Pillar 3 Disclosures

Year ended 31 March 2023

the West Brom

Contents

Summary

Introduction

This document presents the consolidated Pillar 3 disclosures of West Bromwich Building Society (hereafter 'the Group' or 'the Society') as at 31 March 2023.

As a building society there are a number of risks that 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 challenging economic backdrop, with the war in Ukraine continuing and high inflation driving substantial cost of living pressures. Our operational and financial resilience has enabled us to invest in technology, people and processes to ensure our customers see the real benefits of being part of a mutual, both now and in the years to come.

Key metrics

Template 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 2023.

Under the CRD V transitional rules, effective at the reporting date, the Common Equity Tier 1 (CET 1) ratio has increased to 18.7% (31 March 2022: 17.0%). This strong capital position was supported by the continued de-risking of the balance sheet and retained profits for the financial year, factors which also drove an increase in the UK leverage ratio to 7.9% (31 March 2022: 7.3%). The Society is able to meet all of its total capital and combined buffer requirements with the highest quality CET 1 capital.

The Society's average Liquidity Coverage Ratio (LCR) over the 12 months to 31 March 2023 was 265% (12 months to 31 March 2022: 231%). 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

Figures in £m unless otherwise specified

		a	b	c
		Transitional	Transitional	Transitional
		31 Mar 2023	30 Sep 2022	31 Mar 2022
	Available own funds (amounts)			
1	Common Equity Tier 1 (CET1) capital	**393.3**	371.6	390.4
2	Tier 1 capital	**393.3**	371.6	390.4
3	Total capital	**415.1**	393.4	412.2
	Risk-weighted exposure amounts			
4	Total risk-weighted exposure amount	**2,108.5**	2,105.7	2,299.7
	Capital ratios (as a percentage of risk-weighted exposure amount)			
5	Common Equity Tier 1 ratio (%)	**18.7**	17.6	17.0
6	Tier 1 ratio (%)	**18.7**	17.6	17.0
7	Total capital ratio (%)	**19.7**	18.7	17.9
	Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)			
UK 7a	Additional CET1 SREP requirements (%)[1]	**0.8**	0.8	0.7
UK 7b	Additional AT1 SREP requirements (%)[2]	**0.3**	0.3	0.2
UK 7c	Additional T2 SREP requirements (%)[2]	**0.3**	0.3	0.3
UK 7d	Total SREP own funds requirements (%)	**9.4**	9.4	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
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 (%)	**1.0**	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 (%)	**3.5**	2.5	2.5
UK 11a	Overall capital requirements (%)	**12.9**	11.9	11.8
12	CET1 available after meeting the total SREP own funds requirements (%)	**10.3**	9.3	8.6
	Leverage ratio			
13	Total exposure measure excluding claims on central banks	**5,000.5**	5,097.9	5,378.2
14	Leverage ratio excluding claims on central banks (%)	**7.9**	7.3	7.3
	Additional leverage ratio disclosure requirements[3]			
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)	**844.3**	872.0	729.7
UK 16a	Cash outflows - Total weighted value	**352.4**	322.7	339.3
UK 16b	Cash inflows - Total weighted value	**26.4**	23.4	21.0
16	Total net cash outflows (adjusted value)	**326.0**	299.3	318.3
17	Liquidity coverage ratio (%)	**264.7**	292.6	230.8
	Net Stable Funding Ratio[4]			
18	Total available stable funding	**5,350.7**		
19	Total required stable funding	**3,583.8**		
20	NSFR ratio (%)	**149.4**		

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 The additional leverage ratio disclosure requirements do not apply to the Society as it does not meet the relevant reporting thresholds.
4 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 reportable from 2023; hence no comparative information is provided.

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. Template IFRS 9-FL below shows the Society's key capital ratios with and without the application of IFRS 9 transitional relief.

The CET 1 ratio, as if IFRS 9 transitional arrangements had not been applied, increased from 16.2% to 18.3% during the year and the UK leverage ratio, which excludes claims on central banks from the exposure measure, from 6.9% to 7.7%.

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

		31 Mar 2023	30 Sep 2022	31 Mar 2022
	Available capital (£m)			
1	Common Equity Tier 1 (CET1)	**393.3**	371.6	390.4
2	CET1 capital as if IFRS 9 transitional arrangements had not been applied	**385.0**	363.3	368.5
3	Tier 1	**393.3**	371.6	390.4
4	Tier 1 capital as if IFRS 9 transitional arrangements had not been applied	**385.0**	363.3	368.5
5	Total regulatory capital	**415.1**	393.4	412.2
6	Total capital as if IFRS 9 transitional arrangements had not been applied	**406.8**	385.1	390.3
	Total risk-weighted assets (RWAs) (£m)			
7	Total RWAs	**2,108.5**	2,105.7	2,299.7
8	Total RWAs as if IFRS 9 transitional arrangements had not been applied	**2,100.2**	2,097.4	2,277.8
	Capital ratios (%)			
9	Common Equity Tier 1 ratio	**18.7**	17.6	17.0
10	Common Equity Tier 1 ratio as if IFRS 9 transitional arrangements had not been applied	**18.3**	17.3	16.2
11	Tier 1 ratio	**18.7**	17.6	17.0
12	Tier 1 ratio as if IFRS 9 transitional arrangements had not been applied	**18.3**	17.3	16.2
13	Total regulatory capital ratio	**19.7**	18.7	17.9
14	Total regulatory capital ratio as if IFRS 9 transitional arrangements had not been applied	**19.4**	18.4	17.1
	UK leverage ratio			
15a	Total leverage ratio exposure measure (£m)	**5,000.5**	5,097.9	5,378.2
15b	Total leverage ratio exposure measure as if IFRS 9 transitional arrangements had not been applied (£m)	**4,992.2**	5,089.6	5,356.3
16	UK leverage ratio (%)	**7.9**	7.3	7.3
17	Leverage ratio as if IFRS 9 transitional arrangements had not been applied (%)	**7.7**	7.1	6.9

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.

These Pillar 3 disclosures have been prepared in accordance with the Capital Requirements Directive (CRD V), UK Capital Requirements Regulation (CRR) and the Disclosure (CRR) Part of the PRA Rulebook, which prescribes the format of disclosures via templates in order to promote transparency, consistency and comparability of information between firms.

The BCBS released 'Basel III: Finalising post-crisis reforms to the Basel III framework' in December 2017. Consultation paper CP16/22 sets out the PRA's proposed implementation of these reforms, commonly referred to as Basel 3.1 Standards, in the UK. The proposals, which include significant revisions to the Standardised Approach to Credit Risk, are expected to apply from 1 January 2025. The PRA is also progressing its 'Strong and Simple' initiative, which aims to simplify the prudential framework for small, domestic banks and building societies whilst maintaining their resilience and reducing barriers to growth. Firms eligible for the simpler capital framework will have the option to adopt the full Basel 3.1 Standards or, alternatively, be subject to a Transitional Capital Regime, which broadly maintains existing capital rules, until the (currently undefined) simpler capital regulation becomes effective. In consultation paper CP4/23, the PRA proposes significantly reduced Pillar 3 disclosure requirements for simpler-regime firms.

The Society is closely monitoring regulatory developments in connection with the Basel 3.1 Standards and the 'Strong and Simple' project, which will facilitate adoption of the appropriate framework in due course.

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 2023 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 are published semi-annually. All other disclosures are issued on an annual basis, as a minimum, and more frequently if appropriate. The disclosures have been published in conjunction with the Society's 2023 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 or 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. The templates that have not been presented are listed in Appendix 2.

Location and verification

These disclosures have been reviewed by the Audit Committee 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 2023 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 2023 comply with the Disclosure (CRR) Part of the PRA Rulebook and have been prepared in accordance with the Society's Pillar 3 Disclosure Policy.

Alex Pawley
Chief Financial Officer

Scope of application of the regulatory framework

The Group's Pillar 3 disclosures are presented on a consolidated basis for the year ended 31 March 2023. 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 2023

		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	598.2	598.2	598.2	-	-	-	-
2	Loans and advances to credit institutions	72.8	72.8	35.9	36.9	-	-	-
3	Investment securities	315.6	315.6	277.7	-	37.5	-	0.4
4	Derivative financial instruments	100.5	100.5	-	100.5	-	-	-
5	Loans and advances to customers	4,370.3	4,363.9	4,363.9	-	-	-	-
6	Deferred tax assets	25.0	25.0	9.2	-	-	-	15.8
7	Trade and other receivables	10.7	10.8	10.8	-	-	-	-
8	Intangible assets	9.9	9.9	-	-	-	-	9.9
9	Investment properties	152.7	152.7	152.7	-	-	-	-
10	Property, plant and equipment	22.7	22.7	22.7	-	-	-	-
11	Retirement benefit asset	10.9	10.9	-	-	-	-	10.9
12	**Total assets**	5,689.3	5,683.0	5,471.1	137.4	37.5	-	37.0
	Liabilities							
1	Shares	4,306.3	4,306.3	-	-	-	-	4,306.3
2	Amounts due to credit institutions	826.2	826.2	-	97.7	-	-	728.5
3	Amounts due to other customers	63.1	56.8	1.3	-	-	-	55.5
4	Derivative financial instruments	6.7	6.7	-	6.7	-	-	-
5	Debt securities in issue	-	-	-	-	-	-	-
6	Current tax liabilities	0.6	0.6	-	-	-	-	0.6
7	Deferred tax liabilities	15.4	15.4	-	-	-	-	15.4
8	Trade and other payables	17.1	17.1	-	-	-	-	17.1
9	Provisions for liabilities	0.5	0.5	-	-	-	-	0.5
10	Subordinated liabilities	22.9	22.9	-	-	-	-	22.9
11	**Total liabilities**	5,258.8	5,252.5	1.3	104.4	-	-	5,146.8

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

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	Deferred tax assets	27.1	27.0	10.2	-	-	-	16.8
7	Trade and other receivables	2.2	2.4	2.4	-	-	-	-
8	Intangible assets	10.2	10.2	-	-	-	-	10.2
9	Investment properties	147.3	147.3	147.3	-	-	-	-
10	Property, plant and equipment	22.8	22.8	22.8	-	-	-	-
11	Retirement benefit asset	14.9	14.9	-	-	-	-	14.9
12	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 LI2 - Main sources of differences between regulatory exposure amounts and carrying values in financial statements

At 31 March 2023

		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)**	**5,646.0**	**5,471.1**	**37.5**	**137.4**	**-**
2	**Liabilities carrying value amount under the regulatory scope of consolidation (as per template LI1)**	**105.7**	**1.3**	**-**	**104.4**	**-**
3	**Total net amount under the regulatory scope of consolidation**	**5,540.3**	**5,469.8**	**37.5**	**33.0**	**-**
4	**Off-balance-sheet amounts**	**256.0**	**256.0**	**-**	**-**	
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)*	**1.3**	**1.3**	**-**	**-**	
9	*Differences due to credit conversion factors*	**(204.8)**	**(204.8)**	**-**	**-**	
10	*Differences due to Securitisation with risk transfer*	**-**	**-**	**-**	**-**	
11	*Other differences*	**(4.9)**	**8.7**	**-**	**(13.6)**	
12	**Exposure amounts considered for regulatory purposes**	**5,587.5**	**5,530.6**	**37.5**	**19.4**	**-**

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	-

There are no differences between the accounting and regulatory scopes of consolidation. For this reason Template *UK LI3 - Outline of the differences in the scopes of consolidation (entity by entity)* is not disclosed.

UK LIA – Explanations of differences between accounting and regulatory exposure amounts

(a) Differences between columns (a) and (b) in template UK LI1

Although there are no differences between the accounting and regulatory scopes of consolidation, 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, £6.3m (2022: £7.1m) lower than the accounting carrying values within Template UK LI1.

(b) Qualitative information on the main sources of differences between the accounting and regulatory scope of consolidation shown in template UK LI2

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 column (b) of template UK LI2.

UK LIB – Other qualitative information on the scope of application

(a) Impediment to the prompt transfer of own funds or to the repayment of liabilities within the group

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. Transfers of assets and liabilities between structured entities and other members of the Group are subject to rules set out in the underlying securitisation documentation.

(b) Subsidiaries not included in the consolidation with own funds less than required

There are no subsidiaries excluded from the consolidation.

(c) Use of derogation referred to in Article 7 CRR or individual consolidation method laid down in Article 9 CRR

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.

