trading book	Total exposure value	Relevant credit risk exposures - Credit risk	Relevant credit exposures – Market risk	Relevant credit exposures – Securitisation positions in the non-trading book	Total	Risk-weighted exposure amounts	Own fund requirements weights	Countercyclical buffer rate
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	%	%
	Breakdown by country:													
010	UK	5,125.5	-	-	-	58.6	5,184.1	171.5	-	0.5	172.0	2,150.0	100.00	0.00
020	Total	5,125.5	-	-	-	58.6	5,184.1	171.5	-	0.5	172.0	2,150.0	100.00	

At 31 March 2021

		a	b	c	d	e	f	g	h	i	j	k	l	m
		General credit exposures		Relevant credit exposures – Market risk				Own fund requirements						
		Exposure value under the standardised approach	Exposure value under the IRB approach	Sum of long and short positions of trading book exposures for SA	Value of trading book exposures for internal models	Securitisation exposures Exposure value for non-trading book	Total exposure value	Relevant credit risk exposures - Credit risk	Relevant credit exposures – Market risk	Relevant credit exposures – Securitisation positions in the non-trading book	Total	Risk-weighted exposure amounts	Own fund requirements weights	Countercyclical buffer rate
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	%	%
	Breakdown by country:													
010	UK	5,216.1	-	-	-	68.5	5,284.6	178.2	-	0.6	178.8	2,235.0	100.00	0.00
020	Total	5,216.1	-	-	-	68.5	5,284.6	178.2	-	0.6	178.8	2,235.0	100.00	

UK CCyB2 - Amount of institution-specific countercyclical capital buffer

At 31 March

		a	a
		2022	2021
1	Total risk exposure amount	**£2,299.7m**	£2,360.0m
2	Institution specific countercyclical capital buffer rate	**0.00%**	0.00%
3	Institution specific countercyclical capital buffer requirement	**£0.0m**	£0.0m

Credit risk and credit risk mitigation (CRM)

Credit risk overview

The information below is presented in accordance with tables *UK CRA – General qualitative information about credit risk* and *UK OVA – Institution risk management approach.*

Credit risk refers to the risk that a customer or counterparty to a contract will not be able to meet their obligations as they fall due. For the purposes of the Society, this normally means the risk that a borrower will not repay their mortgage loan, or that a financial institution will not repay funds invested by the Society in that institution.

The Credit Risk area is principally focussed on Residential mortgages, reflecting the Society's strategic focus on Residential mortgage lending and the reduced need for day-to-day involvement in the workout of the Commercial portfolio, as the exposure contracts. In addition to its oversight of mortgage lending, giving due consideration to balancing matters of credit risk with the interests of the Society's customers, in particular those who are vulnerable, the area has broadened its credit risk management capabilities to more effectively support the Society's development, implementation and embedding of sophisticated credit risk models.

This Credit Risk Management Framework - Mortgages (CRMF) outlines and documents the Society's approach to credit risk management across its Residential and Commercial mortgage portfolios, including non-traditional lending segments and is designed to support the business in fulfilling its lending objectives in a controlled manner. It describes the framework within which key credit risks are identified, assessed, measured, monitored, managed, controlled and reported. This requires the application of sophisticated analytics and modelling across the entire credit risk life cycle, and robust governance and oversight to ensure the Society's credit risk positioning is fully understood and effectively managed.

Design of metrics and limits

The Society's Board establish the credit risk appetite and supporting lending policy for the year. All new lending is monitored against risk appetite limits, with any breaches reported through the Society's risk committees so that the need for corrective action may be considered.

The Statement is supported by a number of credit risk metrics that act as hard limits which are monitored and reported to Board and which require action to be taken in the event of a breach. These metrics are tracked for the latest month and a rolling 12 month period.

The structure and organisation of the credit risk management and control function

Day to day management of credit risk is delegated to the Credit Risk function under the leadership of the Chief Risk Officer (CRO) and Senior Manager Credit Risk who are accountable for the implementation of the Credit Risk Management Framework.

The Society's exposure to residential and commercial credit risk is managed by a specialist Credit Risk team which is responsible for setting the Credit Risk Management Framework and associated limits. The Credit Risk Policy team owns the Society's suite of residential lending policies, ensuring that policy criteria are appropriately aligned with risk appetite, duly reflect the Society's obligation to lend responsibly and take suitable consideration of customer vulnerability; the team is also responsible for ensuring that these policies are well understood and effectively embedded operationally. It also provides regular reports to the RC, which is chaired by a Non-Executive Director and includes four other Non-Executive Directors as members.

The relationships between credit risk management, risk control, compliance and internal audit functions

The Society operates a Three Lines of Defence model as the basis for its Risk Management Framework, including credit risk.

First Line responsibility for risk management, through identification and management of credit risk, lies with operational areas.

Within Residential mortgages this would be the Operations Division in respect of the Underwriting teams and Retail Mortgage team; the Credit Services and Post Completion Specialist teams report through to the Customer Advocacy and Insight Manager; and for Commercial mortgages, the Commercial Lending department is responsible for the work out of the commercial mortgage portfolio and the processing and underwriting of Limited Company Buy to Let (LCBTL) loans.

Risk oversight and risk governance is provided by the Second Line of Defence through specialist support and control functions and the risk/governance committees, operating in accordance with the Society's policy infrastructure. The control functions are independent of the business operations. They uphold principles and frameworks against which to facilitate risk assessments, and undertake monitoring and reporting of Credit Risk to inform decision making. In addition, they assist in determining risk capacity, risk appetite allocation, strategies, policies and structures for managing risk. The Credit Risk function is the primary control function to oversee the management of credit risk, comprising, the Credit Risk Analytics team and the Credit Risk Policy team.

The Risk Modelling team under the leadership of the Group Finance and Operations Director develops and maintains financial credit risk models. In addition, the team is responsible for the development and maintenance of the Society's IFRS9 models for residential mortgages.

The Credit Risk Analytics team designs and reports against management information of sufficient granularity to ensure an appropriate level of awareness and understanding of the risk inherent in the Society's residential exposure (traditional and non-traditional lending) is in place across all levels of the business. The team is also responsible for the development of operational credit risk models, such as the Society's application scorecards.

As mentioned previously, the Credit Risk Policy team owns the Society's suite of residential lending policies, ensuring that policy criteria are appropriately aligned with risk appetite, duly reflect the Society's obligation to lend responsibly and take suitable consideration of customer vulnerability; the team is also responsible for ensuring that these policies are well understood and effectively embedded operationally.

Within the wider Risk Division, the Prudential Risk team, in conjunction with specialist external third parties, operates as a separate independent Second Line function to provide oversight of the models used to support credit decisioning. The findings of the validation exercises are presented to the Model Risk Committee (MRC) for review and approval.

Oversight and challenge to the CRO, is applied through the risk/governance committees, most notably RC.

Credit risk overview (continued)

Finally, under the Third Line, Internal Audit provide the Board (via the Audit Committee) with independent and objective assurance over the adequacy and effectiveness of the governance framework and control mechanisms in place to mitigate the Society's exposure to all the risks defined within the Risk Management Framework Policy.

Standardised approach to credit risk

The Society applies the Standardised Approach (TSA) to all portfolios subject to credit risk. The following information on use of external credit assessment institutions (ECAIs) is presented in accordance with table *UK CRD – Qualitative disclosure requirements related to standardised model.*

Use of external credit assessment institutions (ECAIs)

In accordance with TSA, the Society makes use of external credit ratings from ECAIs to assess the credit risk arising on its Treasury portfolio, including exposures to institutions and covered bonds. For the purpose of calculating credit risk requirements under the Standardised Approach, the Society references ratings published by Moody's, Standard and Poor's and Fitch. There has been no change in the Society's use of ECAIs during the year.

ECAI ratings are mapped to 'credit quality steps', following the standard association published by the EBA. Exposures are then assigned the risk weight which corresponds with the relevant credit quality step, as set out in the CRR and dependent on the exposure class and residual maturity of the asset.

For non-rated counterparties and other types of exposure where ECAI assessments are not applicable, the Society determines the appropriate risk weightings in accordance with the CRR.

Credit risk exposures and CRM effects

Table UK CR4 below shows our on- and off- balance sheet credit risk (excluding counterparty credit risk) exposures by standardised exposure class before and after the application of credit conversion factors (CCF) and credit risk mitigation (CRM). It also discloses the corresponding risk-weighted assets (RWAs) by value and by average risk weight percentage.

UK CR4 – standardised approach – Credit risk exposure and CRM effects

At 31 March 2022

		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	%
	Exposure classes	a	b	c	d	e	f
1	Central governments or central banks	662.2	-	665.1	-	25.5	3.8
2	Regional government or local authorities	-	-	-	-	-	-
3	Public sector entities	-	-	-	-	-	-
4	Multilateral development banks	82.4	-	82.4	-	-	0.0
5	International organisations	-	-	-	-	-	-
6	Institutions	66.4	-	66.4	-	17.8	26.8
7	Corporates	9.0	-	6.2	-	6.2	100.0
8	Retail	17.9	9.2	17.9	1.8	14.8	75.0
9	Secured by mortgages on immovable property	4,515.7	153.9	4,515.7	30.8	1,638.6	36.0
10	Exposures in default	228.4	0.1	228.3	-	277.0	121.3
11	Exposures associated with particularly high risk	-	-	-	-	-	-
12	Covered bonds	130.3	-	130.3	-	13.0	10.0
13	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
14	Collective investment undertakings	-	-	-	-	-	-
15	Equity	-	-	-	-	-	-
16	Other items	194.4	-	194.4	-	194.4	100.0
17	**Total**	5,906.7	163.2	5,906.7	32.6	2,187.3	36.8

UK CR4 – standardised approach – Credit risk exposure and CRM effects
(continued)

At 31 March 2021

		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	%
	Exposure classes	a	b	c	d	e	f
1	Central governments or central banks	323.2	-	326.3	-	16.6	5.1
2	Regional government or local authorities	-	-	-	-	-	-
3	Public sector entities	-	-	-	-	-	-
4	Multilateral development banks	87.1	-	87.1	-	-	0.0
5	International organisations	-	-	-	-	-	-
6	Institutions	52.3	-	52.3	-	10.5	20.1
7	Corporates	18.6	-	15.6	-	15.6	100.0
8	Retail	26.1	6.4	26.1	1.3	20.5	75.0
9	Secured by mortgages on immovable property	4,557.2	247.6	4,557.2	49.5	1,678.8	36.4
10	Exposures in default	236.1	-	236.0	-	291.0	123.3
11	Exposures associated with particularly high risk	-	-	-	-	-	-
12	Covered bonds	120.1	-	120.1	-	12.0	10.0
13	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
14	Collective investment undertakings	-	-	-	-	-	-
15	Equity	-	-	-	-	-	-
16	Other items	210.1	-	210.1	-	210.0	100.0
17	Total	5,630.8	254.0	5,630.8	50.8	2,255.0	39.7

Our credit risk exposures, broken down by standardised exposure class and risk weight, are shown in Table UK CR5 below. The final column is populated with exposures for which a credit assessment by a nominated External Credit Assessment Institution is not available.

UK CR5 – standardised approach

At 31 March 2022

		Risk weight																
		0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Others	Total	Of which unrated
		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q
	Exposure classes	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
1	Central governments or central banks	654.9	-	-	-	-	-	-	-	-	-	-	10.2	-	-	-	665.1	-
2	Regional government or local authorities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3	Public sector entities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4	Multilateral development banks	82.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	82.4	-
5	International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	Institutions	-	-	-	-	51.4	-	15.0	-	-	-	-	-	-	-	-	66.4	-
7	Corporates	-	-	-	-	-	-	-	-	-	6.2	-	-	-	-	-	6.2	6.2
8	Retail exposures	-	-	-	-	-	-	-	-	19.7	-	-	-	-	-	-	19.7	19.7
9	Exposures secured by mortgages on immovable property	-	-	-	-	-	4,473.0	-	-	-	73.5	-	-	-	-	-	4,546.5	4,546.5
10	Exposures in default	-	-	-	-	-	-	-	-	-	130.9	97.4	-	-	-	-	228.3	228.3
11	Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	Covered bonds	-	-	-	130.3	-	-	-	-	-	-	-	-	-	-	-	130.3	-
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	-	-	-	-	-	-	-	-	-	194.4	-	-	-	-	-	194.4	194.4
17	**Total**	737.3	-	-	130.3	51.4	4,473.0	15.0	-	19.7	405.0	97.4	10.2	-	-	-	5,939.3	4,995.1

Maturity of exposures

Table UK CR1-A below analyses loans and advances and debt securities, net of credit risk adjustments, by residual maturity. The maturity breakdown is stated on a contractual, rather than an expected basis, and does not take into account the cash flows payable or receivable over the life of the instrument.

The table includes on- and off-balance sheet exposures with the latter comprising mortgage pipeline at the gross amount of the loan commitments before applying any credit conversion factors used for the purposes of calculating capital requirements. In accordance with the reporting instructions, cash balances at central banks and other demand deposits are excluded from the disclosure.

Where a counterparty has a choice as to when the amount is repaid, the exposure is classified as 'on demand'. Where an exposure has no stated contractual maturity, for reasons other than the counterparty having the choice of repayment date, it is reported as 'no stated maturity'. Amounts categorised as 'no stated maturity' include effective interest rate and fair value macro hedge adjustments made in accordance with International Financial Reporting Standards.

UK CR1-A: Maturity of exposures

At 31 March 2022

		a	b	c	d	e	f
		Net exposure value					
		On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	Total
		£m	£m	£m	£m	£m	£m
1	Loans and advances	-	416.3	313.1	4,270.7	(44.1)	4,956.0
2	Debt securities	-	97.0	130.7	59.2	-	286.9
3	**Total**	-	513.3	443.8	4,329.9	(44.1)	5,242.9

Credit quality of assets

The qualitative information in this section incorporates the disclosure requirements for table *UK CRB - Additional disclosure related to the credit quality of assets.*

Definitions of 'past due' and 'impaired'

An exposure is considered to be 'past due' when the borrower or counterparty has failed to make a payment of principal and/or interest when contractually required to do so.

The Society's definition of default under Article 178 of the CRR is entirely consistent with its definition of 'credit-impaired' under IFRS 9, the application of which is described in detail below.

All of the Society's exposures which are more than 90 days past due are considered to be impaired and categorised as exposures in default for capital purposes.

Determination of credit risk adjustments

Expected credit losses (ECLs) are recognised for all financial assets carried at amortised cost or fair value through other comprehensive income (FVOCI) under IFRS 9, and also for undrawn loan commitments where a mortgage offer has been made but the loan is yet to be advanced and recognised in the Statement of Financial Position. On this basis, all impairment provisions are treated as specific credit risk adjustments for regulatory capital purposes and no amounts are categorised as general credit risk adjustments.

Staging

At each reporting date, financial assets subject to the impairment requirements of IFRS 9 are categorised into one of three stages:

Stage 1

On initial recognition, financial assets which are not credit impaired and have not experienced a significant increase in credit risk (SICR) since initial recognition are categorised as stage 1 and provision is made for 12 month ECLs, being the losses from default events expected to occur within the next 12 months. Assets remain in stage 1 until such time as they meet the criteria for another stage or are derecognised.

Stage 2 (significant increase in credit risk)

Financial assets which are not in default, but have experienced an SICR since initial recognition, are categorised as stage 2. The loss allowance recognised is equivalent to lifetime ECL, being the loss arising from default events expected to occur over the lifetime of the financial asset.

Determining whether a SICR has occurred is a critical aspect of the IFRS 9 methodology and one which involves judgement, based on a combination of quantitative and qualitative measures. As described in the ECL calculation sections which follow, the criteria applied vary across portfolios depending on the nature of the portfolio and availability of relevant credit risk information but all include the IFRS 9 'backstop' of 30 days past due as a stage 2 trigger.

Stage 3 (default)

Defaulted or credit-impaired financial assets are categorised as stage 3, requiring recognition of lifetime ECLs.

Transfers to lower stages (curing)

Financial assets in stages 2 or 3 can transfer back to stages 1 or 2, respectively, once the criteria for SICR or default cease to be met for a period of time defined within the ECL methodology for that portfolio, sometimes known as the 'cure' period. In practice, this means that a stage 2 or 3 loan which ceases to breach the threshold(s)/criteria for that stage will remain in the higher stage for a pre-determined number of months. The use of cure periods gives assurance that accounts have rehabilitated before re-entering lower stages and reduces the level of volatility that might otherwise arise from accounts regularly migrating between stages.

Forward-looking ECL approach

ECL is measured as the present value of the difference between the cash flows contractually due on a financial asset or undrawn commitment and the cash flows expected to be received. In the Statement of Financial Position, the loss allowance is presented as a reduction in the carrying value of the financial asset. In the case of an undrawn loan commitment, the impairment provision is instead presented within provisions for liabilities.

For each of the Group and Society's financial asset portfolios in the scope of IFRS 9 impairment, the estimate of ECL is unbiased and weighted to take into account a range of possible outcomes.

In accordance with IFRS 9, forecasts of future economic conditions are integral to the ECL calculations for each portfolio. The Group currently models four forward-looking macroeconomic scenarios: a central forecast with economic assumptions aligned to the Society's Medium Term Plan (and therefore assigned the highest weighting), together with upside, downside and stress scenarios. The scenarios have been updated with due regard to the latest market data available following developments associated with the pandemic. A more pessimistic view has been taken when developing the forecasts this year, combined with reduced weightings assigned to the central scenario, offset by a higher weighting assigned to the severe low rate scenario.

ECL calculation – core residential mortgages

For the core residential mortgage books, the impairment model employs industry-accepted statistical techniques to address the complex requirements of IFRS 9, with model assumptions and parameters initially determined by regression analysis of historical default data. The assumptions are validated using 'out of time' samples, across a range of economic scenarios, enabling the predictive capabilities of the models to be confirmed.

The model incorporates quantitative factors for identifying a SICR by comparing reporting date lifetime probability of default (PD) with residual origination lifetime PD. For the purposes of this quantitative staging assessment, mortgages are segmented by lending type (owner occupied or buy to let). Residual origination PD curves and (relative and absolute) threshold levels are established via an iterative process involving statistical analysis of the Group's default data. In addition, a range of internally monitored potential impairment indicators has been selected as qualitative criteria for classifying an individual loan as stage 2. Examples of qualitative indicators include cancelled direct debit instructions, certain forbearance measures and evidence of impaired credit history obtained from external agencies.

The default criteria for core residential loans are entirely aligned with those used for capital and credit risk management purposes. Loans are considered to be in default or credit-impaired if they are in arrears by three or more months, in litigation, possession or LPA receivership, or meet one of a range of internal 'unlikely to pay' indicators.

Within the core residential model, ECL is calculated by multiplying the forward-looking PD, exposure at default (EAD) and loss given default (LGD). The model outputs monthly ECLs, which are aggregated over the first 12 months to obtain 12-month ECL and over the life of the loan to calculate lifetime ECL.

The model combines a number of account-specific variables and forecasts of future economic conditions within the calculation of PD. Macroeconomic variable inputs to the model are reviewed quarterly and include house price index (HPI), interest rates, unemployment and GDP. The variables were selected based on statistical tests and other analysis which evidenced their correlation with credit risk.

The core residential impairment model aligns the Group's capital and accounting approaches to the estimation of credit losses as closely as possible.

ECL calculation – undrawn commitments

The loss allowance for undrawn commitments is inferred from the core residential mortgage impairment model outputs for existing loans with similar risk characteristics.

All undrawn commitments are currently allocated to stage 1 such that a 12-month ECL calculation is appropriate.

The Group's IFRS 9 provision requirements for undrawn commitments at 31 March 2021 and 31 March 2022 were negligible.

ECL calculation – second charge residential mortgages

For the closed second charge loan book, a SICR is assessed using external credit agency PD indicators. Absolute thresholds have been set based on analysis of monthly PD scores from origination (or earliest available date) to point of default.

Second charge mortgages are considered to be in default if they are in arrears by three or more months or in bankruptcy, litigation or possession.

Impairment provisions for the closed second charge mortgage book are determined using a simple discounted cash flow model which segregates accounts by payment status. Estimated future cash flows, which consider the forced sale property valuation and level of first charge debt remaining, are discounted to their present value using the effective interest rate of the loan and compared with the account balance at the reporting date. This estimated loss on possession is multiplied by the probability of possession occurring to calculate the ECL requirement.