(d) Aggregate amount by which the actual own funds are less than required in all subsidiaries that are not included in the consolidation

There are no subsidiaries excluded from the consolidation.

Risk management

UK OVA - Institution risk management approach

(a) Risk statement approved by the management body

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 ten Principal Risk categories as shown below.

The Principal 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;
- Retail conduct risk; and
- Information 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 purpose and values. The Board have agreed a set of Risk Appetite Statements covering 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 principal 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 or figures relating to its risk appetite, as they are considered to be proprietary information as per CRR article 432.

(b) Information on the risk governance structure for each type of risk

During the year, risk governance was provided through ten risk management committees/groups:

Risk Committee (RC) – Comprising five of the Non-Executive Directors, this Committee is responsible for the oversight and management of the principal and key strategic risks identified by the Board.

Audit Committee (AC) – Comprising four Non-Executive Directors, the Audit Committee provides the Board with assurance regarding the integrity of the financial statements, the adequacy of the provisions 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 Chair of Audit Committee.

Executive Risk Committee (ERC) – This Committee is chaired by the Chief Risk Officer (CRO) and is responsible for providing the Executive and the Risk Committee 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 Chief Financial Officer (CFO) and is responsible for overseeing the assets and liabilities risk, including the assessment of exposure to Treasury counterparty credit, market, liquidity, pension liability, margin compression, basis and interest rate risk.

Residential Credit Committee (RCC) – This Committee is chaired by the Senior Manager Credit Risk and is responsible for overseeing the exposure to credit risks generated as a result of the Society's residential lending activity.

Commercial Loans Risk Committee (CLRC) – This Committee is chaired by the CRO and is responsible for overseeing the Society's exposure to credit risks in the commercial loan book.

Conduct Risk & Customer Review Group (CRCRG) – This Group is chaired by the Society's Chief Executive Officer (CEO) and is responsible for overseeing the management of retail conduct risk and includes responsibility for monitoring customer outcomes arising from the Society's retail activities.

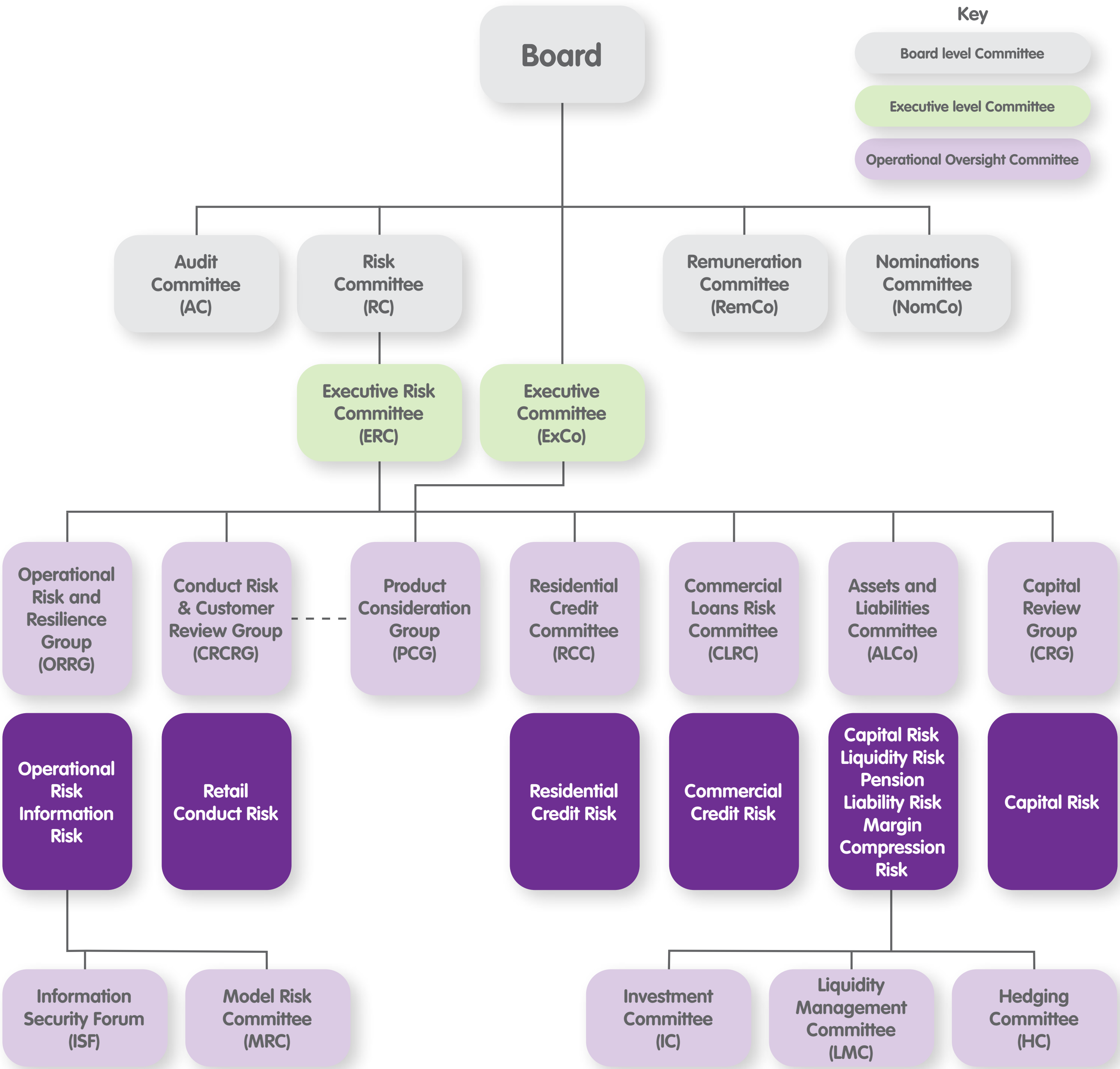
UK OVA - Institution risk management approach (continued)

Operational Risk & Resilience Group (ORRG) – This Group is chaired by the Chief Operating Officer (COO) and oversees the management of all operational, information and operational resiliency risks.

CRCRG and ORRG were formed in January 2023 as part of a restructure replacing the Operational, Conduct and Information Risk Group (OCIRG) and Operational Resilience Group (ORG).

Capital Review Group (CRG) – This Group is chaired by the CFO and is responsible for overseeing the Group's capital position.

Model Risk Committee (MRC) – This Committee is chaired by the CRO and is responsible for overseeing the Society's exposure to model risk across the business.



UK OVA - Institution risk management approach (continued)

(c) Declaration approved by the management body on the adequacy of the risk management arrangements

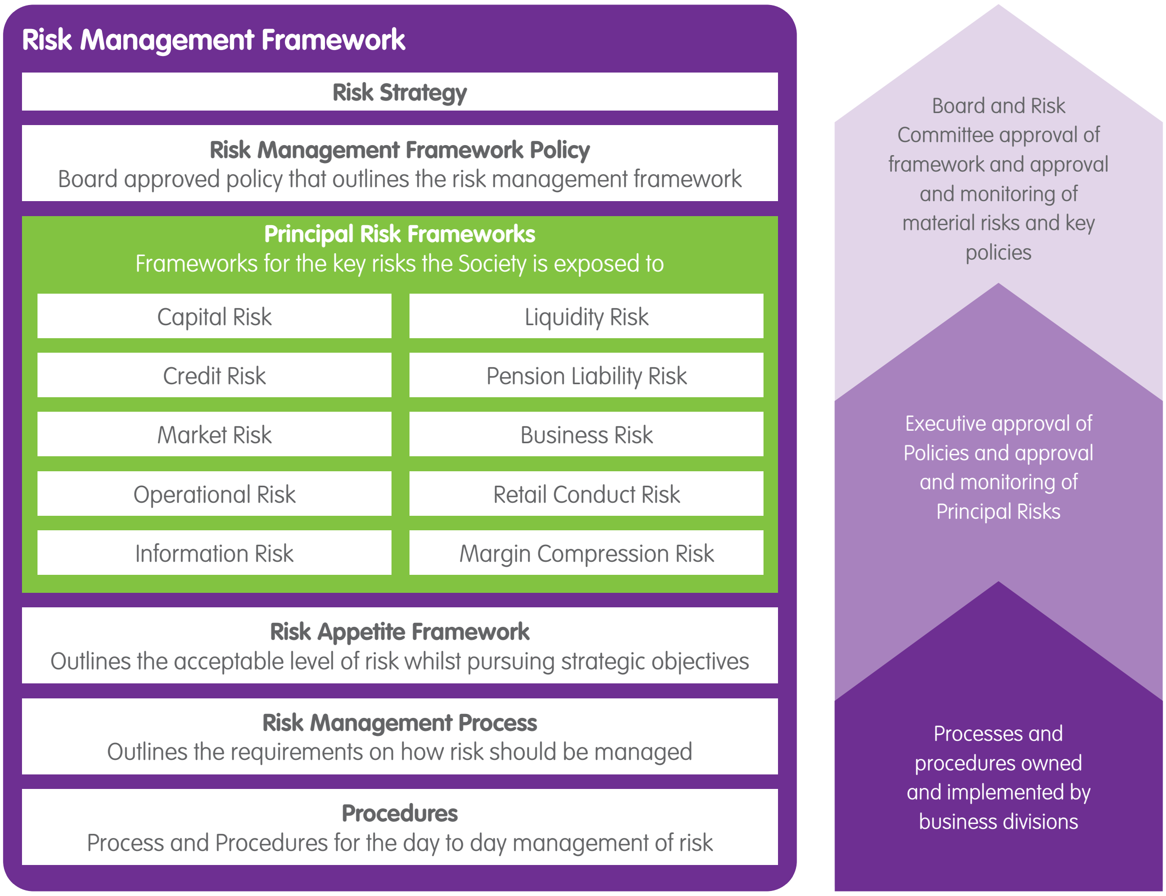
The Society assesses itself against the UK Corporate Governance Code (the Code) principles and, whilst it is not required to comply with the Code as it applies to publicly listed companies, it does have regard to the principles, where it is considered relevant.

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.

(d) Scope and nature of risk disclosure and/or measurement systems

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. Reporting on the key risk measures occurs through the distribution of reports on the Principal Risks to RC as shown in the chart below.



(e) Main features of risk disclosure and measurement systems

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 in 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 6 times and the AC met 4 times within the financial year ending 31 March 2023.

(f) Strategies and processes to manage risks for each separate category of risk

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 focus on residential properties and borrowers who can demonstrate their ability to meet their ongoing mortgage payments.

UK OVA - Institution risk management approach (continued)

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, ERC or ultimately RC.

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.

Set out in the following table are the Board's principal external threats which have been identified by RC, along with the Society's responses and mitigants in place.

Risk category	Principal external threats	Society response and mitigants
Business risk	Adverse changes to the operating environment arising from the general uncertainty in the UK economy, due to the ongoing disruption caused by COVID-19, heightened geopolitical risks and ongoing cost of living crisis leading to: • Higher inflation resulting in Bank Rate increasing towards 5%; • Declining consumer confidence resulting in reduced activity in the housing market and adverse impact from both lower lending and a potential fall in house prices; • Elevated competition in the mortgage market and rising cost of retail funding; • Flat or declining economic growth and associated rising unemployment causing possible recession; and • Increasing regulatory costs.	Business plans continue to model the impact of a range of scenarios and stress tests, which have been expanded to include potential macroeconomic impact of rising central Bank Rates to respond to higher inflation due to global supply chain issues and rising energy costs. This is reflected within the IFRS 9, ICAAP and ILAAP assessments. These outcomes have Board visibility and are reviewed by a number of risk management committees. These Scenario and Stress Tests are complemented by Reverse Stress Testing to identify the circumstances that put the Society into an unviable position, i.e. capital and/or liquidity falls below minimum regulatory requirements. The Society is based in the UK and has no EU operations limiting its exposure to Brexit related operational risks.
Credit risk	Higher unemployment as a result of self-employed/wider business insolvencies and/or an increase in Bank Rate (leading to increased arrears and losses).	The Society's IFRS 9 provisioning and stress testing models assume a range of unemployment levels and varying interest rate scenarios, including a stressed outcome. Should an increase in arrears accounts occur, the Society would expand its credit services resource.
	Reduction in property prices (leading to a higher incidence of voluntary possessions and elevated shortfalls when properties sold).	The Society is committed to work with its borrowers across a range of forbearance options to avoid possession wherever possible. In the event that possessions were to increase, the Society's regular reviews of its IFRS 9 provisions would reflect this increase. Mortgage Indemnity Guarantee insurance is obtained on lending originated at above 80% Loan to Value to mitigate potential losses.
	Low or flat economic growth combined with higher inflation (leading to further commercial property/BTL tenant failures).	The Society has a well-resourced and highly experienced team dealing with commercial property and BTL mortgages and, as has been the case throughout the year, works with borrowers and agents to lessen the impact.
Capital risk	Rules for calculating capital (amount required and/or amount held) are changed.	Maintain regular dialogue with the regulator and ensure full understanding of and compliance with the relevant rules.
Liquidity risk	Intensification of competition for retail and wholesale funding. Following the failure of US mid-size banks, rules for calculating liquidity (amount required and/or amount held) are changed.	The Society continues to demonstrate the ability to attract new retail deposits this year and the focus has been on fixed rate funding. The Society also has access to a diverse range of other funding sources, including wholesale options and funding provided through the Bank of England's Sterling Monetary Framework. Scenario and Stress testing is undertaken to assess the requirements over a number of different time horizons. This is also complemented by Reverse Stress Testing to identify the circumstances that puts the Society into an unviable position, i.e. liquidity falls below minimum regulatory requirements.

UK OVA - Institution risk management approach (continued)

Risk category	Principal external threats	Society response and mitigants
Margin compression risk	Reduction in returns from residential tracker mortgage assets whose rate is linked to Bank Rate with no floor.	The Society does not originate any new residential tracker mortgages and is managing down its Bank Rate Tracker book, replacing this with administered rate, or SONIA-linked assets.
	A relative increase in funding costs affecting variable rate retail funding, and in particular the administered rate retail balances.	The Society has embedded into the Risk Management Framework a Margin Compression Stress (MCS) model. The MCS model quantifies what could happen to Net Interest Margin (NIM) following an increase in funding costs exclusively outside of other benchmark rates (Bank Rate and SONIA) and returns earned on existing mortgage assets (which are mostly linked to benchmark rates through swaps).
Market risk	The risk of a reduction in the Society's net interest margin as a result of rising competition amongst deposit takers.	The Society operates within Board approved limits and monitors the exposure to increases in funding rates through ALCo.
	Falling HPI, leading to a reduction in the book value of West Bromwich Homes Limited properties.	No new homes have been added, containing the exposure, and properties continue to be sold where appropriate.
Operational risk	Single points of failure are identified, potentially impacting on critical and Important Business Services.	The Society maintains an operational resilience framework to prevent, adapt, respond to, recover, and learn from operational disruptions. Scenario analysis is also undertaken.
	A significant business continuity event.	Detailed business continuity plans are in place, which are regularly tested and supported by scenario testing.
	Investment in core technology introduces execution risk with the benefits being delayed or not delivered.	The Society has a robust change management framework in place with regular updates provided to the Board.
	Insurance arrangements do not sufficiently cover an event (requiring the Society to pick up the cost).	The annual review of insurance arrangements is based on advice from brokers and an annual benchmarking exercise.
Information risk	One or more of the Society's IT systems are attacked for the purposes of financial gain, theft of data or to cause the Society disruption or negative exposure and threaten the security of members' information, and the availability of the services offered to them. Cyberattacks remain a significant risk for financial institutions.	The Society recognises the need to maintain and develop its defences and responses in this area in order to protect the Society and maintain the trust of customers and the confidence of regulators. The RC is kept updated as to the maturity of the Society's cyber defences and controls and a Chief Information Security Officer has been recruited to develop these further.
Pension liability risk	Increased longevity, poor or volatile returns on scheme assets such as equities, gilts or bonds linked to long term interest rates (requiring the Society to contribute more to the scheme).	The Defined Benefit Scheme is closed to new members and existing members are no longer accruing service benefits. The Scheme is subject to an actuarial review every three years to calculate the current position (surplus/deficit) and was finalised during the year. The Society has agreed a recovery plan with the Trustee Board which will see the current deficit closed within an appropriate timeframe set out by the pension regulator. The Scheme's investment advisors provide support on the strategies for the Scheme to the Trustee Board which aims to fulfil future funding requirements of the Scheme, as well as hedging interest rate and inflation risks to protect the pension liabilities against market volatility.
Retail conduct risk	Actions of third party and outsourced suppliers leading to adverse customer outcomes.	A robust supplier framework is in place to oversee the activities of key suppliers. The conduct risk appetite metrics monitoring is reported to RC.

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.

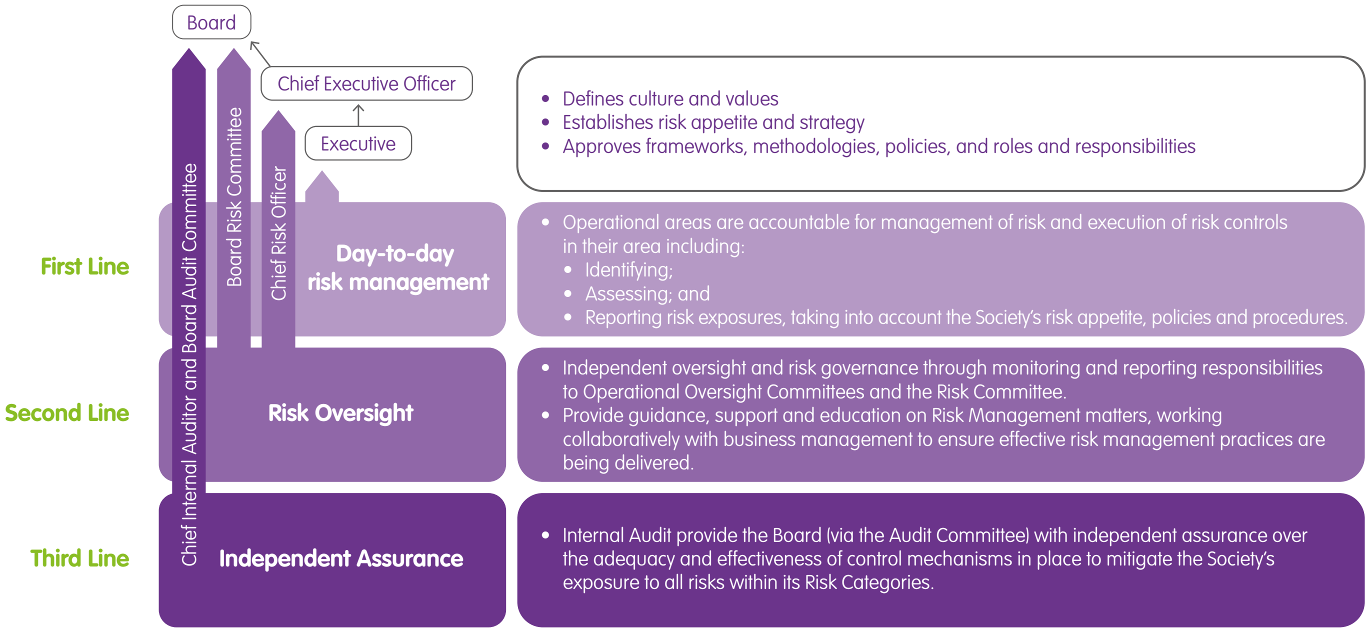
The Society undertakes scenario tests to understand and manage the impact of the occurrence of these events and for more severe scenarios has developed a Recovery Plan that details the options available to the Society and any potential obstacles to recovery.

UK OVA - Institution risk management approach (continued)

(g) Strategies and processes to manage, hedge and mitigate risks and to monitor the effectiveness of hedges and mitigants

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 in line with the risk process, taking into account the Society's risk appetite, its policies and procedures, and ensuring appropriate controls and assessments are in place to mitigate them.

Risk oversight and governance is provided by the Second Line of Defence risk management functions. The Second Line should also provide guidance and support on risk matters, whilst promoting the importance of risks being owned and managed in the First Line. From time to time the Second Line may be called upon to provide an independent opinion on risk management within the First Line.

Finally, under the Third Line, Internal Audit independently challenges the overall management of the framework and provides objective assurance to the AC and Executive on the quality, adequacy and effectiveness of the First and Second Line of Defence, the Society's internal control systems and the risk governance framework.

Internal Audit is responsible for independently verifying and providing assurance that the Risk Framework has been implemented as intended across the business and is embedded and functioning appropriately.

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.

Governance arrangements

UK OVB - Disclosure on governance arrangements

(a) The number of directorships held by members of the management body

The following template 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 that pursues a commercial objective.

Number of directorships held by the Board

At 31 March 2023

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

(b) Information regarding the recruitment policy for the selection of members of the management body

The Nominations Committee, comprised of 3 Non-Executive Directors 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 agree 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.

(c) Information on the diversity policy with regard of the members of the management body

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 and 1/10 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.

(d) Information whether or not the Society has set up a separate risk committee and the frequency of the meetings

The Board has established the RC, which met six times during the year ended 31 March 2023.

(e) Description on the information flow on risk to the management body

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

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

Own funds

The templates *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 2023.

UK CC1 - Composition of regulatory own funds

At 31 March		(a)	(b)	(a)
		Amounts 2023	Source based on reference numbers/ letters of the balance sheet under the regulatory scope of consolidation	Amounts 2022
		£m		£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]	**277.2**	E3	249.6
3	Accumulated other comprehensive income (and other reserves)	**(4.9)**	E3,E4,E5	10.5
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]	**20.4**	E3	20.5
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**419.7**		407.6
Common Equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments (negative amount)	**(0.4)**		(0.4)
8	Intangible assets (net of related tax liability) (negative amount)	**(9.9)**	A8	(10.2)
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)	**(15.8)**	A6	(16.8)
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)	**(8.2)**	A11,L7	(11.2)
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	**(0.4)**		(0.5)
UK-20b	of which: qualifying holdings outside the financial sector (negative amount)	**-**		-
UK-20c	of which: securitisation positions (negative amount)	**(0.4)**		(0.5)
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)	8.3		21.9
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(26.4)**		(17.2)
29	**Common Equity Tier 1 (CET1) capital**	**393.3**		390.4
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	-		-
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**	**-**		-
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**	**-**		-
45	**Tier 1 capital (T1 = CET1 + AT1)**	**393.3**		390.4
Tier 2 (T2) capital: instruments				
46	Capital instruments and the related share premium accounts	21.8	L10	21.8
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**		21.8

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**		21.8
59	**Total capital (TC = T1 + T2)**	**415.1**		412.2
60	**Total Risk exposure amount**	**2,108.5**		2,299.7
Capital ratios and buffers		**%**		%
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	**18.7**		17.0
62	Tier 1 (as a percentage of total risk exposure amount)	**18.7**		17.0
63	Total capital (as a percentage of total risk exposure amount)	**19.7**		17.9
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)	**8.8**		7.7
65	of which: capital conservation buffer requirement	**2.5**		2.5
66	of which: countercyclical buffer requirement	**1.0**		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)	**10.3**		8.6
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)	**9.2**	A6	10.2
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	**24.8**		27.4
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 final distributions for the current financial year are reported within 'Independently reviewed interim profits net of any foreseeable charge or dividend'.

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 2023		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	598.2	598.2	A1
2	Loans and advances to credit institutions	72.8	72.8	A2
3	Investment securities	315.6	315.6	A3
4	Derivative financial instruments	100.5	100.5	A4
5	Loans and advances to customers	4,370.3	4,363.9	A5
6	Deferred tax assets	25.0	25.0	A6
7	Trade and other receivables	10.7	10.8	A7
8	Intangible assets	9.9	9.9	A8
9	Investment properties	152.7	152.7	A9
10	Property, plant and equipment	22.7	22.7	A10
11	Retirement benefit asset	10.9	10.9	A11
12	**Total assets**	**5,689.3**	**5,683.0**	
	Liabilities			
1	Shares	4,306.3	4,306.3	L1
2	Amounts due to credit institutions	826.2	826.2	L2
3	Amounts due to other customers	63.1	56.8	L3
4	Derivative financial instruments	6.7	6.7	L4
5	Debt securities in issue	-	-	L5
6	Current tax liabilities	0.6	0.6	L6
7	Deferred tax liabilities	15.4	15.4	L7
8	Trade and other payables	17.1	17.1	L8
9	Provisions for liabilities	0.5	0.5	L9
10	Subordinated liabilities	22.9	22.9	L10
11	**Total liabilities**	**5,258.8**	**5,252.5**	
	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	292.4	292.4	E3
4	Revaluation reserve	3.3	3.3	E4
5	Fair value reserve	-	-	E5
6	**Total members' interests and equity**	**430.5**	**430.5**	

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

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	

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

The template below shows the Society's issued capital instruments as at 31 March 2023. The full terms and conditions of these capital instruments are available on the Society's website as detailed below.