The key macroeconomic variable affecting the level of second charge impairment losses is HPI, as forecast within the Group's central, upside, downside and stress scenarios.

ECL calculation – commercial mortgages

The key indicator of a SICR for a commercial loan is a downward migration in internal credit rating, determined via an established internal credit risk assessment process. The internal grade is determined at an individual account level, combining expert judgement with prescriptive measures including, but not limited to, loan to value and income/debt service coverage ratios.

Commercial loans are categorised as default if an LPA Receiver (or equivalent) has been appointed, if they are in arrears by greater than or equal to three months, and/or are past scheduled maturity (unless past maturity by no more than 3 months and active negotiations to extend are in progress with the customer). Loans not meeting these criteria may be classified as stage 3 based on expert management judgment of the perceived risk of non-payment.

The ECL requirements for commercial mortgages are assessed on an individual loan basis, with the right to off-setting ECL requirements where cross-collateralisation exists between connected commercial mortgages, using cash flow scenario modelling. This involves estimating the timing and amount of future cash flows, in the event of default, for one or more probability weighted account-specific scenarios based on the Group's central forecast of economic conditions. Applying the Group's macroeconomic scenarios effectively creates a range of alternative outcomes in addition to the central forecast.

Estimated future cash flows, comprising rental receipts and final sales proceeds (each net of costs), are discounted at the effective interest rate of the loan and compared with its carrying value to determine the ECL under each combination of account-specific and macroeconomic scenarios. The relevant macroeconomic weightings are then applied to calculate the overall provision requirement at the reporting date.

ECL calculation – liquid assets

For liquid assets, comprising cash and balances with the Bank of England, loans and advances to credit institutions and investment securities, a SICR is determined by counterparty type and adverse movements in counterparty credit rating beyond specified thresholds. None of the Group's liquid assets are categorised as stage 2 at the reporting date.

Liquid assets are in default if categorised as such by external credit rating agencies. The Group has never experienced an impairment loss or default on its Treasury investment portfolio.

The ECL calculation for liquid assets multiplies the carrying value of the asset by a PD applicable to its credit rating at the reporting date. The PD is obtained from publically available external credit rating agency data tables. The macroeconomic weighted scenarios are translated to shifts in counterparty credit ratings thereby changing the PDs applied in the calculation.

The Group's liquid asset provision requirements at 31 March 2021 and 31 March 2022 were negligible.

Write off of financial assets

Where a loan is not recoverable, it is written off against the related provision for loan impairment once all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the Income Statement.

ECL considerations for the year ended 31 March 2022

The year end modelled ECL has been updated where necessary, for example:

- Account level assumptions for commercial provisions have been refined to reflect the latest developments on an individual account level. Factors such as strategy, rental cover and exit value valuation assumptions have been considered when informing these decisions.
- The macroeconomic scenarios have been updated to reflect updated the updated economic position in the UK at the reporting date, including assumptions of the economy's recovery following COVID-19 lockdowns, the cost of living squeeze and rising interest rates.

A number of overlays have been recorded at the year-end, detailed below:

- Combustible materials overlay – exposures attached to flats where there is a risk of the presence of combustible materials which may result in reduced valuations and/or an inability for borrowers to repay. In calculating the overlay a tiered increase in the Probability of Default (PD) based on risk categorisation as set out by RICS has been assumed, together with costs of remedial work, leading to an overlay of £1.8m (2021: £1.3m).
- A PD overlay of £0.3m has been recorded as PDs are considered to be understated in the historic data under certain macroeconomic scenarios;
- The second charge book consists of legacy lending and it is anticipated that, for a proportion of accounts, underlying credit issues may exist which are not reflected in our models. We therefore reflect an overlay for the impact of moving a proportion of loans from Stage 1 to Stage 2 of £0.2m (2021: £nil).
- The deferred payments overlay has reduced to £nil (2021: £0.2m) as majority of accounts in receipt of an overlay have returned to performing status. The overlay recorded in respect of economic uncertainty in the prior year has also reduced to £nil (2021: £3.0m across commercial and core residential mortgage portfolios) as this has been incorporated into the ECL calculation.

Quantitative information on performing and non-performing exposures

Tables UK CR1 and UK CQ3 below provide information on the credit risk quality of the Society's assets by portfolio. The figures shown are based on accounting values under IFRS for assets under the regulatory scope of consolidation.

UK CR1: Performing and non-performing exposures and related provisions

At 31 March 2022

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
			Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
		£m	£m	£m	**£m**	£m	£m	**£m**	£m	£m	**£m**	£m	£m	**£m**	**£m**	**£m**
005	Cash balances at central banks and other demand deposits	**655.6**	655.6	-	**-**	-	-	**-**	-	-	**-**	-	-	**-**	**-**	**-**
010	Loans and advances	**4,675.9**	4,113.4	560.3	**326.2**	-	309.9	**(14.3)**	(1.4)	(12.9)	**(97.7)**	-	(90.7)	**-**	**4,574.0**	**188.4**
020	*Central banks*	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-	**-**	**-**	**-**
030	*General governments*	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-	**-**	**-**	**-**
040	*Credit institutions*	**67.8**	67.8	-	**-**	-	-	**-**	-	-	**-**	-	-	**-**	**-**	**-**
050	*Other financial corporations*	**1.0**	1.0	-	**-**	-	-	**-**	-	-	**-**	-	-	**-**	**1.0**	**-**
060	*Non-financial corporations*	**231.4**	174.6	56.8	**247.4**	-	247.4	**(9.1)**	(0.2)	(8.9)	**(88.4)**	-	(88.4)	**-**	**216.4**	**118.9**
070	*Of which SMEs*	**231.4**	174.6	56.8	**247.4**	-	247.4	**(9.1)**	(0.2)	(8.9)	**(88.4)**	-	(88.4)	**-**	**216.4**	**118.9**
080	*Households*	**4,375.7**	3,870.0	503.5	**78.8**	-	62.5	**(5.2)**	(1.2)	(4.0)	**(9.3)**	-	(2.3)	**-**	**4,356.6**	**69.5**
090	Debt securities	**286.9**	286.3	-	**-**	-	-	**-**	-	-	**-**	-	-	**-**	**-**	**-**
100	*Central banks*	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-	**-**	**-**	**-**
110	*General governments*	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-	**-**	**-**	**-**
120	*Credit institutions*	**227.7**	227.7	-	**-**	-	-	**-**	-	-	**-**	-	-	**-**	**-**	**-**
130	*Other financial corporations*	**59.2**	58.6	-	**-**	-	-	**-**	-	-	**-**	-	-	**-**	**-**	**-**
140	*Non-financial corporations*	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-	**-**	**-**	**-**
150	Off-balance-sheet exposures	**169.2**	169.0	0.2	**0.1**	-	0.1	**-**	-	-	**-**	-	-		**-**	**-**
160	*Central banks*	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-		**-**	**-**
170	*General governments*	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-		**-**	**-**
180	*Credit institutions*	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-		**-**	**-**
190	*Other financial corporations*	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-		**-**	**-**
200	*Non-financial corporations*	**14.5**	14.5	-	**-**	-	-	**-**	-	-	**-**	-	-		**-**	**-**
210	*Households*	**154.7**	154.5	0.2	**0.1**	-	0.1	**-**	-	-	**-**	-	-		**-**	**-**
220	**Total**	**5,787.6**	5,224.3	560.5	**326.3**	-	310.0	**(14.3)**	(1.4)	(12.9)	**(97.7)**	-	(90.7)	**-**	**4,574.0**	**188.4**

UK CR1: Performing and non-performing exposures and related provisions (continued)

At 31 March 2021

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
			Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
005	Cash balances at central banks and other demand deposits	325.2	325.2	-	-	-	-	-	-	-	-	-	-	-	-	-
010	Loans and advances	4,712.4	4,007.8	702.1	325.6	-	307.8	(16.1)	(1.9)	(14.2)	(91.0)	(1.7)	(81.7)	-	4,569.3	244.1
020	*Central banks*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
030	*General governments*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
040	*Credit institutions*	96.7	96.7	-	-	-	-	-	-	-	-	-	-	-	-	-
050	*Other financial corporations*	1.0	1.0	-	-	-	-	-	-	-	-	-	-	-	1.0	-
060	*Non-financial corporations*	206.2	120.9	85.3	249.2	-	249.2	(8.9)	(0.3)	(8.6)	(79.1)	-	(79.1)	-	181.6	122.2
070	*Of which SMEs*	206.2	120.9	85.3	249.2	-	249.2	(8.9)	(0.3)	(8.6)	(79.1)	-	(79.1)	-	181.6	122.2
080	*Households*	4,408.5	3,789.2	616.8	76.4	-	58.6	(7.2)	(1.6)	(5.6)	(11.9)	(1.7)	(2.6)	-	4,386.7	121.9
090	Debt securities	276.4	275.5	-	-	-	-	-	-	-	-	-	-	-	-	-
100	*Central banks*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
110	*General governments*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
120	*Credit institutions*	207.2	207.2	-	-	-	-	-	-	-	-	-	-	-	-	-
130	*Other financial corporations*	69.2	68.3	-	-	-	-	-	-	-	-	-	-	-	-	-
140	*Non-financial corporations*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
150	Off-balance-sheet exposures	252.3	252.1	0.2	-	-	-	-	-	-	-	-	-	-	-	-
160	*Central banks*	-	-	-	-	-	-	-	-	-	-	-	-		-	-
170	*General governments*	-	-	-	-	-	-	-	-	-	-	-	-		-	-
180	*Credit institutions*	-	-	-	-	-	-	-	-	-	-	-	-		-	-
190	*Other financial corporations*	-	-	-	-	-	-	-	-	-	-	-	-		-	-
200	*Non-financial corporations*	30.9	30.9	-	-	-	-	-	-	-	-	-	-		-	-
210	*Households*	221.4	221.2	0.2	-	-	-	-	-	-	-	-	-		-	-
220	Total	5,566.3	4,860.6	702.3	325.6	-	307.8	(16.1)	(1.9)	(14.2)	(91.0)	(1.7)	(81.7)	-	4,569.3	244.1

UK CQ3: Credit quality of performing and non-performing exposures by past due days

At 31 March 2022

		a	b	c	d	e	f	g	h	i	j	k	l
		Gross carrying amount/nominal amount											
		Performing exposures			Non-performing exposures								
			Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
		£m	£m	£m	**£m**	£m	£m	£m	£m	£m	£m	£m	£m
005	Cash balances at central banks and other demand deposits	**655.6**	655.6	-	**-**	-	-	-	-	-	-	-	-
010	Loans and advances	**4,675.9**	4,667.6	8.3	**326.2**	220.5	7.7	17.5	24.2	4.6	-	51.7	326.2
020	*Central banks*	**-**	-	-	**-**	-	-	-	-	-	-	-	-
030	*General governments*	**-**	-	-	**-**	-	-	-	-	-	-	-	-
040	*Credit institutions*	**67.8**	67.8	-	**-**	-	-	-	-	-	-	-	-
050	*Other financial corporations*	**1.0**	1.0	-	**-**	-	-	-	-	-	-	-	-
060	*Non-financial corporations*	**231.4**	231.4	-	**247.4**	155.2	2.1	13.5	20.8	4.3	-	51.5	247.4
070	*Of which SMEs*	**231.4**	231.4	-	**247.4**	155.2	2.1	13.5	20.8	4.3	-	51.5	247.4
080	*Households*	**4,375.7**	4,367.4	8.3	**78.8**	65.3	5.6	4.0	3.4	0.3	-	0.2	78.8
090	Debt securities	**286.9**	286.9	-	**-**	-	-	-	-	-	-	-	-
100	*Central banks*	**-**	-	-	**-**	-	-	-	-	-	-	-	-
110	*General governments*	**-**	-	-	**-**	-	-	-	-	-	-	-	-
120	*Credit institutions*	**227.7**	227.7	-	**-**	-	-	-	-	-	-	-	-
130	*Other financial corporations*	**59.2**	59.2	-	**-**	-	-	-	-	-	-	-	-
140	*Non-financial corporations*	**-**	-	-	**-**	-	-	-	-	-	-	-	-
150	Off-balance-sheet exposures	**169.2**			**0.1**								0.1
160	*Central banks*	**-**			**-**								-
170	*General governments*	**-**			**-**								-
180	*Credit institutions*	**-**			**-**								-
190	*Other financial corporations*	**-**			**-**								-
200	*Non-financial corporations*	**14.5**			**-**								-
210	*Households*	**154.7**			**0.1**								0.1
220	**Total**	**5,787.6**	5,610.1	8.3	**326.3**	220.5	7.7	17.5	24.2	4.6	-	51.7	326.3

UK CQ3: Credit quality of performing and non-performing exposures by past due days (continued)

At 31 March 2021

		a	b	c	d	e	f	g	h	i	j	k	l
		Gross carrying amount/nominal amount											
		Performing exposures			Non-performing exposures								
			Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
005	Cash balances at central banks and other demand deposits	325.2	325.2	-	-	-	-	-	-	-	-	-	-
010	Loans and advances	4,712.4	4,704.0	8.4	325.6	209.7	12.0	10.3	39.8	0.7	0.1	53.0	325.6
020	*Central banks*	-	-	-	-	-	-	-	-	-	-	-	-
030	*General governments*	-	-	-	-	-	-	-	-	-	-	-	-
040	*Credit institutions*	96.7	96.7	-	-	-	-	-	-	-	-	-	-
050	*Other financial corporations*	1.0	1.0	-	-	-	-	-	-	-	-	-	-
060	*Non-financial corporations*	206.2	206.2	-	249.2	152.7	3.1	4.8	35.9	-	-	52.7	249.2
070	*Of which SMEs*	206.2	206.2	-	249.2	152.7	3.1	4.8	35.9	-	-	52.7	249.2
080	*Households*	4,408.5	4,400.1	8.4	76.4	57.0	8.9	5.5	3.9	0.7	0.1	0.3	76.4
090	Debt securities	276.4	276.4	-	-	-	-	-	-	-	-	-	-
100	*Central banks*	-	-	-	-	-	-	-	-	-	-	-	-
110	*General governments*	-	-	-	-	-	-	-	-	-	-	-	-
120	*Credit institutions*	207.2	207.2	-	-	-	-	-	-	-	-	-	-
130	*Other financial corporations*	69.2	69.2	-	-	-	-	-	-	-	-	-	-
140	*Non-financial corporations*	-	-	-	-	-	-	-	-	-	-	-	-
150	Off-balance-sheet exposures	252.3			-								-
160	*Central banks*	-			-								-
170	*General governments*	-			-								-
180	*Credit institutions*	-			-								-
190	*Other financial corporations*	-			-								-
200	*Non-financial corporations*	30.9			-								-
210	*Households*	221.4			-								-
220	Total	5,566.3	5,305.6	8.4	325.6	209.7	12.0	10.3	39.8	0.7	0.1	53.0	325.6

Table UK CQ5 provides credit quality data on the Society's loans and advances to non-financial corporations within the Limited Company Buy to Let and legacy commercial lending portfolios. The template is split by industry type; however all of the Society's relevant lending is to non-financial corporations in the 'Real estate activities' category.

UK CQ5: Credit quality of loans and advances to non-financial corporations by industry

At 31 March		a	b	c	d	e	f	a	b	c	d	e	f
		Gross carrying amount					**Accumulated negative changes in fair value due to credit risk on non-performing exposures**	Gross carrying amount					Accumulated negative changes in fair value due to credit risk on non-performing exposures
			Of which non-performing		Of which loans and advances subject to impairment	**Accumulated impairment**			Of which non-performing		Of which loans and advances subject to impairment	Accumulated impairment	
				Of which defaulted						Of which defaulted			
		2022	2022	2022	2022	**2022**	**2022**	2021	2021	2021	2021	2021	2021
		£m	£m	£m	£m	**£m**	**£m**	£m	£m	£m	£m	£m	£m
010	Agriculture, forestry and fishing	**-**	-	-	-	**-**	**-**	-	-	-	-	-	-
020	Mining and quarrying	**-**	-	-	-	**-**	**-**	-	-	-	-	-	-
030	Manufacturing	**-**	-	-	-	**-**	**-**	-	-	-	-	-	-
040	Electricity, gas, steam and air conditioning supply	**-**	-	-	-	**-**	**-**	-	-	-	-	-	-
050	Water supply	**-**	-	-	-	**-**	**-**	-	-	-	-	-	-
060	Construction	**-**	-	-	-	**-**	**-**	-	-	-	-	-	-
070	Wholesale and retail trade	**-**	-	-	-	**-**	**-**	-	-	-	-	-	-
080	Transport and storage	**-**	-	-	-	**-**	**-**	-	-	-	-	-	-
090	Accommodation and food service activities	**-**	-	-	-	**-**	**-**	-	-	-	-	-	-
100	Information and communication	**-**	-	-	-	**-**	**-**	-	-	-	-	-	-
110	Financial and insurance activities	**-**	-	-	-	**-**	**-**	-	-	-	-	-	-
120	Real estate activities	**478.8**	247.4	247.4	478.8	**(97.5)**	**-**	455.4	249.2	249.2	455.4	(88.0)	-
130	Professional, scientific and technical activities	**-**	-	-	-	**-**	**-**	-	-	-	-	-	-
140	Administrative and support service activities	**-**	-	-	-	**-**	**-**	-	-	-	-	-	-
150	Public administration and defence, compulsory social security	**-**	-	-	-	**-**	**-**	-	-	-	-	-	-
160	Education	**-**	-	-	-	**-**	**-**	-	-	-	-	-	-
170	Human health services and social work activities	**-**	-	-	-	**-**	**-**	-	-	-	-	-	-
180	Arts, entertainment and recreation	**-**	-	-	-	**-**	**-**	-	-	-	-	-	-
190	Other services	**-**	-	-	-	**-**	**-**	-	-	-	-	-	-
200	**Total**	**478.8**	247.4	247.4	478.8	**(97.5)**	**-**	455.4	249.2	249.2	455.4	(88.0)	-

The table below analyses the modest movement in the stock of non-performing loans and advances during the financial year ended 31 March 2022.

UK CR2: Changes in the stock of non-performing loans and advances

Year ended 31 March 2022		
		a
		Gross carrying amount
		£m
010	**Initial stock of non-performing loans and advances**	**325.6**
020	Inflows to non-performing portfolios	**43.1**
030	Outflows from non-performing portfolios	**(42.5)**
040	Outflows due to write-offs	**(3.1)**
050	Outflow due to other situations	**(39.4)**
060	**Final stock of non-performing loans and advances**	**326.2**

Forbearance strategies

A range of forbearance strategies are employed in order to work with borrowers to control arrears and, wherever possible, avoid repossession. These are set out in the relevant Group policies. The agreed strategy will reflect the customer's individual circumstances, appropriately taking any vulnerabilities into consideration, and will be used in line with industry guidance. Forbearance arrangements include extended payment terms, a reduction in interest or principal repayments, and approved external debt management plans.

The payment deferral scheme, helping customers impacted as a result of the COVID-19 pandemic, ceased at the end of July 2021. The Society provided payment deferrals to 5,439 accounts in total of which 97% have recommenced payments. Although the Society has not seen the anticipated increase in borrowers suffering financial distress as Government support has unwound, for example the availability of furlough ending (September 2021), it continues to be vigilant. The Society is mindful of increasing pressure on household budgets as the cost of living continues to rise above wage growth.

Certain forbearance activities are applied on a small number of commercial mortgages. Loans that have been restructured (generally via a term extension) and would otherwise have been past due are classified as renegotiated. Interest is recorded on renegotiated loans on the basis of new contractual terms following renegotiation. For internal monitoring, loans that have been classified as renegotiated retain this classification until maturity or derecognition; however, for regulatory reporting purposes, exposures cease to be reported as forborne if they meet certain criteria.

An analysis of loan exposures subject to forbearance measures, and the associated impairment provision requirements, is presented in table CQ1 below. The decrease in performing forborne and increase in non-performing forborne exposures was largely driven by one legacy commercial loan entering default during the year.

UK CQ1: Credit quality of forborne exposures

At 31 March 2022

		a	b	c	d	e	f	g	h
		Gross carrying amount/nominal amount of exposures with forbearance measures				**Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions**		**Collateral received and financial guarantees received on forborne exposures**	
			Non-performing forborne						
		Performing forborne		Of which defaulted	Of which impaired	**On performing forborne exposures**	**On non-performing forborne exposures**		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
		£m	**£m**	£m	£m	**£m**	**£m**	**£m**	£m
005	Cash balances at central banks and other demand deposits	**-**	**-**	-	-	**-**	**-**	**-**	-
010	Loans and advances	**24.8**	**47.3**	47.3	47.3	**(7.7)**	**(5.4)**	**48.2**	32.0
020	*Central banks*	**-**	**-**	-	-	**-**	**-**	**-**	-
030	*General governments*	**-**	**-**	-	-	**-**	**-**	**-**	-
040	*Credit institutions*	**-**	**-**	-	-	**-**	**-**	**-**	-
050	*Other financial corporations*	**-**	**-**	-	-	**-**	**-**	**-**	-
060	*Non-financial corporations*	**21.8**	**32.6**	32.6	32.6	**(7.6)**	**(4.4)**	**31.5**	18.3
070	*Households*	**3.0**	**14.7**	14.7	14.7	**(0.1)**	**(1.0)**	**16.7**	13.7
080	Debt Securities	**-**	**-**	-	-	**-**	**-**	**-**	-
090	Loan commitments given	**-**	**-**	-	-	**-**	**-**	**-**	-
100	**Total**	**24.8**	**47.3**	47.3	47.3	**(7.7)**	**(5.4)**	**48.2**	32.0

UK CQ1: Credit quality of forborne exposures (continued)

At 31 March 2021 (restated)[1]

		a	b	c	d	e	f	g	h
		Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
			Non-performing forborne						
		Performing forborne		Of which defaulted	Of which impaired	On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
		£m	£m	£m	£m	£m	£m	£m	£m
005	Cash balances at central banks and other demand deposits	-	-	-	-	-	-	-	-
010	Loans and advances	44.1	34.0	34.0	34.0	(7.1)	(3.7)	54.4	24.6
020	*Central banks*	-	-	-	-	-	-	-	-
030	*General governments*	-	-	-	-	-	-	-	-
040	*Credit institutions*	-	-	-	-	-	-	-	-
050	*Other financial corporations*	-	-	-	-	-	-	-	-
060	*Non-financial corporations*	39.8	19.6	19.6	19.6	(7.0)	(2.8)	36.6	11.1
070	*Households*	4.3	14.4	14.4	14.4	(0.1)	(0.9)	17.8	13.5
080	Debt Securities	-	-	-	-	-	-	-	-
090	Loan commitments given	-	-	-	-	-	-	-	-
100	Total	44.1	34.0	34.0	34.0	(7.1)	(3.7)	54.4	24.6

Notes

1 The forborne classification of certain commercial loans, under Article 47b of the CRR, has been revisited in the year and the comparative table restated accordingly.

Credit risk mitigation techniques

The narrative below is provided in accordance with table *UK CRC – Qualitative disclosure requirements related to CRM techniques.*

The primary source of collateral for mitigating credit risk within the Society's mortgage portfolios is the underlying residential or commercial property. In line with its risk appetite, the Society also uses Mortgage Indemnity Guarantee (MIG) Insurance to insure against losses on residential loan advances where the Loan to Value (LTV) exceeds 80%. The mortgage application process is supported by the use of independent valuers, with property valuations regularly updated to reflect movements in house price indices sourced from the Office of National Statistics. For commercial lending, supplementary collateral may be provided in the form of cash or (personal or cross-collateralisation) guarantees. No credit risk mitigation benefits in relation to MIG or commercial guarantees have been assumed when assessing Pillar 1 capital requirements. The Society is exposed to geographical concentration risk by virtue of only operating within the UK. However, regional concentration risk within the UK is limited due to the Society's mortgage offerings being available through online, branch and direct as well as intermediary distribution channels which ensures diversification across UK geographies.

Additionally, credit risk can arise within Treasury transactions (used to meet liquidity requirements and those hedging instruments used for interest rate risk purposes). Within the Treasury portfolio, mortgage-back securities (MBS) and covered bonds are secured by pools of underlying assets whereas other loans and debt securities are unsecured. Throughout the last financial year, a conservative approach to liquidity management has been maintained, investing for short periods with selected financial institutions, as well as holding a significant cash balance with the Bank of England. The Society has also maintained a position of holding a significant proportion of liquidity in AAA rated covered bonds and residential mortgage back securities, as well as supranational financial institution assets, which are considered to be both highly liquid and secure. Treasury operates a strict control framework and exposures are monitored on an intra-daily basis. To mitigate against concentration risk, a series of limits including counterparty and country concentration limits, are set out in the Board-approved Treasury and Financial Risk Management Policy.

The Society enters into derivative transactions solely to manage its exposure to interest rate risk and has entered into International Swaps and Derivatives Association (ISDA) master netting agreements for all of its derivatives, whereby outstanding transactions with the same counterparty can be settled net following a default or other predetermined event. Legally enforceable Credit Support Annex (CSA) agreements require collateral to be posted against changes in the net mark to market value of derivative exposures with a particular counterparty. In the event of default, this collateral is transferred to the disadvantaged counterparty. CSAs are taken into consideration when setting the internal credit risk limits for derivative counterparties. Market valuations used to determine the amount of cash collateral are performed daily. No collateral is posted if the net change in market value for the period is less than a specified threshold amount.

The Society may from time to time enter into sale and repurchase agreements (repos) with counterparties with whom the Society has both a Global Master Repurchase Agreement (GMRA) and an active credit line in place. An exposure arises where the cash received in a repo transaction is less than the market value of the asset to be repurchased. This form of counterparty credit risk is managed under the terms of the GMRA through the monitoring and appropriate transfer of collateral. The credit risk exposures and capital requirements for repo transactions are determined using the Financial Collateral Simple Method.

The table which follows provides a breakdown of loans and advances and debt securities indicating those which benefit from credit risk mitigation (irrespective of whether applicable for capital purposes). Where multiple forms of credit risk mitigation apply, the carrying amount is allocated based on the Society's expectation of the order in which the various types of security would be called upon in the event of default.

In accordance with the reporting instructions for this template, 'Loans and advances' include cash held with the Bank of England and other credit institutions in the UK. These balances account for £723.4m of the unsecured loans and advances presented in the table UK CR3 below.

UK CR3 – CRM techniques overview: Disclosure of the use of credit risk mitigation techniques

At 31 March 2022

			Secured carrying amount			
					Of which secured by financial guarantees	
		Unsecured carrying amount		Of which secured by collateral		Of which secured by credit derivatives
		a	**b**	c	d	e
		£m	**£m**	£m	£m	£m
1	Loans and advances	**783.3**	**4,762.4**	4,762.3	0.1	-
2	Debt securities	**286.9**	**-**	-	-	
3	Total	**1,070.2**	**4,762.4**	4,762.3	0.1	-
4	*Of which non-performing exposures*	40.1	188.4	188.4	-	-
5	*Of which defaulted*	40.1	188.4			

Counterparty credit risk

Counterparty credit risk management objectives and policies

The following information is presented in accordance with table *UK CCRA - Qualitative disclosure related to CCR* and *UK OVA – Institution risk management approach.*

Counterparty Credit Risk (CCR) is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. The Society's exposure to CCR arises from entering into interest-rate swap contracts, for the purposes of mitigating interest rate risk, and sales and repurchase transactions as part of its liquidity management activities. Limits for counterparty credit risk are set with reference to external credit ratings and a range of other risk indicators. The Treasury Middle Office team monitors exposures to counterparties and countries on a daily basis, and ensures operations remain within these Board approved limits. ALCo and the Board review the Treasury Policy and limits, with reports presented to ALCo on a monthly basis confirming compliance with such policy limits.

As explained in the 'Credit risk mitigation techniques' section, the Society mitigates risk of loss arising from default by its derivative counterparties through legally enforceable CSA agreements with cash collateral posted against changes in the net mark to market value of derivative exposures with a particular counterparty. It also enters into ISDA master netting agreements such that outstanding swap transactions with the same counterparty can be settled net following a default. These collateral and netting arrangements are taken into consideration when setting the internal credit risk limits for derivative counterparties. Whilst exchange traded derivatives have been cleared through central counterparties (CCPs) for many years, more recent regulatory initiatives designed to reduce systemic risk in the banking system are directing increasing volumes of Over the Counter (OTC) derivatives to be cleared through CCPs. Wherever possible, the Society now clears qualifying derivatives through a CCP. The CCP collects initial margin from each member in order that obligations can be fulfilled should a member fail. All positions with the CCP are marked to market daily, with valuations agreed between the Society and the counterparty, such that the appropriate amount of variation margin can be exchanged.

As the Society's exposure to derivatives is limited, it qualifies for and has elected to apply the Original Exposure Method to counterparty credit risk. Under this approach, the Society's exposure value to derivative contracts is determined with reference to any margin thresholds and minimum transfer amounts specified in the corresponding CSA with an add-on for potential future credit exposure which considers the type of derivative, its notional and residual maturity. We also recognise Credit Valuation Adjustments (CVAs) for bilateral swap transactions to cover expected credit losses. These CVAs are calculated following the Standardised Approach. The Society's contracts would not require the posting of additional collateral in the event of a ratings downgrade.

Exposures to securities financing transactions, in the form of repo arrangements, are calculated using the Financial Collateral Simple Method.

'Wrong-way' risk may occur when an exposure to a counterparty is adversely correlated with the credit quality of the counterparty. The Society has no 'wrong-way' risk exposure and no appetite for such exposures. The Society mitigates 'wrong-way' risk by ensuring that exposures to derivatives are managed via CSA agreements, which are regularly re-margined and are collateralised with cash.

Table UK CCR1 below illustrates the Society's exposures to CCR, analysed by the methodology employed in the calculation of capital requirements. Institutions may apply the Original Exposure Method where the size of their derivatives business falls below £88m and 5% of total assets. At 31 March 2022, the size of the Society's derivative business calculated in accordance with Article 273a(2) of the CRR was £63.9m which equated to 1.05% of total assets. The Original Exposure Method has been applied for all derivative arrangements. For SFTs, the Society has adopted the Financial Collateral Simple Method; however the Society had no SFT exposures at 31 March 2022.

UK CCR1 – Analysis of CCR exposure by approach

At 31 March 2022

		a	b	c	d	e	f	g	h
		Replacement cost (RC)	Potential future exposure (PFE)	EEPE	Alpha used for computing regulatory exposure value	Exposure value pre-CRM	Exposure value post-CRM	Exposure value	RWEA
		£m	£m	£m	£m	£m	£m	£m	£m
UK1	Original Exposure Method (for derivatives)	1.6	10.6		1.4	17.1	17.1	17.1	2.4
UK2	Simplified SA-CCR (for derivatives)	-	-		1.4	-	-	-	-
1	SA-CCR (for derivatives)	-	-		1.4	-	-	-	-
2	IMM (for derivatives and SFTs)			-	-	-	-	-	-
2a	*Of which securities financing transactions netting sets*			-		-	-	-	-
2b	*Of which derivatives and long settlement transactions netting sets*			-		-	-	-	-
2c	*Of which from contractual cross-product netting sets*			-		-	-	-	-
3	Financial collateral simple method (for SFTs)					-	-	-	-
4	Financial collateral comprehensive method (for SFTs)					-	-	-	-
5	VaR for SFTs					-	-	-	-
6	**Total**					17.1	17.1	17.1	2.4

Table UK CCR3 shows the distribution of CCR exposures between the Standardised exposure classes and risk weights. All of the Society's CCR exposures are to institutions.

UK CCR3 – Standardised approach – CCR exposures by regulatory exposure class and risk weights

At 31 March 2022

		Risk weight											
		a	b	c	d	e	f	g	h	i	j	k	l
		0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others	Total exposure value
	Exposure classes	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
1	Central governments or central banks	-	-	-	-	-	-	-	-	-	-	-	-
2	Regional government or local authorities	-	-	-	-	-	-	-	-	-	-	-	-
3	Public sector entities	-	-	-	-	-	-	-	-	-	-	-	-
4	Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-
5	International organisations	-	-	-	-	-	-	-	-	-	-	-	-
6	Institutions	-	12.1	-	-	1.2	3.8	-	-	-	-	-	17.1
7	Corporates	-	-	-	-	-	-	-	-	-	-	-	-
8	Retail	-	-	-	-	-	-	-	-	-	-	-	-
9	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-
10	Other items	-	-	-	-	-	-	-	-	-	-	-	-
11	**Total exposure value**	-	12.1	-	-	1.2	3.8	-	-	-	-	-	17.1

The following table breaks down the exposures subject to CVA by approach. The Society applies the Standardised method to all derivative exposures in the scope of CVA.

UK CCR2 – Transactions subject to own funds requirements for CVA risk

At 31 March 2022		a Exposure value £m	b RWEA £m
1	Total transactions subject to the Advanced method	-	-
2	(i) VaR component (including the 3× multiplier)		-
3	(ii) stressed VaR component (including the 3× multiplier)		-
4	Transactions subject to the Standardised method	3.5	2.6
UK4	Transactions subject to the Alternative approach (Based on the Original Exposure Method)	-	-
5	**Total transactions subject to own funds requirements for CVA risk**	**3.5**	**2.6**

Table UK CCR8 provides analysis of our exposures to qualifying central counterparties (QCCPs), as defined in the CRR, arising from derivative transactions and margins. The Society does not enter into derivative arrangements with any non-qualifying central counterparties.

UK CCR8 – Exposures to CCPs

At 31 March 2022		a Exposure value £m	b RWEA £m
1	**Exposures to QCCPs (total)**		**0.2**
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	12.1	0.2
3	(i) OTC derivatives	12.1	0.2
4	(ii) Exchange-traded derivatives	-	-
5	(iii) SFTs	-	-
6	(iv) Netting sets where cross-product netting has been approved	-	-
7	Segregated initial margin	21.5	
8	Non-segregated initial margin	-	-
9	Prefunded default fund contributions	-	-
10	Unfunded default fund contributions	-	-
11	**Exposures to non-QCCPs (total)**		**-**
12	Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which	-	-
13	(i) OTC derivatives	-	-
14	(ii) Exchange-traded derivatives	-	-
15	(iii) SFTs	-	-
16	(iv) Netting sets where cross-product netting has been approved	-	-
17	Segregated initial margin	-	
18	Non-segregated initial margin	-	-
19	Prefunded default fund contributions	-	-
20	Unfunded default fund contributions	-	-

Securitisation positions

Overview of securitisation activities

The narrative information in this section is presented in accordance with table *UK-SECA – Qualitative disclosure requirements related to securitisation exposures.*

Securitisation is the process by which ring-fenced groups of assets, usually loans, are aggregated into a pool, and sold to structured entities with no gains being recognised. The pool of mortgage loans is used to back the issuance of new securities, allowing the credit rating of the securities to be separated from the credit rating of the originating entity.

As part of a diversified funding strategy the Group transfers pools of mortgage loans to structured entities, including securitisation vehicles, thereby enabling the Society to obtain secured funding or create collateral which can be used in wholesale funding initiatives. Residual credit risk exists where the Group retains an interest in the structured entities through the provision of subordinated debt and/or start up loans and liquidity facilities where applicable.

The Society has neither issued nor invested in re-securitisation assets and has no exposure to synthetic securitisations.

Originated securitisations

The Group has established structured entities, as part of its funding activities, using residential and commercial mortgage loans as the underlying asset pools.

The equity of the structured entities created for these funding activities is not owned by the Group. However, to comply with the Building Societies Act 1986 (International Accounting Standards and Other Accounting Amendments) Order 2004 and IFRS 10, the structured entities are, in certain circumstances, treated as subsidiaries in the consolidated financial statements. Where the structured entities are not consolidated, the securitised mortgage assets may still be recognised in the Group financial statements under the rules and guidance of IFRS 9. This is despite the fact that some securitisation entities may be structured in such a way that the Group's exposure to losses is capped at levels whereby consolidation is not considered appropriate for regulatory capital purposes.

The Group has experience of issuing securitisations under various programmes and has built up a depth of knowledge, processes and management information to deal effectively with these funding vehicles. The Group undertakes securitisation activities to raise wholesale funding. Securitisation is used to increase the diversification of funding sources, manage maturity mismatch risk and assist overall credit risk management. The Society's current originated securitisations are not part of the 'simple, transparent and standardised' framework.

Purchased securitisation positions

The Society also invests in mortgage backed securities. Purchases and retention of residential mortgage backed securities (RMBS) are undertaken within a clearly defined credit risk policy. All residential mortgage backed securities holdings are monitored on a daily basis and if the credit rating deteriorates below AAA level the position is reviewed. The liquidity of residential mortgage backed securities assets held, either through sale or sale and repurchase, is regularly tested by Treasury and reported accordingly. The Society holds no re-securitisation positions.

The EU Securitisation Regulation sets out the framework and criteria for 'simple, transparent and standardised' (STS) securitisation transactions. Investments in RMBS, which have fulfilled the necessary requirements and been designated as STS, receive preferential capital treatment in terms of risk weighting. At 31 March 2022, all of the Group's RMBS holdings were STS-compliant (2021: 100%).

The Society has also invested in commercial mortgage backed securities issued by Sandwell Commercial Finance No. 2 Plc, an originated securitisation for which significant risk transfer is achieved. As at 31 March 2022 these notes had a fair value of £0.5m (2021: £1.0m) of which £nil (2021: £0.2m) was risk weighted and £0.5m (2021: £0.8m) deducted from capital.

The valuation process for our investments in securitisation exposures primarily focuses on quotations from third parties and observed trade levels. This process did not change for the year ended 31 March 2022. The use of credit quality steps and associated risk weightings for securitisation exposures reflect the guidance set out in Regulation (EU) 2017/2401.

Approach to calculation of risk-weighted exposure amounts

Originated securitisations

There are two distinct capital treatments for the structured entities that the Group has established as prescribed by the CRR. The capital treatment is dependent upon whether or not significant credit risk associated with the ring-fenced exposures is considered to have been transferred to third parties. The mortgage originator usually retains an element of risk by holding a tranche of subordinated liabilities. Where the risk is limited to a relatively small tranche of subordinated loans it is usually possible to demonstrate that a significant risk transfer has taken place. Sandwell Commercial Finance No. 1 Plc and Sandwell Commercial Finance No. 2 Plc are not consolidated for capital purposes. While these entities are not consolidated in the Group financial statements, the underlying mortgage pools are included in the accounting group whereas, for capital purposes, no risk-weighted exposures are included in the capital calculation for the assets that have been securitised. Instead the subordinated loans, net of any provisions for losses, are deducted from Tier 1 capital.

Alternatively, where the structures do not achieve significant risk transfer, the underlying mortgage pools and other assets of the structured entities remain within the Group and are consolidated for capital purposes. This means the assets are risk weighted along with the Group's own assets using the Standardised Approach. Hawthorn Finance Limited, Hawthorn Asset Co Limited and Kenrick No. 3 Plc are treated in this manner.

Approach to calculation of risk-weighted exposure amounts (continued)

Non-consolidated structured entities for regulatory capital purposes

The Society, through its subsidiary company, West Bromwich Commercial Limited (WBCL), provides subordinated loans (including funding for start-up costs) to Sandwell Commercial Finance No. 1 Plc and Sandwell Commercial Finance No. 2 Plc.

The notes in these securitisations are serviceable from cash flows generated by the mortgage assets. The Society receives the excess spread on the transactions as deferred consideration, after the structured entities have met their liabilities. The Society does not provide any liquidity facilities to the structured entities. WBCL provides administration and cash management services to the structured entities, for which it receives a fee. The subordinated and start-up loan balances have been written down to £nil (2021: £nil) in the financial statements of WBCL with reference to the cumulative losses on the securitised loans within Sandwell Commercial Finance No. 1 Plc and Sandwell Commercial Finance No. 2 Plc.

The structured entities were originally set up as follows:

Sandwell Commercial Finance No. 1 Plc

In May 2004, WBCL sold £250m of commercial mortgage assets, at book value, to Sandwell Commercial Finance No. 1 Plc. Sandwell Commercial Finance No. 1 Plc issued notes to finance the purchase of the commercial mortgage assets.

Sandwell Commercial Finance No. 2 Plc

In September 2005, WBCL sold £350m of commercial mortgage assets, at book value, to Sandwell Commercial Finance No. 2 Plc. Sandwell Commercial Finance No. 2 Plc issued notes to finance the purchase of the commercial mortgage assets.