At 31 March 2023			
		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	£4.50 per CCDS for financial year ended 31 March 2023. The distribution cap is currently £19.40 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 (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 template 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

Capital requirements

The template below shows risk-weighted exposure amounts (RWEAs) analysed by risk type and approach as at 31 March 2023 and the prior year-end date. Total own funds requirements at 31 March 2023 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_1	c_2
		2023	2022	**2023**	2022
		£m	£m	**£m**	£m
1	Credit risk (excluding CCR)	**1,979.9**	2,187.3	**158.4**	175.0
2	Of which the standardised approach	**1,979.9**	2,187.3	**158.4**	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	**3.4**	5.0	**0.3**	0.4
7	Of which the standardised approach	**-**	-	**-**	-
8	Of which internal model method (IMM)	**-**	-	**-**	-
UK 8a	Of which exposures to a CCP	**0.3**	0.2	**-**	-
UK 8b	Of which credit valuation adjustment - CVA	**1.6**	2.6	**0.2**	0.2
9	Of which other CCR	**1.5**	2.2	**0.1**	0.2
15	Settlement risk	**-**	-	**-**	-
16	Securitisation exposures in the non-trading book (after the cap)	**3.7**	5.9	**0.3**	0.5
17	Of which SEC-IRBA approach	**-**	-	**-**	-
18	Of which SEC-ERBA (including IAA)	**3.7**	5.9	**0.3**	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	**121.5**	101.5	**9.7**	8.1
UK 23a	Of which basic indicator approach	**-**	-	**-**	-
UK 23b	Of which standardised approach	**121.5**	101.5	**9.7**	8.1
UK 23c	Of which advanced measurement approach	**-**	-	**-**	-
24	Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)	**23.1**	25.5	**1.8**	2.0
29	Total	**2,108.5**	2,299.7	**168.7**	184.0

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

UK OVC – ICAAP information

(a) Approach to assessing the adequacy of internal capital

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 (ICAAP).

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 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 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.

UK OVC – ICAAP information (continued)

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.

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 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 1% at 31 March 2023 and due to increase to 2% in July 2023.	**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.

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 severe stress scenarios 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 stresses even more severe than the scenarios published by the BoE.

The output from the capital adequacy assessment is reviewed by the CRG, 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.

UK OVC – ICAAP information (continued)

TCR

At 31 March 2023, the Society's TCR (i.e. the sum of Pillar 1 and Pillar 2a capital) of £197.5m is equivalent to 9.4% of risk weighted assets. The Society continues to comfortably meet this requirement using CET 1 capital alone.

(b) The result of the internal capital adequacy assessment process

The Society has not been requested by the PRA to disclose the result of its ICAAP.

Countercyclical buffer

The CCyB is calculated by applying a weighted average of country CCyB 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 CCyB in application of point (a) of Article 440 of the CRR.

Credit exposures relevant for the calculation of the 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 2023

		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	4,760.9	-	-	-	37.5	4,798.4	154.5	-	0.3	154.8	1,935.3	100.00	1.00
020	Total	4,760.9	-	-	-	37.5	4,798.4	154.5	-	0.3	154.8	1,935.3	100.00	

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	

UK CCyB2 - Amount of institution-specific countercyclical capital buffer

At 31 March

		a	a
		2023	2022
1	Total risk exposure amount	**£2,108.5m**	£2,299.7m
2	Institution specific countercyclical capital buffer rate	**1.00%**	0.00%
3	Institution specific countercyclical capital buffer requirement	**£21.1m**	£0.0m

Credit risk and credit risk mitigation (CRM)

UK CRA – General qualitative information about credit risk

(a) Risk statement on how the business model translates into the components of the institution's credit risk profile

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.

(b) Criteria and approach used for defining credit risk management policy and setting credit risk 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 Society's Credit Risk Appetite 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.

(c) 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 CRO and Senior Manager Credit Risk who are accountable for the implementation of the CRMF.

The Society's exposure to residential and commercial credit risk is managed by a specialist Credit Risk team which is responsible for setting the CRMF 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.

(d) 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 reporting through the Divisional Director Operations; the Credit Services and Post Completion Specialist teams reporting through to the Customer Advocacy and Insight Manager; and for Commercial mortgages, the Commercial Lending department is responsible for the workout of the commercial mortgage portfolio and the processing and underwriting of Limited Company Buy to Let loans.

Risk oversight and risk governance are 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 CFO, develops and maintains financial credit risk models. In addition, the team is responsible for the development and maintenance of the Society's IFRS 9 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 Model Risk Oversight 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 MRC for review and approval.

UK CRA – General qualitative information about credit risk (continued)

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

Finally, under the Third Line, Internal Audit provide the Board (via the AC) 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.

UK CRB - Additional disclosure related to the credit quality of assets

(a) Scope and 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 for regulatory capital purposes is entirely consistent with its definition of 'credit-impaired' (stage 3) for accounting purposes under IFRS 9. The default criteria for each portfolio are as follows:

- Core residential mortgages - 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.
- Second charge mortgages - in arrears by three or more months or in bankruptcy, litigation or possession.
- Commercial loans - an LPA Receiver (or equivalent) has been appointed, in arrears by greater than or equal to three months, and/or 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 default based on expert management judgment of the perceived risk of non-payment.
- Liquid assets (Treasury assets) - categorised as 'default' by external credit rating agencies.

(b) Extent of past-due exposures (more than 90 days) that are not considered to be impaired

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.

(c) Description of methods used for determining general and specific 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 a 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. 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.

UK CRB - Additional disclosure related to the credit quality of assets (continued)

(d) Definition of a restructured exposure

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.

Households are facing unprecedented pressure as a result of rapid increases in the cost of living. Although mortgage arrears rates have continued to remain low, the Society has enhanced its forbearance practices in line with regulatory expectation, with a focus on pre-emptive tailor-made support for borrowers.

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.

Quantitative information on performing and non-performing exposures

Template UK CR1 below provides 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 2023		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	**601.6**	601.6	-	**-**	-	-	**-**	-	-	**-**	-	-	**-**	**-**	**-**
010	Loans and advances	**4,329.3**	3,952.0	375.8	**281.1**	-	266.3	**(8.0)**	(1.1)	(6.9)	**(88.9)**	-	(81.3)	**-**	**4,234.7**	**165.4**
020	*Central banks*	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-	**-**	**-**	**-**
030	*General governments*	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-	**-**	**-**	**-**
040	*Credit institutions*	**68.0**	68.0	-	**-**	-	-	**-**	-	-	**-**	-	-	**-**	**-**	**-**
050	*Other financial corporations*	**0.8**	0.8	-	**-**	-	-	**-**	-	-	**-**	-	-	**-**	**0.8**	**-**
060	*Non-financial corporations*	**203.4**	180.3	23.1	**201.8**	-	201.8	**(0.6)**	(0.2)	(0.4)	**(79.0)**	-	(79.0)	**-**	**202.2**	**95.9**
070	*Of which SMEs*	**203.4**	180.3	23.1	**201.8**	-	201.8	**(0.6)**	(0.2)	(0.4)	**(79.0)**	-	(79.0)	**-**	**202.2**	**95.9**
080	*Households*	**4,057.1**	3,702.9	352.7	**79.3**	-	64.5	**(7.4)**	(0.9)	(6.5)	**(9.9)**	-	(2.3)	**-**	**4,031.7**	**69.5**
090	Debt securities	**315.6**	315.2	-	**-**	-	-	**-**	-	-	**-**	-	-	**-**	**-**	**-**
100	*Central banks*	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-	**-**	**-**	**-**
110	*General governments*	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-	**-**	**-**	**-**
120	Credit institutions	**277.8**	277.8	-	**-**	-	-	**-**	-	-	**-**	-	-	**-**	**-**	**-**
130	*Other financial corporations*	**37.8**	37.4	-	**-**	-	-	**-**	-	-	**-**	-	-	**-**	**-**	**-**
140	*Non-financial corporations*	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-	**-**	**-**	**-**
150	Off-balance-sheet exposures	**262.0**	261.9	0.1	**-**	-	-	**-**	-	-	**-**	-	-		**-**	**-**
160	*Central banks*	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-		**-**	**-**
170	*General governments*	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-		**-**	**-**
180	*Credit institutions*	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-		**-**	**-**
190	*Other financial corporations*	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-		**-**	**-**
200	*Non-financial corporations*	**7.0**	7.0	-	**-**	-	-	**-**	-	-	**-**	-	-		**-**	**-**
210	*Households*	**255.0**	254.9	0.1	**-**	-	-	**-**	-	-	**-**	-	-		**-**	**-**
220	**Total**	**5,508.5**	5,130.7	375.9	**281.1**	-	266.3	**(8.0)**	(1.1)	(6.9)	**(88.9)**	-	(81.3)	**-**	**4,234.7**	**165.4**

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

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

Template 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 basis, rather than an expected basis, and does not take into account the cash flows payable or receivable over the life of the instrument.

The template 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 IFRS.

UK CR1-A: Maturity of exposures

At 31 March 2023

		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	-	471.0	424.4	3,878.5	(80.1)	4,693.8
2	Debt securities	-	173.3	104.4	37.9	-	315.6
3	**Total**	-	644.3	528.8	3,916.4	(80.1)	5,009.4

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

The template below analyses the movement in the stock of non-performing loans and advances during the financial year ended 31 March 2023. A number of legacy commercial loans were written off during the period.

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

Year ended 31 March

		a	a
		Gross carrying amount	Gross carrying amount
		2023	2022
		£m	£m
010	**Initial stock of non-performing loans and advances**	326.2	325.6
020	Inflows to non-performing portfolios	59.0	43.1
030	Outflows from non-performing portfolios	(104.1)	(42.5)
040	Outflows due to write-offs	(39.7)	(3.1)
050	Outflow due to other situations	(64.4)	(39.4)
060	**Final stock of non-performing loans and advances**	281.1	326.2

An analysis of loan exposures subject to forbearance measures, and the associated impairment provision requirements, is presented in template UK 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 2023

		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	**5.3**	**73.1**	73.1	73.1	**(0.1)**	**(20.3)**	**44.1**	39.0
020	*Central banks*	**-**	**-**	-	-	**-**	**-**	**-**	-
030	*General governments*	**-**	**-**	-	-	**-**	**-**	**-**	-
040	*Credit institutions*	**-**	**-**	-	-	**-**	**-**	**-**	-
050	*Other financial corporations*	**-**	**-**	-	-	**-**	**-**	**-**	-
060	*Non-financial corporations*	**3.4**	**57.4**	57.4	57.4	**(0.1)**	**(19.5)**	**27.3**	24.1
070	*Households*	**1.9**	**15.7**	15.7	15.7	**-**	**(0.8)**	**16.8**	14.9
080	Debt Securities	**-**	**-**	-	-	**-**	**-**	**-**	-
090	Loan commitments given	**-**	**-**	-	-	**-**	**-**	**-**	-
100	**Total**	**5.3**	**73.1**	73.1	73.1	**(0.1)**	**(20.3)**	**44.1**	39.0

UK CQ1: Credit quality of forborne exposures (continued)

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	
		Performing forborne	Non-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

Template UK CQ3 below provides a past due analysis of the Society's assets by portfolio and performing/non-performing status. The figures shown are based on accounting values under IFRS for assets under the regulatory scope of consolidation.

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

At 31 March 2023

		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	**601.6**	601.6	-	**-**	-	-	-	-	-	-	-	-
010	Loans and advances	**4,329.3**	4,311.4	17.9	**281.1**	186.2	15.0	9.4	16.3	4.3	49.7	0.2	281.1
020	*Central banks*	**-**	-	-	**-**	-	-	-	-	-	-	-	-
030	*General governments*	**-**	-	-	**-**	-	-	-	-	-	-	-	-
040	*Credit institutions*	**68.0**	68.0	-	**-**	-	-	-	-	-	-	-	-
050	*Other financial corporations*	**0.8**	0.8	-	**-**	-	-	-	-	-	-	-	-
060	*Non-financial corporations*	**203.4**	203.4	-	**201.8**	132.5	-	2.0	13.7	3.9	49.7	-	201.8
070	*Of which SMEs*	**203.4**	203.4	-	**201.8**	132.5	-	2.0	13.7	3.9	49.7	-	201.8
080	*Households*	**4,057.1**	4,039.2	17.9	**79.3**	53.7	15.0	7.4	2.6	0.4	-	0.2	79.3
090	Debt securities	**315.6**	315.6	-	**-**	-	-	-	-	-	-	-	-
100	*Central banks*	**-**	-	-	**-**	-	-	-	-	-	-	-	-
110	*General governments*	**-**	-	-	**-**	-	-	-	-	-	-	-	-
120	*Credit institutions*	**277.8**	277.8	-	**-**	-	-	-	-	-	-	-	-
130	*Other financial corporations*	**37.8**	37.8	-	**-**	-	-	-	-	-	-	-	-
140	*Non-financial corporations*	**-**	-	-	**-**	-	-	-	-	-	-	-	-
150	Off-balance-sheet exposures	**262.0**			**-**								-
160	*Central banks*	**-**			**-**								-
170	*General governments*	**-**			**-**								-
180	*Credit institutions*	**-**			**-**								-
190	*Other financial corporations*	**-**			**-**								-
200	*Non-financial corporations*	**7.0**			**-**								-
210	*Households*	**255.0**			**-**								-
220	**Total**	**5,508.5**	5,228.6	17.9	**281.1**	186.2	15.0	9.4	16.3	4.3	49.7	0.2	281.1

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

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

Template 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 impairment**	**Accumulated negative changes in fair value due to credit risk on non-performing exposures**	Gross carrying amount				Accumulated impairment	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				Of which non-performing		Of which loans and advances subject to impairment		
				Of which defaulted						Of which defaulted			
		2023	2023	2023	2023	**2023**	**2023**	2022	2022	2022	2022	2022	2022
		£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	**405.2**	201.8	201.8	405.2	**(79.6)**	**-**	478.8	247.4	247.4	478.8	(97.5)	-
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**	**405.2**	201.8	201.8	405.2	**(79.6)**	**-**	478.8	247.4	247.4	478.8	(97.5)	-

Standardised approach

The Society applies the Standardised Approach to all portfolios subject to credit risk.

UK CRD – Qualitative disclosure requirements related to the standardised model

(a) Names of the external credit assessment institutions (ECAIs) and export credit agencies (ECAs) used by the Society

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.

(b) Exposure classes for which each ECAI or ECA is used

The Society makes use of external credit ratings from ECAIs to assess the credit risk arising on its Treasury portfolio, which comprises assets in the following standardised exposure classes: central governments or central banks, multilateral development banks, institutions, covered bonds and securitisation positions.

(c) Process to transfer the issuer and issue credit ratings onto comparable items not included in the trading book

The Society does not have a trading book. The Society uses issue rating for investments in mortgage backed securities (MBS) and covered bonds, and the long-term credit assessment rating of the issuer for other Treasury assets held in the banking book.

(d) Association of the external rating of each nominated ECAI or ECA with the risk weights that correspond with the credit quality steps

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.

Credit risk exposures and CRM effects

Template 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 CRM. It also discloses the corresponding RWAs by value and by average risk weight percentage.

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

At 31 March 2023		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	607.4	-	608.7	-	23.1	3.8
2	Regional government or local authorities	-	-	-	-	-	-
3	Public sector entities	-	-	-	-	-	-
4	Multilateral development banks	49.9	-	49.9	-	-	0.0
5	International organisations	-	-	-	-	-	-
6	Institutions	111.2	-	111.2	-	25.3	22.8
7	Corporates	1.8	-	0.6	-	0.6	100.0
8	Retail	40.7	16.6	40.7	3.3	33.0	75.0
9	Secured by mortgages on immovable property	4,128.9	239.4	4,128.9	47.9	1,476.7	35.4
10	Exposures in default	192.4	-	192.3	-	211.4	109.9
11	Exposures associated with particularly high risk	-	-	-	-	-	-
12	Covered bonds	152.6	-	152.6	-	15.3	10.0
13	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
14	Collective investment undertakings	-	-	-	-	-	-
15	Equity	-	-	-	-	-	-
16	Other items	194.5	-	194.5	-	194.5	100.0
17	**Total**	5,479.4	256.0	5,479.4	51.2	1,979.9	35.8

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

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

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

UK CR5 – standardised approach

At 31 March 2023

		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	599.5	-	-	-	-	-	-	-	-	-	-	9.2	-	-	-	608.7	-
2	Regional government or local authorities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3	Public sector entities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4	Multilateral development banks	49.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	49.9	-
5	International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	Institutions	-	-	-	-	101.0	-	10.2	-	-	-	-	-	-	-	-	111.2	-
7	Corporates	-	-	-	-	-	-	-	-	-	0.6	-	-	-	-	-	0.6	0.6
8	Retail exposures	-	-	-	-	-	-	-	-	44.0	-	-	-	-	-	-	44.0	44.0
9	Exposures secured by mortgages on immovable property	-	-	-	-	-	4,153.5	-	-	-	23.3	-	-	-	-	-	4,176.8	4,176.8
10	Exposures in default	-	-	-	-	-	-	-	-	-	154.2	38.1	-	-	-	-	192.3	192.3
11	Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	Covered bonds	-	-	-	152.6	-	-	-	-	-	-	-	-	-	-	-	152.6	-
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	-	-	-	-	-	-	-	-	-	194.5	-	-	-	-	-	194.5	194.5
17	**Total**	649.4	-	-	152.6	101.0	4,153.5	10.2	-	44.0	372.6	38.1	9.2	-	-	-	5,530.6	4,608.2

UK CR5 – standardised approach (continued)

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

Credit risk mitigation techniques

UK CRC – Qualitative disclosure requirements related to CRM techniques

(a) Core policies and processes for on- and off-balance sheet netting

On-balance sheet netting is used only where there is a legally enforceable right of set-off which, for the Society, applies to derivative contracts and sale and repurchase transactions (repos) with the same counterparty.

(b) Core features of policies and processes for eligible collateral evaluation and management

The primary source of collateral for mitigating credit risk within the Society's mortgage portfolios is the underlying property. 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. A suitable buildings insurance policy must be maintained for the duration of the mortgage term.

Within the Treasury portfolio (assets used to meet liquidity requirements and those hedging instruments used for interest rate risk management purposes), MBS and covered bonds are backed by pools of underlying assets whereas other loans and debt securities have no underlying security.

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.

Exposures to securities financing transactions, in the form of repos entered into for liquidity management purposes, are mitigated under the terms of a Global Master Repurchase Agreement (GMRA) through the monitoring and appropriate transfer of cash collateral.

(c) Main types of collateral taken by the Society to mitigate risk

The primary source of collateral for mitigating credit risk within the Society's mortgage portfolios is the underlying residential or commercial property. Supplementary cash collateral is held with respect to certain legacy commercial loans.

All collateral exchanged in relation to derivative and repo transactions is in the form of cash.

(d) Guarantees and credit derivatives used as credit protection

The Society does not utilise credit derivatives. In line with its risk appetite, the Society uses Mortgage Indemnity Guarantee (MIG) Insurance to insure against losses on residential loan advances where the Loan to Value exceeds 80%. For legacy commercial lending, supplementary credit protection may be provided in the form of personal or cross-collateralisation guarantees. However, no CRM benefits are assumed for MIG or personal/cross-collateralisation guarantees when assessing Pillar 1 capital requirements.

UK CRC – Qualitative disclosure requirements related to CRM techniques (continued)

(e) Market or credit risk concentrations within the credit mitigation taken

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.

To mitigate against concentration risk in the Treasury portfolio, a series of limits, including counterparty and country concentration limits, are set out in the Board-approved Treasury and Financial Risk Management Policy with exposures monitored on an intra-daily basis.

The template UK CR3 which follows provides a breakdown of loans and advances and debt securities indicating those which benefit from CRM (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 £669.6m (2022: £723.4m) of the unsecured loans and advances presented in the template UK CR3 below.

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

At 31 March											
			Secured carrying amount					Secured carrying amount			
					Of which secured by financial guarantees					Of which secured by financial guarantees	
		Unsecured carrying amount		Of which secured by collateral		Of which secured by credit derivatives	Unsecured carrying amount		Of which secured by collateral		Of which secured by credit derivatives
		a	**b**	c	d	e	a	b	c	d	e
		2023	**2023**	2023	2023	2023	2022	2022	2022	2022	2022
		£m	**£m**	£m	£m	£m	£m	£m	£m	£m	£m
1	Loans and advances	**715.0**	**4,400.1**	4,400.1	-	-	783.3	4,762.4	4,762.3	0.1	-
2	Debt securities	**315.6**	**-**	-	-		286.9	-	-	-	
3	Total	**1,030.6**	**4,400.1**	4,400.1	-	-	1,070.2	4,762.4	4,762.3	0.1	-
4	*Of which non-performing exposures*	26.8	165.4	165.4	-	-	40.1	188.4	188.4	-	-
5	*Of which defaulted*	26.8	165.4				40.1	188.4			

Counterparty credit risk

UK CCRA - Qualitative disclosure related to CCR

(a) Methodology used to assign internal capital and credit limits for counterparty credit exposures

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 CCR 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.

The Society has applied the Original Exposure Method (OEM) to CCR throughout the reporting period and will move to the simplified Standardised Approach to Counterparty Credit Risk from April 2023. Under these approaches, the Society's exposure value to derivatives is determined with reference to any margin thresholds and minimum transfer amounts specified in the corresponding contracts with an add-on for potential future credit exposure, which considers the type of derivative, its notional and residual maturity. For capital purposes, the exposures are risk-weighted according to the counterparty.

We also recognise Credit Valuation Adjustments (CVAs) for bilateral swap transactions to cover expected credit losses. These CVAs are calculated following the Standardised Approach.

(b) Policies related to guarantees and other credit risk mitigants

As explained in the 'Credit risk mitigation techniques' section, the Society mitigates the 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 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.

(c) Policies with respect to wrong-way risk

'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.

(d) Other risk management objectives and relevant policies related to CCR

The Society may from time to time enter into repos with counterparties with whom the Society has both a GRMA 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 CCR 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.

(e) Amount of collateral the Society would have to provide if its credit rating was downgraded

The Society's contracts would not require the posting of additional collateral in the event of a ratings downgrade.

Template 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 OEM where the size of their derivatives business falls below £88m and 5% of total assets. At 31 March 2023, the size of the Society's derivative business calculated in accordance with Article 273a(2) of the CRR was £107.1m (2022: £63.9m) which equated to 1.89% (2022: 1.05%) of total assets. The £88m threshold for application of the OEM approach was first exceeded in August 2022, following a significant upwards shift in the yield curve. In accordance with the PRA Rulebook, the Society will adopt the simplified Standardised Approach to Counterparty Credit Risk with effect from April 2023. For the Pillar 3 reporting period, the OEM has been applied to all derivative arrangements. For SFTs, the Society has adopted the Financial Collateral Simple Method; however the Society had no SFT exposures at 31 March 2023 or 31 March 2022.

UK CCR1 – Analysis of CCR exposure by approach

At 31 March 2023

		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)	1.3	0.9		1.4	3.0	3.0	3.0	1.5
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**					**3.0**	**3.0**	**3.0**	**1.5**

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	2.0		1.4	5.0	5.0	5.0	2.2
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					5.0	5.0	5.0	2.2

Notes
1 Comparatives have been restated to exclude exposures to central counterparties which are disclosed in table UK CCR8

The following template 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		a	b	a	b
		Exposure value	**RWEA**	Exposure value	RWEA
		2023	**2023**	2022	2022
		£m	**£m**	£m	£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	**2.9**	**1.6**	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**	**2.9**	**1.6**	3.5	2.6

Template 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 2023

		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	-	13.5	-	-	-	3.0	-	-	-	-	-	16.5
7	Corporates	-	-	-	-	-	-	-	-	-	-	-	-
8	Retail	-	-	-	-	-	-	-	-	-	-	-	-
9	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-
10	Other items	-	-	-	-	-	-	-	-	-	-	-	-
11	**Total exposure value**	-	13.5	-	-	-	3.0	-	-	-	-	-	16.5

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

Template 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		a Exposure value 2023 £m	b RWEA 2023 £m	a Exposure value 2022 £m	b RWEA 2022 £m
1	**Exposures to QCCPs (total)**		**0.3**		0.2
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	**13.5**	**0.3**	12.1	0.2
3	(i) OTC derivatives	**13.5**	**0.3**	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	**36.9**		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

UK-SECA – Qualitative disclosure requirements related to securitisation exposures

(a) Description of securitisation and re-securitisation activities

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. In the CRR, legal entities used for securitisation purposes are described as securitisation special purpose entities (SSPEs).