Consolidated structured entities for regulatory capital purposes

The structured entities, which are fully consolidated for capital purposes, were originally set up as follows:

Hawthorn Finance Limited and Hawthorn Asset Co Limited

In July 2008, West Bromwich Mortgage Company sold £1,000m of residential buy to let mortgage assets, at book value, to Hawthorn Asset Co Limited, which in turn, borrowed funds from Hawthorn Finance Limited to fund the purchase of the mortgage assets.

Kenrick No. 3 Plc

In January 2018, an Originator Trust was created over a £383.5m portfolio of prime residential mortgages, at book value. Kenrick No. 3 Plc acquired a 99% share in the Originator Trust and issued notes to finance the purchase. The Society retained a 1% share in the Originator Trust. The call option date for all notes is 11 January 2023.

Loan notes created under a retained securitisation may be used to raise funding. However, we continue to manage the interest rate risk of the underlying mortgage assets.

To manage interest rate risk, the structured entities enter into derivative transactions with external derivative counterparties, paying a rate of interest based on the mortgage pools and receiving a rate inherent in the debt issuances. Cash flows arising from these derivatives are accounted for on an accruals basis. The Society is both originator and servicer for each of the issuances, directly for Kenrick No. 3 Plc and via subsidiary West Bromwich Mortgage Company Limited in the case of the Hawthorn entities.

The Society's obligations in respect of these funding vehicles are limited to transferring cash flows from the underlying assets. The Society and its subsidiaries are under no obligation to support any losses that may be incurred by the funding programmes or external lenders/noteholders which are only entitled to obtain payment to the extent of the resources available within the funding vehicles.

The securitisation vehicles Hawthorn Finance Limited, Hawthorn Asset Co. Limited and Kenrick No. 3 Plc are subject to legal covenants which need to be fulfilled in the event of a downgrade of the contracted liquidity provider. The cash flows resulting from these legal covenants are in respect of amounts held in the transaction bank accounts and the Guaranteed Investment Contract accounts, representing the net cash position arising from the management of the structured entities at any point in time. Funds may need to be either deposited with another institution with the requisite rating or a guarantee obtained from a suitable guarantor (in the event of the liquidity or derivative provider losing its short-term rating unless the rating agencies confirm that the current ratings of the notes will not be affected). There is no additional liquidity risk to the Society, as the cash flows affected solely relate to cash held within the structured entities and no further flows from the Society would be required.

Purchased securitisation positions

For its purchased securitisation positions, the Society has opted to apply the External Ratings Based Approach (SEC-ERBA) to calculate is capital requirements. Under SEC-ERBA, each position is mapped to a credit quality step and assigned a risk-weighting based on its external credit rating and duration. External credit ratings for the application of SEC-ERBA are sourced from Moodys, Standard and Poor's and Fitch. The Society has elected to deduct its exposures to loan notes issued by Sandwell Commercial Finance No. 2 Plc from capital rather than risk-weighting them at 1250%.

Securitisation accounting policies

Originated transactions

In accordance with IFRS 9 (and previously under IAS 39), the Group continues to recognise securitised assets as loans and advances to customers. In subsequent periods, income from the securitised mortgages is recognised by the Group.

The equity of the structured entities created for these securitisations is not owned by the Group. However, to comply with IFRS 10 'Consolidated Financial Statements', the structured entities are included as subsidiaries in the consolidated financial statements, where certain criteria are met. The analysis of whether the criteria are met is subject to regular reassessment. Where IFRS 10 consolidation criteria are no longer met, securitised mortgage assets continue to be recognised with an offsetting deemed loan liability recorded in the Group financial statements. Deemed loans are included within amounts due to other customers.

Securitisation accounting policies (continued)

As described above, the Society has entered into securitisation transactions in which it sold residential mortgages to structured entities. Live mortgages were transferred and repayments on these remain due at the time of securitisation. Cash flows received from the mortgage repayments are transferred to the structured entity. However, the Society has retained substantially all the risks and rewards including, but not limited to, holding the legal title of the mortgages. In accordance with IFRS 9 (and previously under IAS 39), the Society continues to recognise the securitised assets as loans and advances to customers and consequently also shows a deemed loan liability to the structured entities. The deemed loans are included within amounts due to other customers.

Management reassessed the accounting for Sandwell Commercial Finance No. 1 plc and Sandwell Commercial Finance No. 2 plc in 2020, and reached a judgement that these entities no longer met the consolidation criteria as set out in IFRS 10 'Consolidated Financial Statements'. The principal activities of the entities is that of holding non-core commercial mortgage portfolios – these being the assets that were transferred when the securitisations were established. Prior to deconsolidation, the deemed loan asset recorded in these entities was offset by an equal and opposite deemed loan liability in West Bromwich Commercial Limited (WBCL). Following deconsolidation, the deemed loan asset and external loan note liabilities recognised in these entities are no longer recognised in the Group financial statements. The deemed loan liability in WBCL is no longer eliminated and is recorded in the Group balance sheet. The deemed loan liability is continually revalued to reflect the impairment provisions held against the underlying commercial mortgages given the impairments are ultimately borne by the loan note holders as the Group is no longer exposed to the structure. In these entities, the Group has limited exposure to credit losses, with risk transferred in part to third party investors who have purchased loan note securities issued by the entities.

Purchased securitisation positions

With the exception of the Society's holding in loan notes issued by Sandwell Commercial Finance No. 2 Plc, all purchased securitisation positions represent investments in residential mortgage backed securities held at fair value through other comprehensive income (FVOCI) in the financial statements. Financial assets are classified as FVOCI where the associated business model objective is achieved by both collecting contractual cash flows and selling the assets ("held to collect and sell" business model). The contractual terms of FVOCI assets give rise on specified dates to cash flows which are solely payments of principal and interest on the outstanding balance. In the case of mortgage-backed securities, the SPPI criteria are only met where the underlying asset pools contain mortgages which are SPPI and the exposure to credit risk inherent in the tranches held by the Society is equal to or lower than the exposure to credit risk of the underlying mortgage pools.

FVOCI assets are initially recognised at fair value, which is the cash consideration including any directly attributable transaction costs, and measured subsequently at fair value. Gains and losses from changes in fair value are recorded in other comprehensive income via the fair value reserve, except for impairment losses which are recognised in the Income Statement. Gains or losses arising on sale, including any cumulative gains and losses previously recognised in other comprehensive income, are recognised in the Income Statement. Interest is calculated using the effective interest rate method.

The fair values of FVOCI assets are based on quoted prices or, if these are not available, valuation techniques developed by the Group. These include, but are not limited to, the use of discounted cash flow models, option pricing models and recent arm's length transactions.

As the loan notes issued by Sandwell Commercial Finance No. 2 Plc and held by the Society do not meet the classification criteria to be held at FVOCI they are measured at fair value through profit or loss.

Quantitative information on securitisation exposures

Table UK-SEC1 below shows the Society's securitisation exposures as originator and investor. For the residential mortgage backed securitisations originated by the Society, where significant risk transfer is not achieved, the figures in the table represent the retained risk position at the reporting date. For originated commercial mortgage backed securitisations, where significant risk transfer is achieved, the exposures relate to the Society's residual position being the notes held and deducted from capital in accordance with SEC-ERBA.

UK-SEC1 - Securitisation exposures in the non-trading book

At 31 March 2022		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		Institution acts as originator							Institution acts as sponsor				Institution acts as investor			
		Traditional				Synthetic		Sub-total	Traditional				Traditional			
		STS		Non-STS												
			of which SRT		of which SRT		of which SRT		STS	Non-STS	Synthetic	Sub-total	STS	Non-STS	Synthetic	Sub-total
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
1	**Total exposures**	**-**	**-**	**480.5**	**0.5**	**-**	**-**	**480.5**	**-**	**-**	**-**	**-**	**58.6**	**-**	**-**	**58.6**
2	Retail (total)	**-**	**-**	**480.0**	**-**	**-**	**-**	**480.0**	**-**	**-**	**-**	**-**	**58.6**	**-**	**-**	**58.6**
3	residential mortgage	-	-	480.0	-	-	-	480.0	-	-	-	-	58.6	-	-	58.6
4	credit card	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5	other retail exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	Wholesale (total)	-	-	0.5	0.5	-	-	0.5	-	-	-	-	-	-	-	-
8	loans to corporates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	commercial mortgage	-	-	0.5	0.5	-	-	0.5	-	-	-	-	-	-	-	-
10	lease and receivables	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	other wholesale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

The following table UK-SEC3 breaks down the Society's securitisation positions by regulatory approach and risk-weight band where it acts as originator. As the Society's RMBS issuances do not give rise to securitisation positions (with the underlying mortgage assets risk-weighted as the Society's own under the Standardised Approach), they are not included in this disclosure. The exposures presented relate to loan notes issued by Sandwell Commercial Finance No. 2 Plc which are fully deducted from capital and do not therefore give rise to risk-weighted exposures.

UK-SEC3 - Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as originator or as sponsor

At 31 March 2022		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q
		Exposure values (by RW bands/deductions)					Exposure values (by regulatory approach)				RWEA (by regulatory approach)				Capital charge after cap			
		≤20% RW	>20% to 50% RW	>50% to 100% RW	>100% to <1250% RW	1250% RW/ deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250%/ deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250%	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250%
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
1	**Total exposures**	**-**	**-**	**-**	**-**	**0.5**	**-**	**-**	**-**	**0.5**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2	Traditional transactions	**-**	**-**	**-**	**-**	**0.5**	**-**	**-**	**-**	**0.5**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
3	Securitisation	-	-	-	-	0.5	-	-	-	0.5	-	-	-	-	-	-	-	-
4	Retail underlying	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5	Of which STS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	Wholesale	-	-	-	-	0.5	-	-	-	0.5	-	-	-	-	-	-	-	-
7	Of which STS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	Re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Synthetic transactions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	Retail underlying	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	Wholesale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	Re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Table UK-SEC4 breaks down the Society's securitisation positions by regulatory approach and risk-weight band where it acts as investor.

UK-SEC4 - Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as investor

At 31 March 2022		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q
		Exposure values (by RW bands/deductions)					Exposure values (by regulatory approach)				RWEA (by regulatory approach)				Capital charge after cap			
		≤20% RW	>20% to 50% RW	>50% to 100% RW	>100% to <1250% RW	1250% RW/ deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250%/ deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250%	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250%
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
1	**Total exposures**	**58.6**	**-**	**-**	**-**	**-**	**-**	**58.6**	**-**	**-**	**-**	**5.9**	**-**	**-**	**-**	**0.5**	**-**	**-**
2	Traditional securitisation	**58.6**	**-**	**-**	**-**	**-**	**-**	**58.6**	**-**	**-**	**-**	**5.9**	**-**	**-**	**-**	**0.5**	**-**	**-**
3	Securitisation	58.6	-	-	-	-	-	58.6	-	-	-	5.9	-	-	-	0.5	-	-
4	Retail underlying	58.6	-	-	-	-	-	58.6	-	-	-	5.9	-	-	-	0.5	-	-
5	Of which STS	58.6	-	-	-	-	-	58.6	-	-	-	5.9	-	-	-	0.5	-	-
6	Wholesale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	Of which STS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	Re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Synthetic securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	Retail underlying	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	Wholesale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	Re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

For the Society's originated securitisations, table UK-SEC5 below provides information on the underlying asset pools showing outstanding balances and exposures in default, as determined under Article 178 of the CRR, at the year-end date, together with specific credit risk adjustments recognised during the year. In the case of the Kenrick No. 3 Plc securitisation, the figures below include the outstanding amounts and specific credit risk adjustments for all loans under the Originator Trust including the Society's retained 1% share.

UK-SEC5 - Exposures securitised by the institution - Exposures in default and specific credit risk adjustments

At 31 March 2022

		a	b	c
		Exposures securitised by the institution - Institution acts as originator or as sponsor		
		Total outstanding nominal amount		Total amount of specific credit risk adjustments made during the period
			Of which exposures in default	
		£m	£m	£m
1	**Total exposures**	**647.2**	**10.3**	**(1.2)**
2	Retail (total)	**637.2**	**7.2**	**(1.7)**
3	residential mortgage	637.2	7.2	(1.7)
4	credit card	-	-	-
5	other retail exposures	-	-	-
6	re-securitisation	-	-	-
7	Wholesale (total)	**10.0**	**3.1**	**0.5**
8	loans to corporates	-	-	-
9	commercial mortgage	10.0	3.1	0.5
10	lease and receivables	-	-	-
11	other wholesale	-	-	-
12	re-securitisation	-	-	-

Market risk

The information in this section is presented in accordance with table *UK MRA: Qualitative disclosure requirements related to market risk* and *UK OVA – Institution risk management approach.*

Market risk management objectives and policies

Market risk exposures are managed through the Treasury department which is responsible for managing exposure to all aspects of market risk within parameters set by the Board. The Assets and Liabilities Committee (ALCo) reviews the Treasury and Financial Risk Management Policy, recommending changes to the Board as appropriate, and ensures that regular reports on all aspects of market risk are assessed and reported to the Board.

The key market risk is interest rate risk, which arises as a result of differences in the timing of interest rate re-pricing of assets and liabilities. To mitigate this, Treasury uses natural balance sheet hedging (e.g. matching 2 year fixed rate mortgages with 2 year fixed rate saving bonds) and derivative instruments. The use of derivatives is only permitted in accordance with the provisions of the Building Societies Act 1986, which focus on their use to reduce risk. The maximum level of interest rate risk is governed by the Board approved Treasury and Financial Risk Management Policy in line with the Board's risk appetite.

The Board has delegated authority to ALCo for the management of balance sheet and structural risks. ALCo has further delegated responsibility for the operational management of hedging activity to the Hedging Committee (HC). Decisions taken by ALCo and the HC will influence the actions taken by other committees, most notably the Product Consideration Group (PCG), where the recommended mix of products, terms and conditions and volumes may be affected by desired changes in the structure of the balance sheet and ALCo's market view.

The Society uses third party risk management software to measure and report interest rate risk metrics. Further information on the reporting and measurement of interest rate risk is given in the Interest Rate Risk in the Banking Book (IRRBB) section of these Pillar 3 Disclosures.

Operational risk

The narrative information in this section is presented in accordance with table *UK ORA: Qualitative information on operational risk* and *UK OVA – Institution risk management approach.*

Operational risk management

Definition

The Society has applied a commonly used definition of operational risk - the risk of loss and/or negative impact to the Society resulting from inadequate or failed internal processes, systems or people or from external events.

Operational risk management framework

The Operational Risk Management Framework (ORMF) documents the Society's approach to operational risk management. It describes the framework within which operational risks are identified, measured, managed, monitored and reported to support the achievement of the Society's strategic objectives within the Board defined risk appetite. The ORMF is designed to enable the Society to comply with the regulatory requirements in respect of operational risk management.

The Society has determined an operational risk management strategy based on the following principles:

- A clearly articulated and Board approved operational risk appetite statement;
- An embedded and compliant operational risk management framework, underpinned by robust processes and tools;
- A three lines of defence model with clearly articulated responsibilities for the management of operational risk;
- Appropriate processes, systems and controls that support the effective management of operational risks across the Society;
- Effective second line review and challenge, supported by an appropriately skilled and resourced operational risk function; and
- Committee oversight within an appropriate governance structure.

To maintain an appropriate risk culture and supporting behaviors, the Society operates a three lines of defence model to clearly identify ownership and responsibility for risk management. Under this model, primary responsibility for the identification, assessment, control, monitoring and mitigation of operational risk lies with the business areas. The business function receives support and guidance from the Operational and Conduct Risk team, which collates regular output for review by executive management, the Operational, Conduct and Information Risk Group (OCIRG), the Executive Risk Committee (ERC), and the Risk Committee (RC). The Operational and Conduct Risk team also provides independent input and challenge to the business functions, both through the regular review of operational risks and day-to-day business initiatives. Oversight and risk governance is provided by the second line of defence through specialist support and control functions, and the Risk/Governance Committees, operating in accordance with the Society's policy infrastructure. As the third line, Internal Audit provides the Board (via the Audit Committee) with independent and objective assurance over the adequacy and effectiveness of control mechanisms in place to mitigate the Society's exposure to Operational Risk.

Operational risk measurements and control

Operational Risk is further classified into sub-categories (level 2 risks), each of which is overseen by a Divisional Director. Each level 2 risk has a documented strategy, updated annually, which sets out the approach to managing the risk. Each strategy is based on the following principles: there is a Board approved risk definition; there is a Three Lines of Defence Model, with clearly articulated responsibilities for the management of each risk; there are appropriate policies, processes, systems and controls throughout the Society; and finally, a defined governance structure. Second Line oversight is conducted in accordance with the plan agreed by the RC.

Key operational risks and their mitigants are detailed below:

Risk	Brief description	Risk measurements and control
Business Continuity and Disaster Recovery Risk	The risk of failure to adequately assess, document, test and invoke business continuity procedures to safeguard Group assets and personnel, and to adequately maintain or re-commence all essential business operations following a business continuity event.	Each business area has a Business Continuity Plan, reviewed every 6 months. There is a Crisis Management Plan in place with a defined Crisis Management Team. Dedicated resource within the First Line co-ordinates efforts across the business in the development and delivery of the Society's Operational Resilience Plan and Business Continuity and Disaster Recovery Risk Management Framework, important components against which to manage operational resiliency. Testing activities are undertaken according to the priorities agreed by the Operational Resilience Group; a first line committee chaired by the Group Finance and Operations Director.
Customer Operations Risk	The risk of financial and non-financial impacts resulting from inadequate or failures in customer facing/support processes.	Customer Operations Risks are most concentrated within the Operations function and the branch network, where activity is focussed on customer transactions, occurring by any means, primarily by post and email (Operations), telephone (Operations and branches) or in person (branches). The management and control of these risks is integral to the provision of service. First Line control activities are carried out locally (or by a specialist area outside the team).

Operational risk management (continued)

Risk	Brief description	Risk measurements and control
Product risk	The risk of financial and non-financial impacts resulting from the inadequate design and launch of new products and services and monitoring of Conduct Risk associated with the management of existing business.	Product Consideration Group is the First Line committee in the Product Governance Framework, which ensures that risks are mitigated and the Society delivers its obligation for the fair treatment of customers at the following stages: design and governance; identifying target markets; marketing and promotion; sales and advice processes; after-sales information and service; and complaints handling. Other controls include Product Design Risk Assessments and ongoing monitoring of third parties and monitoring of Conduct Risk associated with the management of existing business.
Financial Reporting Risk	Failure to interpret and comply with financial reporting and taxation requirements, including the misrepresentation of financial statements.	There is dedicated resource within the Finance department, which has systems and controls, governed by an overarching framework, in place for regulatory reporting.
Spreadsheet Risk	The risk of adverse consequences resulting from decisions based on errors in the design, implementation or operation of spreadsheets.	The Spreadsheet Risk Management Framework sets out the requirements with which all spreadsheets must comply, subject to categorisation on the basis of materiality and complexity. The level of, and area responsible for, required control testing and validation is determined from the spreadsheet categorisation.
Technology Risk	The risk of financial and non-financial impacts resulting from failures in the development, delivery, maintenance and continuity of effective IT systems.	There is dedicated IT resource to implement the development, delivery, maintenance and continuity of effective IT systems. Frameworks and policies are in place, against which compliance is assessed in the First Line.
People Risk	The risk associated with the ability to recruit, develop, motivate and retain the required number and quality of people. People risk includes failure to comply with employment related requirements and inappropriate or unauthorised employee activity.	The management of people-related risks is the responsibility of all managers, whilst the Human Resources department maintains oversight. On a day-to-day level, Human Resources provides advice and support to the business in relation to Recruitment and Selection, Employee Relations, Reward, Learning and Development approaches and Payroll and Administration in adherence to employment legislation and Society policies.
Legal & Regulatory Risk	The risk of regulatory censure, fines or legal action as a result of incorrect or inappropriate business conduct, e.g. failure to comply with legislative/regulatory requirements or Codes of Conduct.	Legal and Regulatory risk is managed by the Group Secretary. The Group has a small internal Legal team and selectively uses external firms where specific legal support is required. Legal and regulatory developments are monitored and scrutinised by the Team. In addition, the Society's contractual relations with consumers and businesses alike are reviewed, drafted and validated for the protection of the Society and its members.
Physical Assets, Safety and Security Risk	The risk that appropriate premises and other physical assets are not available to support business operational needs or do not conform to all relevant regulations, including Health and Safety requirements. It includes theft of/damage to the Society's assets and threats or actual harm to the Society's employees.	Central to managing this risk are the Health & Safety Policy, Information Security Policy and the Physical Security Policy. A dedicated Corporate Facilities department, managed within the Group Secretariat, provides specialist support to First Line areas. As well as the standard risk governance arrangements, additional oversight is provided by the Health & Safety Committee.
Supplier & Outsourcing Risk	The risk of adverse impacts arising from services with outsourced partners or third party suppliers. It includes inappropriate supplier selection and management processes and failure on the part of the supplier to deliver the agreed services and/or comply with relevant laws, codes and ethical behaviours.	All business areas are required to implement procedures and processes to ensure compliance with both the risk management strategy and the Supplier Selection and Management Policy. Controls are in place throughout all stages of procurement, including ongoing contract and supplier management.
Financial Crime Risk	Risk of financial and non-financial impacts arising from internal and external fraud, or from a failure to comply with financial crime legislation.	The Chief Compliance Officer retains overall responsibility and oversight of Financial Crime Risk as part of their Money Laundering Reporting Officer responsibilities. The Financial Crime Team Manager is responsible for the day to day running of the Financial Crime Team. The Group pays close attention to the source, likelihood and impact of Financial Crime. All staff are required to complete training to ensure an appropriate level of understanding, with particular regard to identifying and managing financial crime and its associated risks.
Change Risk	The risk of financial and non-financial impacts resulting from the inadequate design, management or implementation of change.	Controls are in place to ensure that change is delivered in a controlled manner, whether it be Business As Usual change (such as a process change without systems development); small process or organisational change, where operational and customer impact is low; or project change, where the risk and complexity demands a formal approach to change. For the latter, specific controls include an agreed project methodology and governance arrangements.
Model Risk	The risk of adverse consequences resulting from decisions based on models that are inaccurate, sub-optimal, incorrectly implemented, or misused.	The Model Risk Management Framework and Policy set out the requirements with which all Models must comply, subject to categorisation on the basis of materiality. Controls are in place throughout all stages such as independent validation, monitoring and periodic review. While MRC and Model Owners are responsible for ensuring that models are technically fit for purpose and suitable for the purposes for which they are to be used, responsibility for the strategy around the model lies with the relevant committee.

Operational risk management (continued)

Operational risk reporting

The Society's approved risk management database is the key tool for the recording and reporting of operational risk related data. The Operational and Conduct Risk team has formal responsibility for reporting on the Society's overall operational risk profile to the OCIRG on a monthly basis and periodically to the Executive Risk Committee/Risk Committee/Board as required. Reporting will include but is not limited to:

- A summary of operational risk events, including potential/actual losses and near miss events;
- Risk event analysis, highlighting trends, root causes and control weaknesses;
- Overdue and revised actions linked to risk events, risks and controls;
- The aggregate operational risk profile for the Society against Board defined risk appetite, including a review of accepted risks;
- Review of Key Indicators and out of appetite risk exposures;
- Periodic 'deep dives' on risk themes and Significant Control Issues and a review of the status of associated remediation plans; and
- Review of the adequacy of the Control Frameworks for each of the Level 2 operational risks, including dispensations from policy control requirements.

Operational risk appetite

Operational risk appetite enables the Board to exercise appropriate oversight and governance by defining the nature and level of operational risks it considers acceptable and unacceptable and thus set boundaries for business activities and behaviors within the Society. The Society defines its operational risk appetite using a combination of top-down and bottom-up approaches and a mixture of financial and non-financial measures, in order to best reflect the nature of operational risks. A risk appetite is applied at the Principal Risk level:

- Top-down risk appetite is primarily focused on operational risk losses and aggregate risk exposures; and
- Bottom up risk appetite utilises Key Indicators with clear and measurable limits and triggers to identify out of appetite risks and deteriorating control positions.

Operational risk policy

The Operational Risk and Control Assessment Policy is a core component of the Society's Operational Risk Management Framework and sets out the requirements for the identification and assessment of operational risks inherent in the Society's products, activities, processes and systems, and for the evaluation, monitoring and testing of control effectiveness. Oversight and governance arrangements for the setting and management of a robust operational risk management policy and framework are the responsibility of the Board and supported by the OCIRG.

Operational Resilience overview

Operational Resilience has visibility at Board level via regular quarterly reporting and the Self Assessment Report. There is also a risk framework for overall governance of Operational Resilience which applies to the Society as a whole. The focus of the quarterly Board update is the resilience of our Important Business Services and the underpinning enablers of those Services (people, premises, technology, data and third parties) to respond to any risk event that might materialise. The Self Assessment Report documents how the Society has met the operational resilience regulatory requirements in line with the initial deadline date of 31 March 2022. From this date we will now enter the 'transitional period' to 31 March 2025, where we will continue to enhance and develop our operational resilience approach.

There have been three core themes guiding our Operational Resilience capability development within the last financial year: firstly our ongoing response to COVID-19; secondly regulatory expectations of firms' capabilities; and thirdly, our normal Operational Resilience development plan:

- On the first point, COVID-19 has remained a focus throughout the financial year, as we moved through adapting and responding to the pandemic into a 'new normal' way of working. Having learned from the pandemic that the Society is able to adapt to homeworking the Society has adopted a Hybrid working model as a formal approach. The Society has maintained all Important Business Services within agreed tolerances; we have been able to support members in line with our fundamental principles: to offer people the opportunity to buy their own homes and to save for the future. We have also enhanced our focus on Cyber to ensure the safety and security of our members.
- On the second point, in March 2021 both the FCA and the PRA issued their policy statements (PS21/3 and PS6/21 respectively). The Operational Resilience rules came into force on 31 March 2022. By then, the Society had: identified its important business services; set impact tolerances for the maximum tolerable disruption; and, carried out initial mapping and testing. As soon as possible after 31 March 2022 and no later than 31 March 2025 the Society needs to have performed mapping and testing within tolerances for each important business service, and be able to operate within the impact tolerances set. The Society has achieved the initial milestones set and adopted the principles and approach outlined by the regulatory authorities. Work will now focus on enhancing and developing these e.g. continuation of testing, to ensure we are well placed to respond to the rules and guidance within the policy statements.
- On the third point, the Society has continued to invest in Operational Resilience capabilities, further strengthening its recovery capabilities within our IT systems should a risk event occur, continuing to review and refine processes, and overall continuing to strengthen the Society's capabilities to mitigate a potential risk event without the need to adopt formal recovery processes. This has been evidenced through the COVID-19 response as we initially implemented remote working which has now been formally adopted into a Hybrid working model. This has enabled the Society to support the Important Business Services via a combination of colleagues working in the office and from home.

Ensuring we are safe and secure for our members is a core principle for the Society and we have continued to adapt and respond to ongoing and emerging threats, with a focus especially on Cyber. Through recent Cyber threats e.g. Log4J, Solarwinds, Akamai and Russia/Ukraine, the Society has checked and tested throughout the last period the resilience of both critical third parties and our own capabilities to provide assurance.

Operational risk own funds requirements

The Society has adopted The Standardised Approach for the calculation of its Operational Risk Capital Requirement (ORCR), which establishes the Society's minimum Pillar 1 capital requirement for operational risk. This is calculated from the average of the last three years' income, with the income allocated to defined business lines being subject to a prescribed regulatory multiplier. As a mutual lender, the Society's ORCR is primarily derived from retail banking activities.

In order to ensure that the Society's ORCR is suitable for extreme events, management assesses its suitability through the development of a series of stress test scenarios used to estimate the impacts of extreme but plausible low frequency, high impact loss events. These are considered in isolation and in combination to develop a range of potential impacts. The outputs of the scenarios are then used to inform management whether further capital requirements are required for operational risk, in addition to the ORCR.

UK OR1 - Operational risk own funds requirements and risk-weighted exposure amounts

At 31 March 2022

		a	b	c	d	e
		Relevant indicator			Own funds requirements	Risk weighted exposure amount
		Year-3	Year-2	Last year		
	Banking activities	£m	£m	£m	£m	£m
1	Banking activities subject to basic indicator approach (BIA)	-	-	-	-	-
2	Banking activities subject to standardised (TSA) / alternative standardised (ASA) approaches	57.8	66.8	78.3	8.1	101.5
3	*Subject to TSA:*	57.8	66.8	78.3		
4	*Subject to ASA:*	-	-	-		
5	Banking activities subject to advanced measurement approaches AMA	-	-	-	-	-

Interest rate risk in the banking book (IRRBB)

IRRBB risk management objectives and policies

The narrative information in this section is presented in accordance with table *UK IRRBBA - IRRBB risk management objectives and policies* and *UK OVA – Institution risk management approach.*

Overview

The Society defines IRRBB as the risk that the structure and interest rate characteristics of its assets and liabilities give rise to interest rate exposures that threaten its business model or compromise its current or future viability. Measurement is through Net Interest Income (NII) and Market Value (MV) Risk/Economic Value of Equity (EVE) measures, as well as interest rate gap measurement and control.

The Board wishes to minimise earnings volatility and considers that the most effective way of achieving this is to construct a portfolio of interest bearing assets that are notionally matched against capital. Thus two distinct portfolios have been created for risk management purposes - the core business assets portfolio (the 'Core Portfolio') and the reserves and regulatory capital portfolio (the 'Capital Portfolio').

The Core Portfolio comprises assets, liabilities and derivatives that are subject to the normal business risks taken in the day-to-day management of the Society. The Core Portfolio should exhibit a low net interest income (NII) and economic value (EV) risk exposure whilst generating a stable and acceptable level of return. These core business interest rate risks are actively managed by Treasury within operational guidelines laid down by ALCo, which itself is bound by the Board approved limits.

In recognition of the safe investment of capital, the Board has set specific limits and an appropriate reporting structure for the Capital Portfolio. The Board has delegated responsibility to ALCo for the management of the Capital Portfolio earnings and market value risk within these boundaries, which are distinct from those set for the Core Portfolio.

Hedging activity is undertaken specifically for the purposes of reducing the risk of loss arising from key interest rate risks. Consequently, derivatives contracts are allocated to each portfolio and designated to exposures in accordance with their hedge purpose.

Risk measures and frequency of assessment

The impact of the combined Core and Capital Portfolio exposures on current and next year's budgeted pre-tax profits is limited to reduce the impact of interest rates on volatility of reported earnings.

The adverse market value sensitivity of the Core Portfolio to parallel upward and downward shifts in interest rates (subject to Yield Curve floors) is limited to control the impact of interest rates on the economic value of the Society.

The Core Portfolio reverse cumulative net assets, liabilities and off-balance sheet instruments repricing in any one time bucket is limited to ensure that interest rate risk is not unduly concentrated in any one period.

The Board has set a lower bound upon the weighted average modified duration for assets in the Capital Portfolio to ensure stability of income over the medium term. An upper bound also applies so as to avoid undue market value risk exposure of capital portfolio investments. To ensure the portfolio is not overly invested in one point of the yield curve, concentration limits apply to fixed rate asset exposures in the portfolio.

All risk measures are assessed at least monthly.

Interest rate shock and stress scenarios

In addition to the prescribed stresses, the Society calculates MV sensitivity to +/-200bps yield curve shifts (subject to applicable floors), and NII sensitivity to a range of parallel rate shocks up to +/-250bps (both unfloored and subject to assumed floors for Bank Rate). The sensitivities to a variety of non-parallel yield curve shifts and rate shocks are also assessed.

Key modelling assumptions for Pillar 3 Disclosures

The following information is relevant to the quantitative information shown in table UK IRRBB1 below.

In line with regulatory requirements and best practice, the impact of a parallel shift in interest rates in both directions, is considered. Loan prepayment and fixed rate savings early withdrawal assumptions are applied, and flexed depending on the rate scenario. Non-maturity retail deposits are allocated to the shortest time bucket for reporting purposes, however behavioural sensitivities are also calculated for the risk exposure from this source of funding. In addition, the impact of alternative non-parallel scenarios upon income and market value is also considered.

For ΔNII, the parallel shift is assumed to apply to all floating rates (market rates and those administered by the Society). Only contractual floors are applied to assets or liabilities where applicable - savings rates are not assumed to floor at zero, with the margin compression risk associated with rate falls (including negative rates) and savings margin compression from the zero floor captured elsewhere in the Society's risk management framework.

Key modelling assumptions for internal measurement of IRRBB

In addition to the prescribed stresses and the additional rate/yield curve shock stresses noted above, the Society also calculates ΔNII to negative rate shocks subject to assumed zero pay rate floors for savings products. Although not subject to Board limits, additional Pillar 2 capital is held against these exposures as and when appropriate.

Hedging of IRRBB

The Society uses natural balance sheet hedging where possible (e.g. matching 2 year fixed rate mortgages with 2 year fixed rate saving bonds) and derivative instruments.

The fixed rate residential mortgage book and associated derivatives are currently hedge accounted using the macro portfolio hedging methodology within the dedicated ALM risk system. Individual fixed rate commercial loans and associated swaps are hedge accounted on a micro hedge basis. The derivative hedge effectiveness is reviewed monthly. Where changes in the underlying nature of assets and liabilities arise, for example, due to mortgage prepayments or investment withdrawals, hedges will be re-allocated or terminated. Equal and offsetting hedges may be cancelled if this improves the overall hedge efficiency of the portfolio.

IRRBB risk management objectives and policies (continued)

Quantitative information on IRRBB

At 31 March 2022, the average repricing maturity assigned to non-maturing capital is 2.88 years and the longest repricing maturity assigned is 10.25 years. The Society does not apply repricing duration assumptions to interest bearing non-maturing deposits (NMDs) such as variable rate retail savings, with these being allocated to the shortest overnight time bucket for IRRBB modelling purposes.

Table UK IRRBB1 below indicates the impact on the Society's economic value of equity and net interest income from interest rate changes, as at 31 March 2022 and 31 March 2021, under the six standard scenarios defined in the PRA Rulebook. The larger EVE and NII sensitivities to the upwards shock scenarios at 31 March 2021 are due to the Society's positioning of the balance sheet, at that date, to protect against the risk of negative rates (and ensuing margin compression risk based on an assumed floor of 0% for the retail savings book). The greater NII sensitivity to the downward shift at 31 March 2021 was also due to the prevailing low rate environment meaning that contractual floors on mortgages had a larger positive impact on the measure.

UK IRRBB1 - Quantitative information on IRRBB

At 31 March

		a	b	c	d	e	f
	In £m	**ΔEVE**		**ΔNII**		**Tier 1 capital**	
	Period	**2022**	2021	**2022**	2021	**2022**	2021
010	Parallel shock up	**(16.4)**	(29.0)	**1.1**	(7.8)		
020	Parallel shock down	**17.7**	11.5	**5.8**	25.4		
030	Steepener shock	**1.6**	9.0				
040	Flattener shock	**(4.6)**	(14.5)				
050	Short rates shock up	**(9.5)**	(22.4)				
060	Short rates shock down	**9.9**	13.4				
070	**Maximum**	**17.7**	(29.0)	**5.8**	25.4		
080	**Tier 1 capital**					**390.4**	395.1

Liquidity and funding risk

Liquidity and funding risk overview

The narrative information in this section is presented in accordance with table *UK LIQA – Liquidity risk management and UK OVA – Institution risk management approach.*

Overview

The Society maintains varied strategies and processes for managing liquidity and funding risk. These include concentration limits on the sources of funding e.g. minimum retail funding proportion, maximum funding by wholesale counterparty type, instrument type, single largest counterparty funding exposure etc. There are also limits of the concentration of funding (by tenor/maturity), assessed over periods of 1 month, 3 months and 12 months.

Liquidity risk management function

The Society has a strong and effective risk management culture and has implemented a robust Liquidity Risk governance led by the Board and monitored independently by the Risk Committee (RC). In addition to RC and Board, the formal Liquidity Risk Governance structure also incorporates the Executive Risk Committee (ERC), and the Assets and Liabilities Committee (ALCo). ALCo has delegated mandates on liquidity planning and liquid asset investments to the Liquidity Management Committee (LMC) and Investment Committee (InvCo).

The liquidity risk management function is managed using 3 key lines of defence. Treasury Front Office comprise the first line risk management function. The second line is composed of Treasury ALM (framework), Treasury Middle Office (oversight) and ALM Second Line Risk (review and challenge) together with the governance committees (LMC, ALCo, ERC/RC, Board). Third line risk assurance is provided by Internal/External Audit and the Audit Committee (AC).

The Society's liquidity portfolio is held and managed centrally by the Treasury function.

Liquidity risk reporting and measurement systems

Due to the institution-specific nature of the Society's retail savings book and the bespoke nature of the liquidity stress testing assumptions, no 'off the shelf' models are available which can be used to fulfil our desired stress testing criteria. Data feeds for the stress testing model are produced by code within the Society's data warehouse with appropriately controlled in-house solutions used to calculate the liquidity requirements.

Liquidity risk mitigation

The Society has a range of policies for mitigating liquidity risk. These include requirements on minimum liquid asset holdings (balance and mix), a Board determined minimum balance to be held on call with the central bank, early warning indicators to flag a potential or unfolding stress, and maintaining access to central bank funding facilities - both 'business as usual' and emergency - via pre-positioning of eligible assets under the Sterling Monetary Framework (SMF).

The effectiveness of risk management policies is confirmed through the annual review of the Treasury and Financial Risk Management Policy, and the annual ILAAP update and Board sign-off process, including third line assurance where appropriate.

Contingency funding plans

The Recovery Plan (RP) - incorporating the Contingency Funding Plan (CFP) - explains the Liquidity Risk monitoring processes used to identify a stress and describes how a period of unexpected outflows may lead to the Crisis Management Team (CMT) being convened. It also outlines the key management actions that would be taken to strengthen the liquidity position in such an event. Within the RP, roles and responsibilities are clearly defined together with the trigger events, in terms of deterioration of Board-approved liquidity risk indicators, which would result in invocation of the CFP.

Stress testing

In accordance with the Society's Liquidity Risk Tolerance, and in keeping with the Liquidity Coverage Ratio (LCR) framework, the Society's stress testing framework primarily assesses liquidity adequacy over a 30 day stress horizon, with the survival of a more severe 14 day stress also incorporated within this framework. These stress tests are further supplemented with a more prolonged stress survival day metric, where outflows are assumed to remain elevated for up to three months.

Stress testing is further supported by reverse stress testing (RST). The starting point for RST from the perspective of liquidity risk management is to determine one or more outcomes where due to loss of confidence in the Society, it is inevitable that the point will be reached where it can no longer carry out its activities. The value of RST arises from going through the process itself, considering idiosyncratic risks other than those similar to straightforward 'run on funds' type scenarios, identifying early warning signs, informing future risk management decisions, and determining appropriate actions to be considered in the event of a stress.

Declaration on the adequacy of liquidity risk management arrangements

The ILAAP is the key document in establishing that the Society has a robust policy framework in place to manage liquidity and funding risks which may arise. The Society's ILAAP is approved by the Board on an annual basis and demonstrates compliance with PRA Rulebook liquidity sections, including meeting the Overall Liquidity Adequacy Rule (OLAR). The ILAAP demonstrates that the Society's liquidity stress testing is robust in terms of the liquidity management processes in place (qualitative), and that the Society's liquidity stress testing and liquidity holdings are sufficiently prudent (quantitative).

Liquidity and funding risk overview (continued)

Concise liquidity risk statement

The Society will maintain a sufficient surplus of liquid assets over its LCR and 30 day ILAAP requirement to meet its obligations in the event of severe but plausible stress events.

In addition to the above key liquidity risk statement, the Society also a) has in place a Contingency Funding Plan detailing the potential liquidity raising management actions which may be taken in the event of a liquidity stress, assessing their likely effectiveness, time to implement, and cost and other implications b) will hold sufficient readily realisable high quality liquidity (those with zero risk weighting and zero regulatory haircut, with some benefit also given to Covered Bond assets held) to cover the first 14 days of a severe but plausible liquidity stress, c) ensure it holds total liquidity, which after allowing for the effect of management actions which are considered highly probable as to timing and effect, allow for survivability up to a minimum of 90 days, and d) ensure it holds liquidity such that even under a severe stress, after allowing for the effect of management action, the Liquidity Coverage Ratio would not be expected to fall below the threshold likely to result in failure or enforced resolution.