Originated securitisations

The Group has established structured entities, using residential and commercial mortgage loans as the underlying asset pools, to obtain secured funding or create collateral that can be used in wholesale funding initiatives. Residual credit risk exists where the Group retains an interest in the structured entities, for example through the provision of subordinated debt and/or start up loans and liquidity facilities where applicable.

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.

Structured entities fully consolidated for regulatory capital purposes are as follows:

Hawthorn Finance Limited and Hawthorn Asset Co Limited

In July 2008, West Bromwich Mortgage Company Limited 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. All notes were called on the initial call option date of 11 January 2023 at which time the underlying pool of mortgages assets was transferred back to the Society.

Structured entities not consolidated for regulatory capital purposes are as follows:

Sandwell Commercial Finance No. 1 Plc

In May 2004, West Bromwich Commercial Limited 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, West Bromwich Commercial Limited 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.

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 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 invests in residential mortgage backed securities (RMBS) issued by third parties in accordance with a clearly defined credit risk policy.

The Society has also invested in commercial mortgage backed securities (CMBS) issued by Sandwell Commercial Finance No. 2 Plc, an originated securitisation for which significant risk transfer is achieved.

Other securitisation activity

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

(b) Type of risk exposure in securitisation and re-securitisation activities

(i) Risk retained in own-originated transactions

Structured entities fully consolidated for regulatory capital purposes:

At 31 March 2023, the Society held 100% (2022: 100%) of the class A and class B notes issued by Hawthorn Finance Limited with an aggregate carrying value of £370.6m (2022: £453.7m). The loan notes issued by Kenrick No. 3 Plc were fully repaid on 11 January 2023 at which time the underlying loans were transferred back to the Society.

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.

UK-SECA – Qualitative disclosure requirements related to securitisation exposures (continued)

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 and Hawthorn Asset Co. Limited (and, previously, 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.

Structured entities not consolidated for regulatory capital purposes:

The Society, through its subsidiary company, West Bromwich Commercial Limited, 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 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 Society does not provide any liquidity facilities to the structured entities. West Bromwich Commercial Limited 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 (2022: £nil) in the financial statements of West Bromwich Commercial Limited with reference to the cumulative losses on the securitised loans within Sandwell Commercial Finance No. 1 Plc and Sandwell Commercial Finance No. 2 Plc.

(ii) Risk incurred in relation to transactions originated by third parties

Purchased securitisation positions expose the Society to the performance of the underlying asset pools and structures, with credit enhancement features being a key risk mitigant. Purchases and retention of externally-issued RMBS are undertaken within a clearly defined credit risk policy. All RMBS holdings are monitored on a daily basis and, if the credit rating deteriorates below AAA level, the position is reviewed. The liquidity of RMBS assets held, either through sale or sale and repurchase, is regularly tested by Treasury and reported accordingly.

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 2023, all of the Group's RMBS holdings were STS-compliant (2022: 100%).

As at 31 March 2023, the CMBS issued by Sandwell Commercial Finance No. 2 Plc held by the Society had a fair value of £0.4m (2022: £0.5m) which was fully 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 2023.

(c) Approaches to calculating the 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 own funds.

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 and Hawthorn Asset Co Limited are treated in this manner. The same methodology was adopted for Kenrick No. 3 Plc until the unwinding of the structure on 11 January 2023.

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. As noted above, all of the Society's purchased RMBS at 31 March 2023 and 31 March 2022 met the criteria for STS categorisation and were risk-weighted accordingly. The Society fully deducts from capital its exposures to loan notes issued by Sandwell Commercial Finance No. 2 Plc.

The use of credit quality steps and associated risk weightings for securitisation exposures reflects the guidance set out in Regulation (EU) 2017/2401.

UK-SECA – Qualitative disclosure requirements related to securitisation exposures (continued)

(d) List of SSPEs by category

(i) SSPEs which acquire exposures originated by the Society

- Kenrick No. 3 Plc acquired a 99% interest in residential mortgages originated by West Bromwich Building Society;
- Hawthorn Asset Co Limited acquired residential buy to let mortgages originated by West Bromwich Mortgage Company Limited; and
- Sandwell Commercial Finance No. 1 Plc and Sandwell Commercial Finance No. 2 Plc acquired commercial mortgages originated by West Bromwich Commercial Limited.

(ii) SSPEs sponsored by the Society

The Society does not act as sponsor for any SSPEs.

(iii) SSPEs for which the Society provides securitisation-related services

- The Society provided administration and cash management services for Kenrick No. 3 Plc until the unwind of the structure on 11 January 2023;
- West Bromwich Mortgage Company Limited provides administration and cash management services for Hawthorn Asset Co Limited;
- West Bromwich Mortgage Company Limited provides cash management services for Hawthorn Finance Limited; and
- West Bromwich Commercial Limited provides administration and cash management services for Sandwell Commercial Finance No. 1 Plc and Sandwell Commercial Finance No. 2 Plc.

(iv) SSPEs included in the Society's regulatory scope of consolidation

Kenrick No. 3 Plc, Hawthorn Asset Co Limited and Hawthorn Finance Limited are included in the regulatory scope of consolidation.

(e) Legal entities to which the Society has provided support in accordance with Chapter 5 of Title II of Part Three CRR

The Society has not provided any implicit support (according to Article 250 of the CRR) to any of the structured entities created for funding purposes.

(f) Legal entities affiliated with the Group that invest in securitisations originated by the Group or in securitisation positions issued by SSPEs sponsored by the Group

The Society has invested in notes issued by Sandwell Commercial Finance No. 2 Plc. The Society does not act as sponsor for any SSPEs.

(g) Summary of accounting policies for securitisation activity

Originated transactions

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. 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.

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 activity 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. 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 West Bromwich Commercial Limited 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.

UK-SECA – Qualitative disclosure requirements related to securitisation exposures (continued)

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 RMBS held at 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 (SPPI) on the outstanding balance. In the case of MBS, 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.

(h) Names of ECAIs used for securitisations and types of exposure for which each agency is used

External credit ratings are sourced from Moody's, Standard and Poor's and Fitch for originated securitisations and for the purposes of applying SEC-ERBA to purchased securitisation positions.

(i) Description of the Internal Assessment Approach

The Society does not use the Internal Assessment Approach for any of its securitisation positions.

Quantitative information on securitisation exposures

Template 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 template 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 2023		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**	**-**	**-**	**359.4**	**0.4**	**-**	**-**	**359.4**	**-**	**-**	**-**	**-**	**37.5**	**-**	**-**	**37.5**
2	Retail (total)	**-**	**-**	**359.0**	**-**	**-**	**-**	**359.0**	**-**	**-**	**-**	**-**	**37.5**	**-**	**-**	**37.5**
3	residential mortgage	-	-	359.0	-	-	-	359.0	-	-	-	-	37.5	-	-	37.5
4	credit card	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5	other retail exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	Wholesale (total)	-	-	0.4	0.4	-	-	0.4	-	-	-	-	-	-	-	-
8	loans to corporates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	commercial mortgage	-	-	0.4	0.4	-	-	0.4	-	-	-	-	-	-	-	-
10	lease and receivables	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	other wholesale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

UK-SEC1 - Securitisation exposures in the non-trading book (continued)

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 template 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 2023

		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**	**-**	**-**	**-**	**-**	**0.4**	**-**	**-**	**-**	**0.4**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2	Traditional transactions	**-**	**-**	**-**	**-**	**0.4**	**-**	**-**	**-**	**0.4**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
3	Securitisation	-	-	-	-	0.4	-	-	-	0.4	-	-	-	-	-	-	-	-
4	Retail underlying	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5	Of which STS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	Wholesale	-	-	-	-	0.4	-	-	-	0.4	-	-	-	-	-	-	-	-
7	Of which STS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	Re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Synthetic transactions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	Retail underlying	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	Wholesale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	Re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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

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	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Template 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 2023		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**	**37.5**	**-**	**-**	**-**	**-**	**-**	**37.5**	**-**	**-**	**-**	**3.7**	**-**	**-**	**-**	**0.3**	**-**	**-**
2	Traditional securitisation	**37.5**	**-**	**-**	**-**	**-**	**-**	**37.5**	**-**	**-**	**-**	**3.7**	**-**	**-**	**-**	**0.3**	**-**	**-**
3	Securitisation	37.5	-	-	-	-	-	37.5	-	-	-	3.7	-	-	-	0.3	-	-
4	Retail underlying	37.5	-	-	-	-	-	37.5	-	-	-	3.7	-	-	-	0.3	-	-
5	Of which STS	37.5	-	-	-	-	-	37.5	-	-	-	3.7	-	-	-	0.3	-	-
6	Wholesale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	Of which STS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	Re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Synthetic securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	Retail underlying	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	Wholesale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	Re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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

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, template 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 comparative 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 2023

		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**	**365.4**	**9.6**	**(0.2)**
2	Retail (total)	**359.0**	**8.1**	**(0.3)**
3	residential mortgage	359.0	8.1	(0.3)
4	credit card	-	-	-
5	other retail exposures	-	-	-
6	re-securitisation	-	-	-
7	Wholesale (total)	**6.4**	**1.5**	**0.1**
8	loans to corporates	-	-	-
9	commercial mortgage	6.4	1.5	0.1
10	lease and receivables	-	-	-
11	other wholesale	-	-	-
12	re-securitisation	-	-	-

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

UK MRA: Qualitative disclosure requirements related to market risk

(a) Description of strategies and processes to manage market risk

The Society does not have a trading book such that market risk arises only on the banking book.

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. 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.

(b) Structure and organisation of the market risk management function

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.

(c) Scope and nature of risk reporting and measurement systems

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

UK ORA: Qualitative information on operational risk

(a) Disclosure of risk management objectives and policies

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 behaviours, 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 who act as the First Line of Defence. The business function receives support and guidance from the Operational Risk team, which collates regular output for review by executive management, ORRG, ERC, and RC. The Operational 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 of Defence, Internal Audit provides the Board (via the AC) 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 member of ERC. 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 ORRG; a First Line committee chaired by the Chief Operating Officer.
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).

UK ORA: Qualitative information on operational risk (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.	PCG 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 risk is managed by a small internal Legal team and selectively uses external firms where specific legal support is required. 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. Regulatory developments are monitored and scrutinised by our Compliance Team who support business teams in meeting our regulatory obligations.
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.

UK ORA: Qualitative information on operational risk (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 Risk team has formal responsibility for reporting on the Society's overall operational risk profile to the ORRG on a monthly basis and periodically to the ERC/RC/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 behaviours 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 ORRG.

Operational Resilience overview

Operational Resilience has visibility at Board level via regular quarterly reporting and the annual 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 and includes enhancements such as threat radars and operational risk insights and risk events. We are now within 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 Geo Political, the Society has checked and tested throughout the last period the resilience of both critical third parties and our own capabilities to provide assurance.

UK ORA: Qualitative information on operational risk (continued)

(b) Approaches for the assessment of minimum 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.

(c) Description of the AMA methodology approach used (if applicable)

This disclosure is not applicable because the Society does not apply the Advanced Measurement Approach.

(d) Use of insurance for risk mitigation in the Advanced Measurement Approach (if applicable)

This disclosure is not applicable because the Society does not apply the Advanced Measurement Approach.

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

At 31 March 2023

		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	**66.8**	**78.3**	**95.6**	**9.7**	**121.5**
3	*Subject to TSA:*	**66.8**	**78.3**	**95.6**		
4	*Subject to ASA:*	-	-	-		
5	Banking activities subject to advanced measurement approaches AMA	-	-	-	-	-

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)

UK IRRBBA - IRRBB risk management objectives and policies

Qualitative disclosure

(a) How the Society defines, measures, mitigates and controls IRRBB for the purposes of risk control and measurement

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), Market Value (MV) and 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. Within the Core Portfolio, the IRR measures of MV and EVE perform the same function, as the treatments applicable to these are only different within the Capital Portfolio (with non-interest-bearing capital liabilities included in the MV calculation, subject to assigned repricing duration(s), but excluded from the EVE calculation). The Core Portfolio should exhibit a low NII and MV/EVE 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.

(b) The Society's overall IRRBB management and mitigation strategies

The NII 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 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.

To limit these earnings and market value exposures, the Society makes use of on-balance sheet hedging of savings and mortgages of a similar tenor where possible. The Board has also authorised the use of vanilla fixed and variable notional interest rate derivatives to hedge fixed rate assets and liabilities, including pipeline mortgages and savings.

The Board has set a lower bound upon the weighted average duration for assets in the Capital Portfolio to ensure stability of income over the medium term. An upper bound also applies to avoid undue market value risk exposure of portfolio investments. To ensure the portfolio is not overly invested in one point of the yield curve, maturity concentration limits apply to fixed rate asset exposures in the portfolio. Exposures are maintained within these limits via the allocation of new (pipeline) or existing fixed rate assets to the portfolio in line with Board approved limits, subject to regular oversight at HC and ALCo. Interest rate swaps may also be used for this purpose.

(c) The periodicity of the calculation of the Society's IRRBB measures

The Society's IRRBB measures include NII sensitivity, MV sensitivity, EVE sensitivity, pipeline take-up risk MV sensitivity and repricing gap. All risk measures are assessed at least monthly.

(d) Interest rate shock and stress scenarios that the Society uses to estimate changes in economic value and earnings

The Society measures its EVE exposures against the six prescribed rate shocks (Up, Down, Steepener, Flattener, Short Up, Short Down) as part of the supervisory Outlier Test. In addition to the prescribed stresses, the Society calculates MV sensitivity to +/-250bps yield curve shifts, and NII sensitivity to a range of parallel rate shocks up to +/-250bps. The sensitivities to a variety of non-parallel yield curve shifts and rate shocks are also assessed.

(e) Key modelling and parametric assumptions used in calculating change in economic value in equity (ΔEVE) and change in net interest income (ΔNII) in template UK IRRBB1

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

ΔEVE measures the difference between the present value of assets and liabilities in a baseline scenario and each of the six rate shock scenarios prescribed by the PRA. The balance sheet is assumed to run-off and the Society's own equity is excluded from the calculation. 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 modelling purposes.

As per the regulatory requirements, ΔNII is reported against the parallel shock up and parallel shock down only. The parallel shift is assumed to apply to all floating rates (market rates and those administered by the Society). A constant balance sheet is assumed over the assessment period, with assets and liabilities maturing in this period assumed to roll into like-for-like products at constant margin. 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 captured elsewhere in the Society's risk management framework.

UK IRRBBA – IRRBB risk management objectives and policies (continued)

(f) Modelling assumptions used in the Society's internal measurement systems that differ from the assumptions prescribed for disclosure in template UK IRRBB1

In addition to the prescribed stresses and the additional rate/yield curve shock stresses noted above, the Society also varies its modelling assumptions in order to calculate:

ΔNII to negative rate shocks subject to assumed zero pay rate floors for savings products; and

ΔMV to pipeline mortgage and savings take-up risk for parallel upwards and downwards rate shocks.

These additional IRRBB stress tests are maintained outside of the primary disclosures modelling to ensure transparency and comparability of the Society's underlying IRRBB risk.

(g) How the Society hedges its IRRBB and the associated accounting treatment

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 Assets and Liabilities Management 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.

Derivative financial instruments (both assets and liabilities) are initially recognised and subsequently held at fair value in the Statement of Financial Position with changes in their fair value going through the Income Statement. However, by applying the hedge accounting rules set out in IAS 39, the changes in fair value of derivatives used to hedge particular risks can be offset in the Income Statement.

i) Fair value hedges - The Group undertakes hedges of the fair value of recognised assets or liabilities (fair value hedges) provided that certain criteria are met. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Income Statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item, for which the effective interest rate method is used, is amortised to profit or loss over the remaining expected life of the previously hedged item. The Group documents, at the inception of any hedging transaction, the relationship between the hedging instrument and the hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

ii) Derivatives that do not qualify for hedge accounting - Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the Income Statement.

(h) Other information regarding significance and sensitivity of IRRBB measures

Economic Value of Equity (ΔEVE) sensitivities

Of the six EVE sensitivities, the Group's largest adverse exposure is to the parallel up scenario, with a decline in EVE of £21.3m. The most significant driver of this sensitivity relates to structural reserves hedging, with a decline in EVE of £14.8m resulting from the exclusion of the Group's own equity (reserves and PIBS). Despite the impact on EVE, reserves structural hedging reduces potential volatility in the Group's net interest margin arising from changes in interest rates.

The second most significant impact is due to the change in economic value of 'core' on-balance sheet assets and liabilities along with balance sheet hedging strategies. The IRRBB exposure for this is typically low as risk is well-controlled through hedging action, however some exposure can be accepted within Board approved appetite.

An additional material impact relates to stressing the level of prepayments on the fixed mortgage and savings books, where it is assumed that customer behaviour under the parallel up scenario would result in mismatches with existing hedging profiles and have an adverse impact of balance sheet economic value.

Net Interest Income (ΔNII) sensitivities

The parallel down sensitivity results in a reduction of NII of £0.7m due to the change in interest income earned from on-balance sheet assets and liabilities along with balance sheet hedging strategies. This includes the NII sensitivity of the 'core' assets and liabilities, as well as that of the interest-bearing assets notionally allocated as a hedge of reserves.

UK IRRBBA – IRRBB risk management objectives and policies (continued)

Quantitative disclosures

(i) Average repricing maturity assigned to non-maturing deposits (NMDs)

At 31 March 2023, the average repricing maturity assigned to non-maturing capital is 3.07 years (2022: 2.88 years). The Society does not apply repricing duration assumptions to interest-bearing NMDs such as variable rate retail savings, with these being allocated to the shortest overnight time bucket for IRRBB modelling purposes.

(j) Longest repricing maturity assigned to NMDs

At 31 March 2023, the longest repricing maturity assigned to non-maturing capital is 9.92 years (2022: 10.25 years). As above, the Society does not apply repricing duration assumptions to interest-bearing NMDs such as variable rate retail savings, with these being allocated to the shortest overnight time bucket for IRRBB modelling purposes.

Template UK IRRBB1 below indicates the impact on the Society's EVE and NII from interest rate changes, as at 31 March 2023 and 31 March 2022, under the six standard scenarios defined in the PRA Rulebook.

UK IRRBB1 - Quantitative information on IRRBB

At 31 March

		a	b	c	d	e	f
	In £m	**ΔEVE**		**ΔNII**		**Tier 1 capital**	
	Period	**2023**	2022	**2023**	2022	**2023**	2022
010	Parallel shock up	**(21.3)**	(16.4)	**0.5**	1.1		
020	Parallel shock down	**22.1**	17.7	**(0.7)**	5.8		
030	Steepener shock	**2.0**	1.6				
040	Flattener shock	**(5.7)**	(4.6)				
050	Short rates shock up	**(12.2)**	(9.5)				
060	Short rates shock down	**12.5**	9.9				
070	**Maximum**	**(21.3)**	(16.4)	**(0.7)**	1.1		
080	**Tier 1 capital**					**393.3**	390.4

Liquidity and funding risk

UK LIQA – Liquidity risk management

(a) Strategies and processes in the management of liquidity risk

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.

(b) Structure and organisation of the 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 RC. In addition to RC and Board, the formal Liquidity Risk Governance structure also incorporates ERC and ALCo. ALCo has delegated mandates on liquidity planning and liquid asset investments to the Liquidity Management Committee (LMC) and Investment Committee.

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 AC.

(c) Degree of centralisation of liquidity management

Liquidity risk is managed at a group level through the Society's centralised Treasury function.

(d) Scope and nature of 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.

Compliance with regulatory (LCR) and internally determined stress tests is measured daily. Any breach of liquidity risk appetite is escalated as soon as practically possible in line with the process laid out in the Treasury and Financial Risk Management Policy. A summary of positions against limits is provided to LMC at least twice monthly (typically weekly), and to ALCo, ERC and RC at each meeting.

Intraday monitoring is undertaken in respect of the net debit position of the Society's Treasury account held with our relationship bank, as well as hourly monitoring of retail savings withdrawals, with appropriate early warnings level set and an automated alert system which triggers where a pre-determined level of withdrawals is exceeded.

(e) Policies for hedging and mitigating liquidity risk and processes for monitoring effectiveness

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.

The effectiveness of risk management policies is confirmed through the annual review of the Treasury and Financial Risk Management Policy, and the annual Internal Liquidity Adequacy Assessment Process (ILAAP) update and Board sign-off process, including Third Line assurance where appropriate.

(f) 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 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.

(g) How stress testing is used

In accordance with the Society's Liquidity Risk Tolerance, and in keeping with the 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.

UK LIQA – Liquidity risk management (continued)

(h) 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. 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).

(i) Liquidity risk statement approved by the management body

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 CFP 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) ensures 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) ensures it holds liquidity such that even under a severe stress, after allowing for the effect of management action, the LCR 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, cash flow mismatch risk, minimum balance on-call with the Bank of England (Reserve Account) and investment limits by instrument/counterparty/tenor (not an exhaustive list of the Society's liquidity risk tolerance and management approach).

Liquidity Coverage Ratio

Within Template 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 Mar 2023	31 Dec 2022	30 Sep 2022	30 Jun 2022	31 Mar 2023	31 Dec 2022	30 Sep 2022	30 Jun 2022
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)					844.3	863.6	872.0	819.3
Cash - Outflows									
2	Retail deposits and deposits from small business customers, of which:	4,211.9	4,187.5	4,199.3	4,219.0	224.8	226.3	231.4	234.1
3	*Stable deposits*	3,216.7	3,209.9	3,199.1	3,177.2	160.8	160.5	160.0	158.9
4	*Less stable deposits*	554.7	557.4	593.6	647.5	62.8	65.0	70.7	74.5
5	Unsecured wholesale funding	44.6	45.8	43.9	42.8	19.5	20.1	19.0	18.7
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	-	-	-	-	-	-	-	-
7	*Non-operational deposits (all counterparties)*	44.6	45.8	43.9	42.6	19.5	20.1	19.0	18.5
8	*Unsecured debt*	-	-	-	0.2	-	-	-	0.2
9	*Secured wholesale funding*					-	-	-	-
10	Additional requirements	61.3	47.9	29.5	22.9	47.9	36.1	20.4	17.3
11	*Outflows related to derivative exposures and other collateral requirements*	57.5	44.1	29.5	22.9	44.1	32.3	20.4	17.3
12	*Outflows related to loss of funding on debt products*	3.8	3.8	-	-	3.8	3.8	-	-
13	*Credit and liquidity facilities*	-	-	-	-	-	-	-	-
14	Other contractual funding obligations	4.5	4.3	4.3	4.2	-	-	-	-
15	Other contingent funding obligations	218.9	196.5	175.5	173.8	60.2	57.3	51.7	59.4
16	Total Cash Outflows					352.4	339.8	322.5	329.5
Cash - Inflows									
17	Secured lending (e.g. reverse repos)	-	-	-	-	-	-	-	-
18	Inflows from fully performing exposures	25.2	26.6	27.8	27.9	18.3	19.3	20.0	19.9
19	Other cash inflows	8.6	5.6	3.5	1.2	8.1	5.3	3.2	1.1
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	33.8	32.2	31.3	29.1	26.4	24.6	23.2	21.0
UK-20a	*Fully exempt inflows*	-	-	-	-	-	-	-	-
UK-20b	*Inflows subject to 90% cap*	-	-	-	-	-	-	-	-
UK-20c	*Inflows subject to 75% cap*	33.8	32.2	31.3	29.1	26.4	24.6	23.2	21.0
Total Adjusted Value									
UK-21	Liquidity Buffer					844.3	863.6	872.0	819.3
22	Total Net Cash Outflows					326.0	315.2	299.3	308.5
23	Liquidity Coverage Ratio					264.7%	279.4%	292.6%	267.6%

UK LIQ1 - Quantitative information of LCR (continued)

		a	b	c	d	e	f	g	h
		Total unweighted value (average) £m				Total weighted value (average) £m			
UK 1a	Quarter ending on:	31 Mar 2022	31 Dec 2021	30 Sep 2021	30 Jun 2021	31 Mar 2022	31 Dec 2021	30 Sep 2021	30 Jun 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%

UK LIQB - Qualitative information on LCR, which complements template UK LIQ1

(a) Main drivers of LCR results

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. As the Society's primary funding source, withdrawals from retail deposits typically make the most significant contribution to net cash outflows within the LCR calculation.