Additional tolerances are also in place on concentrations of sources and maturity/refinance of funding, asset encumbrance, off-balance sheet exposures, cashflow mismatch risk and investment limits by instrument/counterparty/tenor (not an exhaustive list of the Society's liquidity risk tolerance and management approach).

Liquidity coverage ratio (LCR)

The narrative which follows is disclosed in accordance with table *UK LIQB on qualitative information on LCR, which complements template UK LIQ1*.

The LCR is a measure which aims to ensure that an entity maintains an adequate level of liquidity to meet its needs for a 30 day period under severe stress conditions, thereby promoting resilience in the short-term. It is calculated as the ratio of a firm's high quality liquid assets (HQLA) to its net cash outflows over the next 30 days under a stress scenario.

During the year the Society maintained its LCR in excess of regulatory and internal limits. Whilst net cash outflows remained broadly consistent, HQLA increased as the Society made drawings under the Bank of England's Term Funding Scheme with additional incentives for SMEs (TFSME) which provides low cost term funding for lending institutions. This meant that its 12 month average LCR increased from 177.2% at 31 March 2021 to 230.8% at 31 March 2022.

Funding sources

The Society's primary purpose is to make loans secured by way of mortgage on residential property. It funds these loans substantially from short-term deposits provided by its saving members. The contractual maturity of the mortgages is typically up to 25 years although loans are often repaid early due to borrowers moving house or remortgaging. Savers' deposits, whilst predominantly accessible on demand, at short notice or for fixed periods, nevertheless tend to remain with the Society for longer periods. A substantial proportion of savers have long-established relationships with the Society. At 31 March 2022, retail savings balances made up 74.9%, (2021: 80.0%) of total funding with the remainder being wholesale funding including TFSME drawings. Accessing the wholesale markets can reduce the overall cost of funding and mitigate risk by diversifying the funding pool.

Liquidity buffer

This difference in the nature of borrowers' and savers' relationships with long-term assets funded by short-term, mostly instant access accounts, results in a structural mismatch which can put pressure on resources. To mitigate this risk, the Society holds sufficient liquid resources to meet the normal day-to-day operations of the business and, in addition, maintains a buffer of high quality liquid assets which can be converted quickly into cash to cover outflows in severely stressed conditions. Processes are in place to ensure that the quantity, quality and availability of these liquid resources are adequate at all times. The majority of the Society's liquidity buffer is made up of balances with the Bank of England, with the Society also holding eligible securities issued by Supranational Sovereign Agencies, plus liquid assets secured on UK residential property (Covered Bonds and Mortgage Backed Securities) subject to relevant haircuts.

Derivative exposures

The LCR calculation includes contractual cash flows on derivative contracts. Outflows are also recognised for the posting of additional collateral in an adverse market scenario, with the amount determined via a 24 month historical lookback approach.

Other information

The Society only transacts in pounds sterling and, as such, is not exposed to any currency mismatch in its LCR calculations.

Within Table UK LIQ1 below, the values presented for each quarter-end date represent a simple average of month-end observations over the 12 months preceding the end of each quarter.

UK LIQ1 - Quantitative information of LCR

		a	b	c	d	e	f	g	h
		Total unweighted value (average) £m				Total weighted value (average) £m			
UK 1a	Quarter ending on:	31 March 2022	31 December 2021	30 September 2021	30 June 2021	31 March 2022	31 December 2021	30 September 2021	30 June 2021
UK 1b	Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
High-Quality Liquid Assets									
1	Total high-quality liquid assets (HQLA)					729.7	666.3	620.0	578.8
Cash - Outflows									
2	Retail deposits and deposits from small business customers, of which:	4,243.0	4,239.0	4,165.8	4,032.7	236.4	238.1	237.8	234.6
3	Stable deposits	3,166.7	3,103.5	2,912.2	2,715.7	158.3	155.2	145.6	135.8
4	Less stable deposits	694.2	767.1	897.1	968.7	77.3	82.2	91.6	98.3
5	Unsecured wholesale funding	39.2	38.8	38.2	38.1	18.0	17.8	17.3	17.1
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-	-	-	-	-	-	-
7	Non-operational deposits (all counterparties)	38.9	38.5	37.9	38.0	17.7	17.5	17.0	17.0
8	Unsecured debt	0.3	0.3	0.3	0.1	0.3	0.3	0.3	0.1
9	Secured wholesale funding					-	-	-	-
10	Additional requirements	19.6	18.0	17.0	17.3	16.4	16.3	16.2	16.3
11	Outflows related to derivative exposures and other collateral requirements	19.6	18.0	17.0	17.3	16.4	16.3	16.2	16.3
12	Outflows related to loss of funding on debt products	-	-	-	-	-	-	-	-
13	Credit and liquidity facilities	-	-	-	-	-	-	-	-
14	Other contractual funding obligations	4.7	5.7	6.4	6.8	-	-	1.1	1.1
15	Other contingent funding obligations	204.3	225.0	251.7	253.3	68.5	72.5	78.6	77.4
16	Total Cash Outflows					339.3	344.7	351.0	346.5
Cash - Inflows									
17	Secured lending (e.g. reverse repos)	-	-	-	-	-	-	-	-
18	Inflows from fully performing exposures	27.7	27.5	25.5	24.0	20.2	20.4	18.8	17.3
19	Other cash inflows	0.9	0.8	0.9	1.1	0.8	0.7	0.8	1.0
UK-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					-	-	-	-
UK-19b	(Excess inflows from a related specialised credit institution)					-	-	-	-
20	Total Cash Inflows	28.6	28.3	26.4	25.1	21.0	21.1	19.6	18.3
UK-20a	Fully exempt inflows	-	-	-	-	-	-	-	-
UK-20b	Inflows subject to 90% cap	-	-	-	-	-	-	-	-
UK-20c	Inflows subject to 75% cap	28.6	28.3	26.4	25.1	21.0	21.1	19.6	18.3
Total Adjusted Value									
UK-21	Liquidity Buffer					729.7	666.3	620.0	578.8
22	Total Net Cash Outflows					318.3	323.6	331.4	328.2
23	Liquidity Coverage Ratio					230.8%	206.5%	187.2%	176.0%

Net Stable Funding Ratio (NSFR)

The Net Stable Funding Ratio (NSFR) is a long-term stable funding metric, which measures the stability of our funding sources relative to the assets (mortgage balances) we are required to fund.

The increase in Bank of England TFSME funding, described in the LCR section above, resulted in an increase in the amount of available stable funding within the NSFR calculation such that the metric increased from 140% to 147% year on year significantly in excess of internal limits and regulatory expectations for this metric. Future annual Pillar 3 Disclosures will be required to include table *UK LIQ2 - Net Stable Funding Ratio* which presents components of the NSFR calculation. The PRA is consulting on amendments to the disclosure instructions which clarify the reporting basis as a simple average of four quarter-end observations.

Other risks

This section sets out the other risks faced by the business above and beyond the Pillar 1 risks set out in the previous sections and supplements table *UK OVA – Institution risk management approach.*

Information risk

The risk that customer or Society information assets are managed or processed incorrectly or are not adequately protected. It includes inadequate data quality and failure to comply with data protection and data privacy requirements.

Understanding and managing information risk is imperative to the successful achievement of the Society's business objectives.

Effective policies, procedures and processes complemented by technological defences and detection tools, provide for successful information risk management.

To this end the Society has determined a risk management strategy based on the following principles:

- A clearly articulated and Board approved Information Risk Appetite Statement;
- A clearly articulated and Board approved information risk definition;
- An embedded and compliant Information Risk Management Framework, underpinned by robust processes and tools;
- An annual review of Cyber security;
- A Three Lines of Defence model with clearly articulated responsibilities for the management of information risk;
- Appropriate processes, systems and controls that support the effective management of information risks across the Society;
- Committee oversight within an appropriate governance structure; and
- An appropriate member of the senior management team with overall accountability for information risk management.

The Society's Operational, Conduct & Information Risk Group (OCIRG) is in place to maintain oversight and governance of information risk across the Society and challenge the effectiveness of the controls in place to mitigate information risk (including cyber security) across the Society. Its purpose is to support and drive the information risk governance agenda and provide the Society with the assurance that effective information governance best practice mechanisms are in place within the Society.

Pension liability risk

The risk that there will be a shortfall in the value of the Society's pension fund assets over and above the guaranteed liability to its employees under the defined benefit pension scheme. This may result from a number of sources including investment strategy, investment performance, market factors and mortality rates. The Staff Retirement Scheme ('the Scheme') is also exposed to possible changes in pension legislation.

The Society has funding obligations for a defined benefit scheme, the Scheme, which is closed to new members and no longer accruing service benefits.

To mitigate these risks, management, together with the Trustees of the Scheme, regularly reviews reports prepared by the Scheme's independent actuaries to assess these risks and take appropriate actions which may, for example, include adjusting the investment strategy or contribution levels to address any funding deficit.

Due to the ownership of pension liability risk lying with the independent Trustee Board, the Society's Internal Audit function's scope with respect to this risk is limited to a periodic review of the Pension Liability Risk Management Framework.

Business risk

The risk of the Society failing to meet its business objectives through: the inappropriate selection or implementation of strategic plans; inadequate assessment and mitigation of climate change related risks; and/or failure to implement a diverse and inclusive culture.

This is the risk to the Society arising from changes in its business, including the risk that it may not be able to carry out its business plan and its desired strategy or both. This may be due to changes in the competitive environment or events which damage the operating economies of the Society (e.g. competitor activity, changes in regulation or taxation).

The Society regularly models the impact of a range of scenarios on the business plans, with a view to identifying mitigating actions.

Retail conduct risk

The risk that inappropriate behaviours by the Society result in adverse outcomes for retail consumers.

Retail conduct risk (conduct risk) is deemed so important that the FCA was created to increase the regulatory focus on it. This is intended to go beyond the previous focus on compliance with rules, on process and on treating customers fairly, to embrace a holistic approach of how a firm organises itself and does business in order to ensure good customer outcomes.

The management of conduct risk is a key component in the successful delivery of the Society's strategy, objectives and protection of its members and customers.

The primary risk mitigants for conduct risk are the suite of policies and policy standards and the existence of appropriate controls in place throughout the business. The Conduct Risk Management Framework sets out the minimum requirements for the effective management of Conduct Risk to ensure that the Society's overall exposure remains within the Board's approved risk appetite. The Society also mitigates Conduct Risk through the early identification, appropriate assessment, measurement and reporting of risks.

Retail conduct risk (continued)

To this end, the Society has determined a risk management strategy based on the following principles:

- A clearly articulated and Board approved Conduct Risk Appetite Statement;
- An embedded and compliant Conduct Risk Management Framework;
- A Three Lines of Defence model with clearly articulated responsibilities for the management of conduct risk;
- Appropriate business processes, a centralised risk management system used by business areas to manage their risks and controls to support the effective management of conduct risk across the Society; and
- Committee oversight within an appropriate governance structure, in particular the OCIRG. This Committee is chaired by the Chief Risk Officer and is responsible for the oversight of the management of operational and retail conduct risks arising from the Society's business activities.

Model risk

The risk of adverse consequences resulting from decisions based on models that are inaccurate, sub-optimal, incorrectly implemented, or misused.

Increasingly, across the sector, models are developed to assess, control and monitor risk more effectively, consistently and accurately. As businesses place more reliance upon the outputs of such models, particularly in reporting and decision-making processes, it becomes increasingly important that an effective framework is in place to manage the model risk.

Over the course of the year the Board determined, now that the Society is no longer pursuing an Internal Ratings Based application, it was no longer appropriate to consider Model risk as a Board Principal Risk. As a consequence Model risk is now recognised as a sub-risk of Operational risk. All governance arrangements remain unchanged.

A process of governance, overseen through the Model Risk Committee, chaired by the Chief Risk Officer, is in place and is applicable throughout the model life cycle, from initiation, through development, approval, implementation to ongoing monitoring and validation. The Society's approach to model risk management is self-assessed as fully compliant with applicable regulation.

Climate change risk

The Society is at risk of future financial losses due to the potential impact of physical and transition risks on its exposure due to climate change. It has therefore been designated a strategic risk for the Society.

The Society has been enhancing and embedding its capabilities to monitor and manage climate risk and meet the requirements of the PRA Supervisory Statement 3/19 – Enhancing banks' and insurers' approaches to managing the financial risks from climate change. The following information represents the Society's approach to Governance, Strategy, Risk Management, and Metrics & Targets in respect to climate change risk.

Governance

The Risk Committee, as delegated by the Board, has responsibility for the oversight of climate change risk. The risks from climate change, and progress towards identifying and managing them, are presented to the Risk Committee (RC) on a regular basis. RC is responsible for setting the overall risk appetite, having ultimate approval of risk management actions, oversight of climate risk Management Information (MI) and metrics and approval of the Climate Change Risk Management Framework. The CRO has been designated as the Senior Management Function responsible for leading the Society's response to mitigating the financial risks from climate change.

Risk management

A separate Climate Change Risk Management Framework (CCRMF) has been created to capture and formalise the Society's approach to climate change risk. The CCRMF articulates how the Society identifies, measures, manages and monitors the financial risks from climate change.

A risk appetite statement has also been defined for the financial risk from climate change which was approved by RC. Climate change was not considered a Board Principal Risk due to the modest losses resulting from future flood and subsidence risk. It was determined that it should be a sub-risk under Business Risk, whilst still retaining full Board oversight. In support of this appetite, MI and metrics will be presented to the Board so that the Society's exposure to physical and transition risk can be tracked.

Furthermore, mitigation of climate change has been designated as a corporate objective, which means all staff have a responsibility, so far as they can within their respective roles, for mitigating the effects of climate change.

Scenario analysis

The Society has undertaken modelling of physical climate change risk, with an initial concentration on future flood and subsidence risk.

The Society's simple business model, of savings deposits funding residential lending is resilient to the financial risk from climate change. The outputs of the Society's physical risk model show very modest losses resulting from future flood and subsidence risk under three climate scenarios. The lower scenario (Representative Concentration Pathway (RCP) 2.6) corresponds to a global temperature rise of <2° by 2100; the higher scenario (RCP 8.5) corresponds to a global temperature rise of >3.7° by 2100. The third represents a middle path between RCP 2.6 and 8.5. The Society will continue to monitor the outputs of the model and will consider mitigating actions if future losses increase to material levels.

With regard to transition risk, the Society has matched each of our mortgaged properties in England and Wales to its publicly available EPC rating, where data is available. EPC ratings for our UK mortgage portfolio are monitored to provide an overall view of the energy efficiency (and potential emissions) of our mortgaged properties. Using the data we were able to calculate that the average rating of our property portfolio was D, which is in line with the market average. Scenario testing will be developed in the future to project forward potential scenarios, including whether tightening government regulation around the energy efficiency required for letting properties.

Climate change risk (continued)

Disclosure

The Society treats risks from climate change like other financial risks, rather than a corporate social responsibility issue and is aware of increasing demands for climate change disclosures from governments, investors, regulators and the wider public. The Society is aware of the Task Force on Climate-related Financial Disclosures recommendations on the reporting of climate change risks. Some disclosures are included within the Risk Management Report on pages 36 to 49 and the Strategic Report on pages 8 to 35 of the 2022 Annual Report and Accounts, and we will disclose further information in a proportional manner in the future. The Society has endeavored to reduce its carbon footprint where possible and has set its carbon intensity metrics, including target date to achieve carbon neutrality on pages 46 to 47 of the Annual Report and Accounts.

Asset encumbrance

Asset encumbrance overview

The narrative below is disclosed in accordance with table *UK AE4 – Accompanying narrative information*.

Asset encumbrance occurs where assets are pledged to provide security, collateralisation or credit enhancement to a financial transaction and are therefore no longer available for general use.

The asset encumbrance disclosures in templates UK AE1, UK AE2 and UK AE3 below are presented in accordance with regulatory requirements showing median values of quarterly data over the previous 12 months. The figures are therefore not directly comparable with the asset encumbrance disclosures in the 2022 Annual Report and Accounts which reflect balances at the end of the financial year and also include securitised commercial loans outside of the scope of regulatory consolidation.

Asset encumbrance ratios remained broadly consistent year on year. In the context of a robust liquidity management framework and funding strategy, the Society's encumbrance levels are considered appropriate for the size and nature of operations and are monitored in accordance with the Board's risk appetite. The most material sources of encumbrance for the Society are the pledging of mortgage assets and retained mortgage backed securities, issued by Group structured entities, as collateral for wholesale funding initiatives, including Bank of England funding schemes and sale and repurchase (repo) transactions. Asset encumbrance follows the contractual requirements of these funding programmes and a degree of over-collateralisation may be deemed appropriate. All of the Society's encumbrance is denominated in its reporting currency of pounds sterling.

Asset encumbrance also arises due to the collateralisation of derivatives liabilities and investment securities under the CSA and GMRA arrangements described in the previous 'Credit risk mitigation techniques' section. The Society also treats certain assets as encumbered even though there are no associated liabilities. An example of this would be certain loans and advances to credit institutions held within the Society's securitisation programmes as these are not available for use in the Society's day-to-day operations.

The Society holds all of the loan notes, with an outstanding principal value of £453m, issued by structured entity Hawthorn Finance Limited. As the retained notes were not utilised for funding purposes at 31 March 2022, the underlying assets held by the structured entities were unencumbered at this date. The Society holds £33m of the Class B notes issued by Kenrick No. 3 Plc with the remaining £171m of Class A notes held by external investors. All of the underlying assets held by Kenrick No. 3 Plc are treated as encumbered in table UK AE1 below.

Within table UK AE1, the majority of unencumbered assets are in the form of mortgages and Treasury assets providing additional funding capacity. A small proportion of unencumbered assets comprises items on the Group balance sheet which are not considered available for encumbrance such as intangible fixed assets, property, plant and equipment, derivatives and deferred tax.

Template UK AE1 - Encumbered and unencumbered assets

At 31 March 2022

		Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
			of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
		£m	£m	£m	£m	£m	£m	£m	£m
		010	030	040	050	060	080	090	100
010	**Assets of the reporting institution**	**1,625.2**	**14.5**			**4,420.8**	**819.7**		
030	Equity instruments	-	-	-	-	-	-	-	-
040	Debt securities	-	-	-	-	291.2	279.2	291.2	279.2
050	of which: covered bonds	-	-	-	-	124.4	124.4	124.4	124.4
060	of which: securitisations	-	-	-	-	60.6	60.0	60.6	60.0
070	of which: issued by general governments	-	-	-	-	-	-	-	-
080	of which: issued by financial corporations	-	-	-	-	291.2	279.2	291.2	279.2
090	of which: issued by non-financial corporations	-	-	-	-	-	-	-	-
120	Other assets	1,625.2	14.5			4,139.1	540.6		

At 31 March 2021

		Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
			of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
		£m	£m	£m	£m	£m	£m	£m	£m
		010	030	040	050	060	080	090	100
010	Assets of the reporting institution	1,588.3	11.7			4,064.0	559.2		
030	Equity instruments	-	-	-	-	-	-	-	-
040	Debt securities	-	-	-	-	263.2	259.0	263.2	259.0
050	of which: covered bonds	-	-	-	-	120.0	120.0	120.0	120.0
060	of which: securitisations	-	-	-	-	71.2	68.0	71.2	68.0
070	of which: issued by general governments	-	-	-	-	-	-	-	-
080	of which: issued by financial corporations	-	-	-	-	263.2	259.0	263.2	259.0
090	of which: issued by non-financial corporations	-	-	-	-	-	-	-	-
120	Other assets	1,588.3	11.7			3,804.0	294.0		

UK AE2 - Collateral received and own debt securities issued

At 31 March 2022

		Fair value of encumbered collateral received or own debt securities issued		Unencumbered	
			of which notionally eligible EHQLA and HQLA	Fair value of collateral received or own debt securities issued available for encumbrance	of which EHQLA and HQLA
		£m	£m	£m	£m
		010	030	040	060
130	**Collateral received by the reporting institution**	3.1	-	-	-
140	Loans on demand	3.1	-	-	-
150	Equity instruments	-	-	-	-
160	Debt securities	-	-	-	-
170	of which: covered bonds	-	-	-	-
180	of which: securitisations	-	-	-	-
190	of which: issued by general governments	-	-	-	-
200	of which: issued by financial corporations	-	-	-	-
210	of which: issued by non-financial corporations	-	-	-	-
220	Loans and advances other than loans on demand	-	-	-	-
230	Other collateral received	-	-	-	-
240	**Own debt securities issued other than own covered bonds or securitisations**	-	-	-	-
241	**Own covered bonds and securitisation issued and not yet pledged**			197.0	-
250	**Total Assets, Collateral Received And Own Debt Securities Issued**	1,645.9	-		

UK AE2 - Collateral received and own debt securities issued (continued)

At 31 March 2021

		Fair value of encumbered collateral received or own debt securities issued		Unencumbered	
				Fair value of collateral received or own debt securities issued available for encumbrance	
			of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA
		£m	£m	£m	£m
		010	030	040	060
130	Collateral received by the reporting institution	-	-	-	-
140	Loans on demand	-	-	-	-
150	Equity instruments	-	-	-	-
160	Debt securities	-	-	-	-
170	of which: covered bonds	-	-	-	-
180	of which: securitisations	-	-	-	-
190	of which: issued by general governments	-	-	-	-
200	of which: issued by financial corporations	-	-	-	-
210	of which: issued by non-financial corporations	-	-	-	-
220	Loans and advances other than loans on demand	-	-	-	-
230	Other collateral received	-	-	-	-
240	Own debt securities issued other than own covered bonds or securitisations	-	-	-	-
241	Own covered bonds and securitisation issued and not yet pledged			191.4	-
250	Total Assets, Collateral Received And Own Debt Securities Issued	1,588.3	-		

UK AE3 - Sources of encumbrance

At 31 March 2022

		Matching liabilities, contingent liabilities or securities lent	**Assets, collateral received and own debt securities issued other than covered bonds and securitisations encumbered**
		£m	**£m**
		010	**030**
010	**Carrying amount of selected financial liabilities**	**1,019.5**	**1,361.1**

At 31 March 2021

		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and securitisations encumbered
		£m	£m
		010	030
010	Carrying amount of selected financial liabilities	884.0	1,221.6

Leverage ratio

The leverage ratio is a non risk-based metric that is supplementary to the risk-based capital requirements and intended to represent a 'backstop' measure. The calculation determines a ratio based on the relationship between Tier 1 capital and total exposures (including on- and off-balance sheet items) without any consideration of underlying risk. The narrative below is presented in accordance with table *UK LRA – Disclosure of LR qualitative information*.

Processes used to manage the risk of excessive leverage

The CRR leverage ratio (LR) is a key financial indicator monitored by the Board each month against pre-determined risk appetites with amber and early warning indicators in place to enable sufficient time to implement specified actions – to increase capital available and/or reduce exposures - before any internal limit is breached. As its retail deposits are less than £50bn, the Society does not have a regulatory minimum requirement for leverage under the UK leverage ratio framework.

The LR is projected for the next five years as part of the corporate planning process. The Corporate Plan is subject to stress tests to ensure the Society is able to operate safely and with sufficient capital and leverage both during a severe downturn in the general economy and following an idiosyncratic stress event. It is recognised that such forward planning is essential to the successful management of the leverage and capital ratios. The Board is satisfied that the risk appetite, controls and planning framework will ensure that an excessive leverage position is not taken.

Factors impacting the leverage ratio

The Society's LR excluding claims on central banks has increased slightly during the year from 7.2% to 7.3%. The LR including central bank claims fell from 6.8% to 6.5% with the effect of profits for the financial year more than offset by an increase in the exposure measure arising from higher central bank reserves held at 31 March 2022. These figures include the effect of IFRS 9 transitional arrangements.

The Society's LR compares favourably with peers in the sector and has remained comfortably in excess of both internal limits and those set by the PRA for firms with retail deposits equal to or greater than £50bn. The Society recognises the importance of continuing to originate high quality assets, even though this will have the effect of diluting the current leverage ratio. However, the Society expects to continue to operate at a leverage ratio that is considerably in excess of internal limits and regulatory guidance including a buffer appropriate to the nature of its business model.

The tables which follow present quantitative information on the LR. Table UK LR1 reconciles the total assets shown in the Group financial statements to the LR exposure measure. Table UK LR2 breaks down the leverage ratio exposure into its constituent parts and discloses the ratio including and excluding claims on central banks. Certain rows are only reportable by LREQ firms (firms meeting certain criteria including holding retail deposits of at least £50bn). These rows have been greyed out as the Society is not an LREQ firm. It also shows the UK LR as if the transitional arrangements of IFRS 9 set out in Article 473a of the CRR did not apply. Table UK LR3 provides an alternative breakdown of the leverage ratio exposure (excluding derivatives, SFTs and exempted exposures) by exposure class.

UK LR1 - LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

At 31 March		a Applicable amount Transitional 2022 £m	a Applicable amount Transitional 2021 £m
1	Total assets as per published financial statements	**6,067.3**	5,768.5
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of prudential consolidation[1]	**(7.1)**	(13.9)
3	(Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference)	**-**	-
4	(Adjustment for exemption of exposures to central banks)	**(637.0)**	(304.7)
5	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the total exposure measure in accordance with point (i) of Article 429a(1) of the CRR)	**-**	-
6	Adjustment for regular-way purchases and sales of financial assets subject to trade date accounting	**-**	-
7	Adjustment for eligible cash pooling transactions	**-**	-
8	Adjustment for derivative financial instruments	**(35.3)**	28.3
9	Adjustment for securities financing transactions (SFTs)	**-**	-
10	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	**32.6**	50.8
11	(Adjustment for prudent valuation adjustments and specific and general provisions which have reduced tier 1 capital (leverage))	**(0.4)**	(0.3)
UK-11a	(Adjustment for exposures excluded from the total exposure measure in accordance with point (c) of Article 429a(1) of the CRR)	**-**	-
UK-11b	(Adjustment for exposures excluded from the total exposure measure in accordance with point (j) of Article 429a(1) of the CRR)	**-**	-
12	Other adjustments	**(41.9)**	(48.2)
13	**Total exposure measure**	**5,378.2**	5,480.5

Notes
1 Row 2 shows an adjustment for certain commercial mortgages, held by unconsolidated structured entities, which continue to be recognised in the Group financial statements but are outside the scope of prudential consolidation.

UK LR2 - LRCom: Leverage ratio common disclosure

At 31 March

		Leverage ratio exposures	
		a	b
		2022	2021
		£m	£m
On-balance sheet exposures (excluding derivatives and SFTs)			
1	On-balance sheet items (excluding derivatives, SFTs, but including collateral)	**5,983.0**	5,748.1
2	Gross-up for derivatives collateral provided, where deducted from the balance sheet assets pursuant to the applicable accounting framework	**-**	-
3	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	**(0.3)**	(33.6)
4	(Adjustment for securities received under securities financing transactions that are recognised as an asset)	**-**	-
5	(General credit risk adjustments to on-balance sheet items)	**-**	-
6	(Asset amounts deducted in determining tier 1 capital (leverage))[1]	**(17.2)**	6.5
7	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**5,965.5**	5,721.0
Derivative exposures			
8	Replacement cost associated with SA-CCR derivatives transactions (i.e. net of eligible cash variation margin)	**-**	
UK-8a	Derogation for derivatives: replacement costs contribution under the simplified standardised approach	**-**	
9	Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	**-**	
UK-9a	Derogation for derivatives: potential future exposure contribution under the simplified standardised approach	**-**	
UK-9b	Exposure determined under the original exposure method	**17.1**	
10	(Exempted CCP leg of client-cleared trade exposures) (SA-CCR)	**-**	
UK-10a	(Exempted CCP leg of client-cleared trade exposures) (simplified standardised approach)	**-**	
UK-10b	(Exempted CCP leg of client-cleared trade exposures) (original exposure method)	**-**	
11	Adjusted effective notional amount of written credit derivatives	**-**	
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	**-**	
13	**Total derivatives exposures**	**17.1**	13.4
Securities financing transaction (SFT) exposures			
14	Gross SFT assets (with no recognition of netting), after adjustment for sales accounting transactions	**-**	-
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	**-**	-
16	Counterparty credit risk exposure for SFT assets	**-**	-
UK-16a	Derogation for SFTs: counterparty credit risk exposure in accordance with Articles 429e(5) and 222 of the CRR	**-**	-
17	Agent transaction exposures	**-**	-
UK-17a	(Exempted CCP leg of client-cleared SFT exposures)	**-**	-
18	**Total securities financing transaction exposures**	**-**	-
Other off-balance sheet exposures			
19	Off-balance sheet exposures at gross notional amount	**163.1**	254.0
20	(Adjustments for conversion to credit equivalent amounts)	**(130.5)**	(203.2)
21	(General provisions deducted in determining tier 1 capital (leverage) and specific provisions associated with off-balance sheet exposures)	**-**	-
22	**Off-balance sheet exposures**	**32.6**	50.8
Excluded exposures			
UK-22a	(Exposures excluded from the total exposure measure in accordance with point (c) of Article 429a(1) of the CRR)	**-**	-
UK-22b	(Exposures exempted in accordance with point (j) of Article 429a(1) of the CRR (on- and off- balance sheet))	**-**	-
UK-22g	(Excluded excess collateral deposited at triparty agents)	**-**	-
UK-22k	**(Total exempted exposures)**	**-**	-

UK LR2 - LRCom: Leverage ratio common disclosure (continued)

Capital and total exposure measure			
23	**Tier 1 capital (leverage)**	**390.4**	395.1
24	Total exposure measure including claims on central banks	**6,015.2**	5,785.2
UK-24a	(-) Claims on central banks excluded	**(637.0)**	(304.7)
UK-24b	**Total exposure measure excluding claims on central banks**	**5,378.2**	5,480.5
Leverage ratio		**%**	%
25	Leverage ratio excluding claims on central banks (%)	**7.3**	7.2
UK-25a	Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)	**6.9**	6.7
UK-25b	Leverage ratio excluding central bank reserves as if the temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income had not been applied (%)	**7.3**	7.2
UK-25c	Leverage ratio including claims on central banks (%)	**6.5**	6.8
26	Regulatory minimum leverage ratio requirement (%)		
Additional leverage ratio disclosure requirements - leverage ratio buffers			
27	Leverage ratio buffer (%)		
UK-27a	Of which: G-SII or O-SII additional leverage ratio buffer (%)		
UK-27b	Of which: countercyclical leverage ratio buffer (%)		
Additional leverage ratio disclosure requirements - disclosure of mean values			
28	Mean of daily values of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivable		
29	Quarter-end value of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables		
UK-31	Average total exposure measure including claims on central banks		
UK-32	Average total exposure measure excluding claims on central banks		
UK-33	Average leverage ratio including claims on central banks		
UK-34	Average leverage ratio excluding claims on central banks		

Notes
1 Row 6 is reported net of IFRS 9 transitional relief added back to Tier 1 capital which equates to £21.9m (2021: £32.0m)

UK LR3 - LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

At 31 March		a Leverage ratio exposures 2022 £m	a Leverage ratio exposures[1] 2021 £m
UK-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**5,982.7**	5,714.5
UK-2	Trading book exposures	**-**	-
UK-3	Banking book exposures, of which:	**5,982.7**	5,714.5
UK-4	Covered bonds	**130.3**	120.1
UK-5	Exposures treated as sovereigns	**747.5**	413.4
UK-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	**-**	-
UK-7	Institutions	**66.4**	73.9
UK-8	Secured by mortgages of immovable properties	**4,515.7**	4,557.2
UK-9	Retail exposures	**17.9**	26.1
UK-10	Corporates	**6.2**	15.6
UK-11	Exposures in default	**228.3**	236.0
UK-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	**270.4**	272.2

1 Comparatives have been restated for consistency of presentation and disclose total exposures net of receivable assets for cash variation margin provided in derivatives transactions.

Remuneration

The information in this section is provided in accordance with table *UK REMA - Remuneration Policy*.

Remuneration policy

Governance

The Remuneration Policy is overseen by the Remuneration Committee, a Committee of the Board. It is formed of five Non-Executive Directors (NEDs) including the Society Chair and is chaired by the Society Deputy Chair. There have been six meetings of the Remuneration Committee during the year. FIT Consultants were appointed as Advisors to the Remuneration Committee during the year (formerly the advisor was Deloitte). There was an independent process undertaken by the Remuneration Committee to appoint its advisor. FIT Consultants have provided benchmarking and insight in respect of Executive Director remuneration, Non-Executive Director fees, CRD V compliance and some wider workforce statistics.

Code Staff (identified staff)

The Remuneration Policy provides the framework for the Remuneration Committee to make remuneration decisions and recommendations to the Board in relation to the Society's Code Staff, which is the group of individuals deemed to have a material impact on the Society's risk profile. This includes Non-Executive Directors, Executive Directors; the Chief Executive (CEO), Group Finance & Operations Director (GFOD) and Chief Risk Officer (CRO), and Divisional Directors; Group Secretary, Divisional Director IT Service & Solutions, Divisional Director Marketing & Intermediary Sales, Divisional Director Internal Audit, Divisional Director Treasury & Finance, Divisional Director Operations and Divisional Director HR.

Design and structure of the remuneration system for Code Staff

The Remuneration Policy includes the following sections:-

- Background, principles and context within which the policy is set;
- A description of the components of each element of Executive Director remuneration and how it operates;
- A description and details of the operation of NED fees;
- The recruitment policy for Executive Directors;
- The recruitment policy for NEDs;
- Reference to service contracts;
- Policy on payment for loss of office;
- Employment conditions elsewhere in the Society; and
- Remuneration scenarios.

The Remuneration Policy is set by the Remuneration Committee and its approach is to ensure that Code Staff remuneration is designed to promote the long-term success of the Society, with full consideration of other stakeholders such as members, employees and regulators.

Executive Directors and Divisional Directors receive a basic salary whereas Non-Executive Directors receive fees plus expenses for travel and accommodation in relation to their attendance at meetings. Executive Directors and Divisional Directors are invited to join the Society's stakeholder pension plan or, as an alternative, be provided with a cash allowance (for example, where they have exceeded the annual or lifetime allowance). Benefits are provided in line with market practice for Executive Directors and Divisional Directors, which include a fully expensed car or cash allowance, private medical care and life assurance. Other benefits may be provided in individual circumstances. Non-Executive Directors do not receive a pension, pension allowance or benefits.

The criteria for performance measurement of Executive Directors and Divisional Directors is comprised of collective Society objectives and individual objectives, all of which are metricised and measured. All performance awards that are linked to these objectives are subject to operation within the Society's risk appetites and values; adjustments to performance-related remuneration are made if these are deviated from. Non-Executive Directors do not receive variable remuneration.

The Remuneration Policy is reviewed annually by the Remuneration Committee. The Remuneration Policy in respect of pension allowance for Executive Directors was changed from April 2021 to be 15% (formerly 20%), this is part of a phased alignment of Executive Director and wider workforce pension. In addition the deferral period for PRP was extended to 4 years (previously 3 years) and the clawback period for Executive Directors to 7 years and for other Code Staff to 5 years (previously 3 years for both groups).

Remuneration for Code Staff working in internal control functions is overseen by the Chair of the Risk Committee and Chair of the Audit Committee respectively. The Divisional Director Internal Audit, Chief Risk Officer and Group Secretary provide an independent report to the Remuneration Committee regarding the proposed remuneration of Code Staff each year.

None of the Society's variable remuneration is guaranteed; it is 100% discretionary.

Alignment between risk management and remuneration

As described above, the CRO, Divisional Director Internal Audit and Group Secretary provide an update at least annually to Remuneration Committee on risk considerations relating to remuneration matters, including the alignment of remuneration policy and risk management and the regulatory risk attaching to remuneration. There is a risk 'gateway' attached to all variable remuneration.

Ratio between fixed and variable remuneration

Maximum performance related pay (variable remuneration) for Executive Directors is 50% of basic salary and the Remuneration Committee can use its discretion to award up to 75% of basic salary in exceptional circumstances.

Remuneration policy (continued)

Alignment between remuneration and performance

An element of variable pay for the Executive Directors and Code Staff is based on the collective Society objectives across a number of areas including Financial, Customer, Change, Risk and People. Further information on the Society objectives for the year ended 31 March 2022 is given in the Directors' Remuneration Report within the 2022 Annual Report and Accounts.

For the CEO and GFOD, performance-related pay (PRP) is split 20% to individual objectives and 30% to the above Society objectives. For the CRO it is split 40% to individual objectives and 10% to Society objectives. The split is 30% individual and 20% Society objectives for the Divisional Director Operations, Divisional Director Marketing & Intermediary Sales, Divisional Director Treasury & Finance and Divisional Director IT Service & Solutions. For the Divisional Director HR the split is 40% individual and 10% Society objectives. The Divisional Director Internal Audit is only measured against individual objectives for which the maximum PRP is 20% of basic salary. The Group Secretary was not part of this scheme in 2021/22 but instead included in the PRP scheme operated for employees outside of these groups, where the same flat percentage of PRP is paid to all individuals based on the collective performance of the Society each year.

Adjustment to remuneration to take account of long-term performance

40% of awarded PRP is deferred over a four year period for Executive Directors and other Code Staff except NEDs (who do not receive PRP) and the Group Secretary (who is included in a different PRP scheme where the same flat percentage of PRP is paid to all individuals based on the collective performance of the Society).

PRP is subject to a seven year clawback period for Executive Directors and a five year period for other Code Staff except NEDs (who do not receive PRP) and the Group Secretary (who is included in a different PRP scheme where the same flat percentage of PRP is paid to all individuals based on the collective performance of the Society).

Forms of variable remuneration

All variable remuneration awarded to Code Staff is cash-based. Non-cash instruments are not used in performance-related pay at the Society.

Derogation

The Society is able to benefit from the derogation laid down in the Remuneration Part of the PRA Rulebook at paragraph 5.3 as it meets the regulator's definition of a small CRR firm (as applicable for the Remuneration Part of the PRA Rulebook only). Of the 18 identified staff, 10 would also benefit from the derogation set out in paragraphs 12.2 (second subparagraph) and 15.A1(3). These 10 individuals received total remuneration of £811,000, comprising fixed remuneration of £751,000 and variable remuneration of £60,000 for the year ended 31 March 2022. The fixed, variable and total remuneration for all identified staff in aggregate is shown in table UK REM1.

The permissible derogation is applied with respect to paragraph 15.15 of the PRA Rulebook which requires a substantial portion of variable remuneration to be paid in the form of shares (or equivalent) and, where possible, other capital instruments. All of the Society's identified staff receive only cash-based variable remuneration.

The Society has elected not to benefit from the derogation set out in paragraphs 15.17 and 15.19 of the PRA Rulebook and voluntarily follows the regulatory guidance with respect to deferral of variable remuneration. Paragraph 15.18 does not apply to the Society as the Society is not a significant firm (in terms of size, internal organisation and activities) and none of its identified staff receive variable remuneration of £500,000 or more. Paragraph 12.2 of the PRA Rulebook is not applicable as the Society's identified staff have no such discretionary pension benefits.

Quantitative information on remuneration

Table UK REM1 below shows the amount and type of fixed and variable remuneration awarded to identified staff for the financial year ended 31 March 2022.

UK REM1 - Remuneration awarded for the financial year

Year ended 31 March 2022			a MB Supervisory function	b MB Management function	c Other senior management	d Other identified staff
1	Fixed remuneration	Number of identified staff	**8**	**3**	**7**	**-**
2		Total fixed remuneration (£000)	**422**	**1,087**	**1,168**	**-**
3		Of which: cash-based	**422**	**1,084**	**1,150**	**-**
UK-4a		Of which: shares or equivalent ownership interests	**-**	**-**	**-**	**-**
5		Of which: share-linked instruments or equivalent non-cash instruments	**-**	**-**	**-**	**-**
UK-5x		Of which: other instruments	**-**	**-**	**-**	**-**
7		Of which: other forms	**-**	**3**	**18**	**-**
9	Variable remuneration	Number of identified staff	**-**	**3**	**7**	**-**
10		Total variable remuneration (£000)	**-**	**370**	**324**	**-**
11		Of which: cash-based	**-**	**370**	**324**	**-**
12		Of which: deferred	**-**	**148**	**129**	**-**
UK-13a		Of which: shares or equivalent ownership interests	**-**	**-**	**-**	**-**
UK-14a		Of which: deferred	**-**	**-**	**-**	**-**
UK-13b		Of which: share-linked instruments or equivalent non-cash instruments	**-**	**-**	**-**	**-**
UK-14b		Of which: deferred	**-**	**-**	**-**	**-**
UK-14x		Of which: other instruments	**-**	**-**	**-**	**-**
UK-14y		Of which: deferred	**-**	**-**	**-**	**-**
15		Of which: other forms	**-**	**-**	**-**	**-**
16		Of which: deferred	**-**	**-**	**-**	**-**
17	Total remuneration (2 + 10)		**422**	**1,457**	**1,492**	**-**

Notes

1 Certain rows of the template which are not applicable in the UK have not been presented.

There were no guaranteed variable remuneration awards during the year ended 31 March 2022 and no severance payments were awarded or paid. Table UK REM2 *Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff)* is therefore not presented.

Table UK REM3 below analyses deferred remuneration awarded for previous financial years by staff category and remuneration type, indicating the amounts vesting and paid out during the year ended 31 March 2022 and amounts which will vest in future periods.

UK REM3 - Deferred remuneration

Year ended 31 March 2022		a	b	c	d	e	f	UK - g	UK - h
		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	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years	Total amount of adjustment during the financial year due to ex post implicit adjustments (i.e. changes of value of deferred remuneration due to the changes of prices of instruments)	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
	Deferred and retained remuneration	£000	£000	£000	£000	£000	£000	£000	£000
1	**MB Supervisory function**	-	-	-	-	-	-	-	-
2	Cash-based	-	-	-	-	-	-	-	-
3	Shares or equivalent ownership interests	-	-	-	-	-	-	-	-
4	Share-linked instruments or equivalent non-cash instruments	-	-	-	-	-	-	-	-
5	Other instruments	-	-	-	-	-	-	-	-
6	Other forms	-	-	-	-	-	-	-	-
7	**MB Management function**	287	142	145	-	-	-	142	-
8	Cash-based	287	142	145	-	-	-	142	-
9	Shares or equivalent ownership interests	-	-	-	-	-	-	-	-
10	Share-linked instruments or equivalent non-cash instruments	-	-	-	-	-	-	-	-
11	Other instruments	-	-	-	-	-	-	-	-
12	Other forms	-	-	-	-	-	-	-	-
13	**Other senior management**	229	111	118	-	-	-	111	-
14	Cash-based	229	111	118	-	-	-	111	-
15	Shares or equivalent ownership interests	-	-	-	-	-	-	-	-
16	Share-linked instruments or equivalent non-cash instruments	-	-	-	-	-	-	-	-
17	Other instruments	-	-	-	-	-	-	-	-
18	Other forms	-	-	-	-	-	-	-	-
19	**Other identified staff**	-	-	-	-	-	-	-	-
20	Cash-based	-	-	-	-	-	-	-	-
21	Shares or equivalent ownership interests	-	-	-	-	-	-	-	-
22	Share-linked instruments or equivalent non-cash instruments	-	-	-	-	-	-	-	-
23	Other instruments	-	-	-	-	-	-	-	-
24	Other forms	-	-	-	-	-	-	-	-
25	**Total amount**	516	253	263	-	-	-	253	-

The following table UK REM5 shows management body remuneration by function and other Code Staff remuneration by business area.

UK REM5 - Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff)

Year ended 31 March 2022

		a	b	c	d	e	f	g	h	i	j
		Management body remuneration			Business areas						Total
		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	8	3	11							
3	Of which: other senior management				-	2	-	3	2	-	
4	Of which: other identified staff				-	-	-	-	-	-	
5	**Total remuneration of identified staff (£000)**	422	1,457	-	-	450	-	653	389	-	
6	Of which: variable remuneration	-	370	-	-	108	-	156	60	-	
7	Of which: fixed remuneration	422	1,087	-	-	342	-	497	329	-	

Appendix 1 – Main features of regulatory own funds instruments and eligible liabilities

The table below shows the Society's issued capital instruments as at 31 March 2022. The full terms and conditions of these capital instruments are available on the Society's website as detailed below.

UK CCA: Main features of regulatory own funds instruments and eligible liabilities instruments

At 31 March 2022			
		a CCDS	a Tier 2 notes
1	Issuer	West Bromwich Building Society	West Bromwich Building Society
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	GB00BYWR8Q80	XS1775405795
2a	Public or private placement	Public	Public
3	Governing law(s) of the instrument	English	English
3a	Contractual recognition of write down and conversion powers of resolution authorities	No	No
Regulatory treatment			
4	Current treatment taking into account, where applicable, transitional CRR rules	CET 1	Tier 2
5	Post-transitional CRR rules	CET 1	Tier 2
6	Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated	Solo and (Sub-)Consolidated	Solo and (Sub-)Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Core Capital Deferred Shares	Subordinated Debt
8	Amount recognised in regulatory capital or eligible liabilities (Currency in million, as of most recent reporting date)	£127.0m [(i)]	£21.8m [(ii)]
9	Nominal amount of instrument	£128.9m [(iii)]	£22.5m
UK-9a	Issue price	100	100
UK-9b	Redemption price	N/A	100
10	Accounting classification	Shareholders' equity	Liability - amortised cost
11	Original date of issuance	12/04/2018	12/04/2018
12	Perpetual or dated	Perpetual	Dated
13	Original maturity date	No maturity	12/04/2038
14	Issuer call subject to prior supervisory approval	No	Yes
15	Optional call date, contingent call dates and redemption amount	N/A	12/04/2033; par regulatory/tax call
16	Subsequent call dates, if applicable	N/A	Half yearly
Coupons / dividends			
17	Fixed or floating dividend/coupon	Floating [(iv)]	Fixed
18	Coupon rate and any related index	£3.00 per CCDS for financial year ended 31 March 2022. The distribution cap is currently £17.62 per share [(iv)]	11%
19	Existence of a dividend stopper	No	No
UK-20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Mandatory
UK-20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Mandatory
21	Existence of step up or other incentive to redeem	No	No
22	Noncumulative or cumulative	Noncumulative	N/A
23	Convertible or non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A

UK CCA: Main features of regulatory own funds instruments and eligible liabilities instruments (continued)

26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down features	Yes	Yes
31	If write-down, write-down trigger(s)	None contractual, statutory via bail in or capital write-down (HMT, PRA, FCA, BoE)	None contractual, statutory via bail in or capital write-down (HMT, PRA, FCA, BoE)
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A
34a	Type of subordination (only for eligible liabilities)	N/A	N/A
UK-34b	Ranking of the instrument in normal insolvency proceedings	Junior Subordinated	Subordinated
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Additional Tier 1	Senior Unsecured
36	Non-compliant transitioned features	No	No
37	If yes, specify non-compliant features	N/A	N/A
37a	Link to the full term and conditions of the intrument (signposting)	CCDS full terms and conditions	Tier 2 Notes full terms and conditions

Notes:
(i) The regulatory capital value reflects the nominal value upon initial recognition less any associated issue costs.
(ii) The regulatory capital value reflects estimates of the fair value adjustment to the nominal value upon initial recognition.
(iii) Issue price of £100 per CCDS (representing £1 of nominal amount and £99 of premium per CCDS).
(iv) As indicated in the Society's Distribution Policy and subject to a cap per CCDS, adjusted annually for inflation by reference to the UK CPI published by the ONS.

Under transitional rules and effective from 5 April 2021, the Society's Permanent Interest Bearing Shares (PIBS) do not qualify as regulatory capital and are therefore excluded from the table UK CCA above. The full terms and conditions of the PIBS are available on the Society's website via the following links:

PIBS prospectus

PIBS variation of conditions

PIBS updated terms and conditions

Appendix 2 - Glossary

Additional Tier 1 (AT 1) capital

Capital that meets certain criteria set out in capital regulation, in particular, that upon the occurrence of a trigger event, the AT 1 capital instrument converts to CET 1 capital or the principal is written down on a permanent basis.

Arrears

The financial value of unpaid obligations, which arise when contractual payments are not paid as they fall due.

Basel III framework

The Basel Committee on Banking Supervision's strengthened global regulatory standards on bank capital adequacy and liquidity, defining the methods by which firms should calculate their regulatory capital requirements in order to protect the financial system against unexpected losses.

Capital conservation buffer (CCoB)

A risk-adjusted capital requirement for financial institutions that can be used to absorb losses whilst avoiding breaching minimum capital requirements. This is set at 2.5% of risk weighted assets.

Capital Requirements Directive (CRD) and Capital Requirements Regulation (CRR)

CRD IV, comprising the Capital Requirements Regulation and the Capital Requirements Directive, was the legislative package which implemented the Basel III agreement. The legislation has been subsequently updated with the latest package commonly referred to as CRD V/CRR II. The elements of CRD V and CRR II, which did not come into force in the EU until after the end of the Brexit transition period, have subsequently been implemented in the UK via the PRA Rulebook.

Central counterparty (CCP)

A financial market infrastructure that can reduce counterparty credit risk by means of sharing that risk between its members. In the context of derivative transactions, CCPs place themselves between buyers and sellers and effectively guarantee the obligations under the contract agreed between the two counterparties, both of which would be participants of the CCP. If one counterparty fails, the other is protected via the default management procedures and resources of the CCP.

CCR Original Exposure Method

One of the methods allowed to calculate counterparty credit risk exposures for financial derivatives.

Collateral

Collateral is an asset that a lender accepts as security for a loan. If the borrower defaults on the loan payments, the lender can seize the collateral and resell it to recoup the losses.

Combined buffer

The combined buffer is designed to promote the conservation of capital and comprises the Capital Conservation Buffer (CCoB); Countercyclical Buffer (CCyB), the buffer for global systemically important institutions (G-SIIs) and (for ring-fenced banks and the largest building societies) the other systemically important institutions buffer (O-SII buffer). Each component is expressed as a percentage of risk-weighted assets which must be held in the form of CET 1 capital but is available to draw down in periods of stress.

Common Equity Tier 1 (CET 1) capital

Common Equity Tier 1 capital comprises general reserves, the fair value reserve, the revaluation reserve and CCDS together with a number of regulatory adjustments. Common Equity Tier 1 must absorb losses on a going concern basis and is the highest quality form of regulatory capital.

Common Equity Tier 1 ratio

Common Equity Tier 1 capital as a percentage of risk weighted assets.

Core capital deferred shares (CCDS)

CCDS are a form of CET 1 capital issued by building societies. They rank behind depositors and creditors.

Countercyclical buffer (CCyB)

A risk-adjusted capital requirement that is varied over the financial cycle and aims to ensure that financial sector capital requirements take account of the macro-financial environment in which banks and building societies operate. It may be built up in favourable conditions and released in economic downturns.

Counterparty credit risk (CCR)

Counterparty credit risk is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows.

Credit conversion factor (CCF)

A percentage applied to an off-balance sheet exposure (such as a mortgage loan commitment) to convert it to its credit risk exposure value for the purposes of calculating capital requirements. The CCF varies by exposure type.

Credit quality steps (CQS)

A credit quality assessment scale used to assign risk-weightings to exposures for the purposes of calculating capital requirements. The CQS are determined with reference to ratings issued by ECAIs.

Credit risk

The potential to incur losses from the failure of a borrower or counterparty to meet its obligation to pay interest or repay capital on an outstanding loan.

Credit risk mitigation

Techniques to reduce the potential loss in the event that a customer (borrower or counterparty) becomes unable to meet its obligations. This may include the taking of financial or physical security, the assignment of receivables or the use of credit derivatives, guarantees, credit insurance, set off or netting.

Derivative financial instrument

A contract or agreement which derives its value or cash flows from changes in an underlying index such as an interest rate, foreign exchange rate or market index. The Society uses derivatives, in the form of interest rate swaps, to mitigate against interest rate risk.

Encumbered assets

Assets used to secure liabilities or otherwise pledged. This excludes loans and advances to customers that, although technically encumbered, are held in respect of undrawn self-issued notes under the Society's securitisation programmes.

Expected credit loss (ECL)

The present value of all cash shortfalls over the expected life of a financial instrument. The term is used in the accounting for impairment provisions under IFRS 9 Financial Instruments.

Extremely high quality liquid assets (EHQLA)

The part of regulatory HQLA (see below) defined as being of the highest quality.

ECL - 12 month

12-month ECL denotes the portion of lifetime ECLs that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

ECL – lifetime

Lifetime ECLs are the expected credit losses that result from all possible default events over the expected life of a financial instrument.

External credit assessment institution (ECAI)

An ECAI (e.g. Moody's, Standard and Poor's and Fitch) is an institution that assigns credit ratings to issuers of certain types of debt obligations as well as the debt instruments themselves.

European Banking Authority (EBA)

The EBA is an independent European Union Authority which works to ensure effective and consistent prudential regulation and supervision across the European banking sector.

Fair value reserve

The fair value reserve contains unrealised gains and losses arising from changes in the fair value of non-derivative financial assets that are categorised as fair value through other comprehensive income.

Financial Conduct Authority (FCA)

The financial services industry regulator in the UK for conduct related matters.

Forbearance

Forbearance takes place when a concession, which can be temporary or permanent, is made on the contractual terms of a loan in response to the borrower's financial difficulties.

Guarantee

An agreement by a third party to cover the potential loss to a credit institution should a specified counterparty default on their obligations.

High quality liquid assets (HQLA)

HQLA is a concept used in the calculation of the regulatory liquidity coverage ratio and comprises assets that can be easily and immediately converted into cash at little or no loss of value.

Impairment provision

An allowance for expected credit losses on a financial asset calculated in accordance with the accounting standard IFRS 9. Where applicable for disclosure purposes, a loan is considered to be impaired if it is categorised as stage 3 under IFRS 9.

Internal Capital Adequacy Assessment Process (ICAAP)

The process the Society follows to determine capital requirements under Basel III Pillar 2.

Internal Liquidity Adequacy Assessment Process (ILAAP)

The Society's detailed annual review of its liquidity adequacy which is submitted to the PRA for supervisory review.

Internal ratings based (IRB) approach

A methodology used to measure exposures and calculate capital requirements for credit risk. IRB approaches are more complex and risk-sensitive than the Standardised approach and may be Foundation or Advanced.

Interest rate risk

Interest rate risk is the exposure of a firm's financial condition to movements in interest rates.

International Swaps and Derivatives Association (ISDA) master agreement

A standardised contract developed by ISDA and used to enter into bilateral derivatives transactions.

Leverage ratio

Tier 1 capital as a percentage of total exposures which include on- and off-balance sheet assets. Within this document, the ratio is presented on two bases – including and excluding claims on central banks in the total exposure measure.

Liquidity coverage ratio (LCR)

A measure which aims to ensure that an entity maintains an adequate level of liquidity to meet its needs for a 30 day period under severe stress conditions.

Liquidity risk

The risk that the Society does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash inflows and outflows.

Loan-to-value (LTV)

The ratio of current exposure value to the value of the asset held as security (usually property) expressed as a percentage.

Market risk

The risk that movements in market risk factors, including foreign exchange rates, interest rates, credit spreads and customer-driven factors will reduce income or portfolio values.

Market value (MV) sensitivity

The sensitivity of the whole-life economic value (in today's value) of Society assets and liabilities to, for example, an immediate parallel shift in the yield curve.

Minimum capital requirement

The minimum amount of regulatory capital that a financial institution must hold to meet the Basel III Pillar 1 requirements.

Minimum requirements for own funds and eligible liabilities (MREL)

The final framework and policies for setting minimum requirements for own funds and eligible liabilities published as part of the EU's Bank Recovery and Resolution Directive. The Society is classified as a 'modified insolvency' firm for the purposes of MREL which means that the MREL regime does not introduce any additional capital requirements for the Society.

Net stable funding ratio (NSFR)

The NSFR is a long-term stable funding metric, measured as the ratio of available stable funding to the amount of required stable funding.

Netting

The ability to reduce credit risk exposures by offsetting the value of any deposits against loans to the same counterparty.

Operational risk

Operational risk is the risk of loss and/or negative impact to the Society resulting from inadequate or failed internal processes, systems or people, or from external events.

Past due

The status of a financial asset, such as a mortgage loan, when the borrower or counterparty has failed to make a payment when contractually due.

Permanent interest bearing shares (PIBS)

Unsecured, deferred shares that no longer qualify as a form of Additional Tier 1 capital. PIBS rank behind the claims of all depositors and creditors of the Society other than the Society's CCDS.

Pillar 1

The part of the Basel III Framework which sets out the regulatory minimum capital requirements for credit and operational risk.

Pillar 2

The part of the Basel III Framework which sets out the processes by which financial institutions review their overall capital adequacy. Supervisors then evaluate how well financial institutions are assessing their risks and take appropriate actions in response to the assessments. This includes all risks (including Pillar 1 risks). The TCR is an outcome from Pillar 2.

Potential future exposure (PFE)

The PFE is an estimate of the exposure relating to the future cash flows of derivatives. It is based upon the type and remaining duration of the derivative.

Probability of default (PD)

An estimate of the probability that a borrower will default on their credit obligations over a fixed time period. With respect to impairment provisions under IFRS 9, 12 month ECLs use 12 month PDs, whilst a lifetime ECL uses the estimated PD over the remaining contractual life of the loan.

Prudential Regulation Authority (PRA)

The financial services industry regulator in the UK for prudential matters.

PRA buffer

An amount of capital that firms may be required to hold, in addition to their TCR, to cover losses that may arise under a severe stress scenario, but avoiding duplication with the combined buffer.

Residual maturity

The remaining time in years that a borrower is permitted to take to fully discharge their contractual obligation (principal, interest and fees) under the terms of a loan agreement.

Risk appetite

The articulation of the level of risk that the Society is willing to take (or not take) in order to safeguard the interests of the Society's members whilst achieving business objectives.

Risk-weighted asset (RWA) or risk-weighted exposure amount (RWEA)

The value of an on- or off-balance sheet exposure adjusted under Pillar 1 rules to reflect the degree of risk it presents.

Sale and repurchase agreement (repo)

An agreement to sell a financial security together with a commitment by the seller to repurchase the asset at a specified price on a given date. In substance this forms a secured loan, with the difference between the purchase price and repurchase price being the interest rate.

Securitisation

A transaction or scheme where assets are sold to a structured entity in return for immediate cash payment. That entity raises the immediate cash payment by issuing debt securities in the form of tradeable notes or commercial paper to wholesale investors who receive an income from the underlying assets. The terms of the securitisation determine the balance of risk retained on the balance sheet and risk transferred to investors.

Stage 1 (IFRS 9)

Stage 1 assets are financial assets which have not experienced a significant increase in credit risk since the asset was originally recognised on the Statement of Financial Position. For the purposes of impairment provisioning under IFRS 9, 12 month ECLs are recognised on stage 1 assets.

Stage 2 (IFRS 9)

Stage 2 assets have experienced a significant increase in credit risk since initial recognition. Lifetime ECL is recognised as an impairment provision.

Stage 3 (IFRS 9)

Stage 3 assets are identified as in default and considered credit impaired. Lifetime ECL is recognised as an impairment provision.

Standardised approach (to credit risk)

A methodology used to calculate capital requirements for credit risk. Under the standardised approach, the risk weightings within the calculation are specified by the regulator.

Standardised approach (to operational risk)

A methodology used to calculate capital requirements for operational risk which involves using three year historical net income multiplied by a factor of 12-18%, depending on the underlying business being considered.

Stress testing

Various techniques that are used to gauge the potential vulnerability to exceptional but plausible events.

Subordinated Tier 2 notes (Tier 2 Notes)

A form of Tier 2 capital issued by the Society.

Supervisory review and evaluation process (SREP)

The regulator's assessment of a firm's own capital adequacy assessment (ICAAP) under Basel III Pillar 2.

Supranational financial institution

A supranational financial institution or multilateral development bank is formed and capitalised by two or more central governments to promote economic development for specified member countries. Supranational financial institutions finance their activities by issuing bond debt and are usually considered part of the high quality, sub-sovereign debt market. Some well-known examples of supranational financial institutions are the World Bank, European Bank for Reconstruction and Development, European Investment Bank, Asian Development Bank and Inter-American Development Bank.

Tier 2 capital

A component of regulatory capital comprising qualifying subordinated liabilities.

Total capital requirement (TCR)

The amount and quality of capital a firm must maintain to comply with the minimum capital requirements under the Capital Requirements Regulation.

Unencumbered assets

Assets not used as collateral to secure funding. This includes loans and advances to customers that, although transferred to funding vehicles, are held in respect of undrawn self-issued notes under the securitisation programmes and are therefore readily available as collateral to secure funding.

Wrong-way risk

An adverse correlation between the counterparty's probability of default and the mark to market value of the underlying transaction.

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