(b) Changes in the LCR over time

During the year the Society maintained its LCR in excess of regulatory and internal limits. As net cash outflows remained relatively consistent but HQLA holdings increased, the 12 month average LCR was higher at 264.7% (2022: 230.8%).

(c) Concentration of 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 2023, retail savings balances made up 82.9%, (2022: 74.9%) 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.

(d) Composition of the Society's 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 HQLA 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 (AAA rated Covered Bonds and MBS) subject to relevant haircuts.

Board policy permits investment in less liquid unsecured paper, for example Certificates of Deposit issued by UK Building Societies and global financial firms (subject to credit approval by ALCo and RC); whilst these investments can be considered a contingent source of liquidity, they are not included within the liquidity buffer for LCR measurement purposes.

(e) Derivative exposures and potential collateral calls

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. Alternative forward-looking stresses on collateral requirements are included within the Society's internal (ILAAP) stress scenarios.

(f) Currency mismatch in the LCR

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

(g) Other items in the LCR calculation relevant for the Society's liquidity profile

The Society has not identified any other relevant items for the purposes of this disclosure.

Net Stable Funding Ratio (NSFR)

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

UK LIQ2 - Net Stable Funding Ratio

Average of four quarters ended 30 June 2022, 30 September 2022, 31 December 2022 and 31 March 2023		a	b	c	d	e
		Unweighted value by residual maturity (average)				Weighted value (average)
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
		£m	£m	£m	£m	£m
Available stable funding (ASF) Items						
1	Capital items and instruments	392.8	9.5	-	21.8	414.6
2	*Own funds*	392.8	0.4	-	21.8	414.6
3	*Other capital instruments*		9.1	-	-	-
4	Retail deposits		3,899.5	125.2	209.3	3,993.0
5	*Stable deposits*		3,228.4	-	-	3,067.0
6	*Less stable deposits*		671.1	125.2	209.3	926.0
7	Wholesale funding:		138.7	5.5	865.2	925.6
8	*Operational* deposits		58.0	-	-	29.0
9	*Other wholesale funding*		80.7	5.5	865.2	896.6
10	Interdependent liabilities		-	-	-	-
11	Other liabilities:	-	7.6	-	25.2	17.5
12	*NSFR derivative liabilities*	-				
13	*All other liabilities and capital instruments not included in the above categories*		7.6	-	25.2	17.5
14	**Total available stable funding (ASF)**					5,350.7
Required stable funding (RSF) Items						
15	Total high-quality liquid assets (HQLA)					46.4
UK-15a	Assets encumbered for more than 12m in cover pool		-	-	-	-
16	Deposits held at other financial institutions for operational purposes		0.8	-	-	0.4
17	Performing loans and securities:		104.9	36.9	4,152.9	3,128.2
18	*Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut*		-	-	-	-
19	*Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions*		35.3	-	-	3.5
20	*Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:*		14.1	-	29.9	31.8
21	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		-	-	-	-
22	*Performing residential mortgages, of which:*		22.7	15.8	4,122.8	3,065.7
23	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		22.7	15.8	4,098.7	3,043.8
24	*Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products*		32.8	21.1	0.2	27.2
25	Interdependent assets		-	-	-	-
26	Other assets:	-	250.3	0.2	205.7	397.6
27	*Physical traded commodities*				-	-
28	*Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs*		34.3	-	-	29.2
29	*NSFR derivative assets*		1.4	-	-	1.4
30	*NSFR derivative liabilities before deduction of variation margin posted*		1.1	-	-	0.1
31	*All other assets not included in the above categories*		213.5	0.2	205.7	366.9
32	Off-balance sheet items		233.4	-	-	11.2
33	**Total RSF**					3,583.8
34	**Net Stable Funding Ratio (%)**					149.4

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 template *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 ORRG 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 poor 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 CRCRG. This Group is chaired by the Chief Customer Officer and is responsible for the oversight of the management of 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.

Model risk is recognised as a sub-risk of Operational risk.

The governance process, overseen through MRC, chaired by the CRO, is in place and is applicable throughout the model life cycle, from initiation, through development, approval and 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 RC, 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 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) is in place and formalises 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 is defined for the financial risk from climate change and is approved by RC. Climate change is not considered a Board Principal Risk due to the modest losses resulting from future flood and subsidence risk. Climate change is a sub-risk under Business Risk, whilst still retaining full Board oversight. In support of this appetite, MI and metrics are 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 undertakes 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 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. Disclosures are included within the Risk Management Report on pages 34 to 47 and the Strategic Report on pages 8 to 33 of the 2023 Annual Report and Accounts, and we will disclose further information in a proportional manner in the future. The Society has endeavoured to reduce its carbon footprint where possible and has set its carbon intensity metrics, including target date to achieve carbon neutrality on page 45 of the Annual Report and Accounts.

Asset encumbrance

Template UK AE1 - Encumbered and unencumbered assets

At 31 March 2023

		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**	**1,173.9**	**14.5**			**4,605.9**	**860.6**		
030	Equity instruments	-	-	-	-	-	-	-	-
040	Debt securities	-	-	-	-	**355.0**	**282.3**	**355.0**	**282.3**
050	of which: covered bonds	-	-	-	-	**160.0**	**160.0**	**160.0**	**160.0**
060	of which: securitisations	-	-	-	-	**49.1**	**48.6**	**49.1**	**48.6**
070	of which: issued by general governments	-	-	-	-	-	-	-	-
080	of which: issued by financial corporations	-	-	-	-	**355.0**	**282.3**	**355.0**	**282.3**
090	of which: issued by non-financial corporations	-	-	-	-	-	-	-	-
120	Other assets	**1,173.9**	**14.5**			**4,235.4**	**597.6**		

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		

UK AE2 - Collateral received and own debt securities issued

At 31 March 2023

		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**			**167.7**	-
250	**Total Assets, Collateral Received And Own Debt Securities Issued**	**1,173.9**	**14.5**		

At 31 March 2022

		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			197.0	-
250	Total Assets, Collateral Received And Own Debt Securities Issued	1,625.2	14.5		

UK AE3 - Sources of encumbrance

At 31 March		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and securitisations encumbered	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and securitisations encumbered
		£m	£m	£m	£m
		2023	2023	2022	2022
		010	030	010	030
010	Carrying amount of selected financial liabilities	766.4	1,045.0	1,019.5	1,361.1

UK AE4 – Accompanying narrative information

(a) General narrative information on asset encumbrance

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 above 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 2023 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.

(b) Impact of the business model on asset encumbrance and the importance of encumbrance to the Society's business model

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 MBS, issued by Group structured entities, as collateral for wholesale funding initiatives, including Bank of England funding schemes and repo transactions. Encumbered mortgages are shown within row 120 "Other assets" of template UK AE1 with the corresponding liabilities disclosed in row 010 "Carrying amount of selected financial liabilities" of template UK AE3. Asset encumbrance follows the contractual requirements of the 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 the Cash Ratio Deposit held with the Bank of England and not available for use in the Society's day-to-day operations.

The Society holds all of the loan notes, with a carrying value of £371m (2022: £454m), issued by structured entity Hawthorn Finance Limited. A small proportion of the retained notes were utilised for funding purposes at 31 March 2023 (2022: none) such that £20.0m (2022: £nil) of the underlying assets held by the structured entities were encumbered at this date. There was no encumbrance related to the Kenrick No. 3 securitisation transaction at 31 March 2023 following the unwind of the structure on 11 January 2023. At 31 March 2022, the Society held £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 were treated as encumbered in comparative template UK AE1.

Within template 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.

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 templates below present quantitative information on the LR. Template UK LR1 reconciles the total assets shown in the Group financial statements to the LR exposure measure. Template UK LR2 breaks down the LR 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. Template 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	a
		Applicable amount	Applicable amount
		Transitional	Transitional
		2023	2022
		£m	£m
1	Total assets as per published financial statements	**5,689.3**	6,067.3
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of prudential consolidation[1]	**(6.3)**	(7.1)
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)	**(584.2)**	(637.0)
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	**(84.0)**	(35.3)
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)	**51.2**	32.6
11	(Adjustment for prudent valuation adjustments and specific and general provisions which have reduced tier 1 capital (leverage))	**(0.4)**	(0.4)
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	**(65.1)**	(41.9)
13	**Total exposure measure**	**5,000.5**	5,378.2

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
		2023	2022
		£m	£m
On-balance sheet exposures (excluding derivatives and SFTs)			
1	On-balance sheet items (excluding derivatives, SFTs, but including collateral)	5,543.4	5,983.0
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)
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]	(26.4)	(17.2)
7	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	5,517.0	5,965.5
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	16.5	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**	16.5	17.1
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	256.0	163.1
20	(Adjustments for conversion to credit equivalent amounts)	(204.8)	(130.5)
21	(General provisions deducted in determining tier 1 capital (leverage) and specific provisions associated with off-balance sheet exposures)	-	-
22	**Off-balance sheet exposures**	51.2	32.6
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)**	**393.3**	390.4
24	Total exposure measure including claims on central banks	**5,584.7**	6,015.2
UK-24a	(-) Claims on central banks excluded	**(584.2)**	(637.0)
UK-24b	**Total exposure measure excluding claims on central banks**	**5,000.5**	5,378.2
Leverage ratio		**%**	%
25	Leverage ratio excluding claims on central banks (%)	**7.9**	7.3
UK-25a	Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)	**7.7**	6.9
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 (%)	**7.9**	7.3
UK-25c	Leverage ratio including claims on central banks (%)	**7.0**	6.5
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 £8.3m (2022: £21.9m)

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

At 31 March

		a Leverage ratio exposures 2023 £m	a Leverage ratio exposures 2022 £m
UK-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**5,543.4**	5,982.7
UK-2	Trading book exposures	**-**	-
UK-3	Banking book exposures, of which:	**5,543.4**	5,982.7
UK-4	Covered bonds	**152.6**	130.3
UK-5	Exposures treated as sovereigns	**658.7**	747.5
UK-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	**-**	-
UK-7	Institutions	**111.2**	66.4
UK-8	Secured by mortgages of immovable properties	**4,128.9**	4,515.7
UK-9	Retail exposures	**40.7**	17.9
UK-10	Corporates	**0.6**	6.2
UK-11	Exposures in default	**192.3**	228.3
UK-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	**258.4**	270.4

UK LRA – Disclosure of LR qualitative information

(a) Processes used to manage the risk of excessive leverage

The 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 LR 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.

(b) Factors that had an impact on the leverage ratio during the period

The Society's LR, excluding claims on central banks and including the effect of IFRS 9 transitional relief, has increased during the year from 7.3% to 7.9%, with the key drivers being an increase in Tier 1 capital, incorporating retained earnings for the year, and a reduction in the LR exposure measure. The continued de-risking of the balance sheet, with further contraction in the legacy commercial portfolio, contributed to this reduction in LR exposures.

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.

Remuneration

UK REMA - Remuneration policy

(a) Information relating to the bodies that oversee remuneration

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 seven meetings of the Remuneration Committee during the year. FIT Consultants were appointed as Advisors to the Remuneration Committee in 2021 and have continued to provide services in 2022/23. FIT Consultants have provided benchmarking and insight in respect of Executive Director remuneration, NED fees 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 NEDs, Executive Directors; the Chief Executive (CEO), Chief Financial Officer (CFO) (appointed 1 January 2023) and Chief Risk Officer (CRO), and other (non-Board) Executives; Group Secretary, Divisional Director IT Service & Solutions, Divisional Director Marketing & Intermediary Sales, Chief Internal Auditor, Divisional Director Operations and Chief People Officer. During the year the Group Finance & Operations Director (GFOD) left (31 December 2022) and so this is applicable up to this point for this individual.

(b) The design and structure of the remuneration system for identified 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 other (non-Board) Executives receive a basic salary whereas NEDs receive fees plus expenses for travel and accommodation in relation to their attendance at meetings. Executive Directors and other Executives 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 other Executives which include private medical care and life assurance. Other benefits may be provided in individual circumstances. NEDs do not receive a pension, pension allowance or benefits.

The criteria for performance measurement of Executive Directors and other Executives 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. NEDs 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 2022 to be 10.6% (formerly 20%), this being the final stage of phased alignment of Executive Director and wider workforce pension.

Remuneration for Code Staff working in internal control functions is overseen by the Chair of the RC and Chair of the AC respectively. The Chief Internal Auditor, CRO 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.

(c) The ways in which current and future risks are taken into account in the remuneration process

As described above, the CRO, CIA 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.

(d) Ratios 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.

UK REMA - Remuneration policy (continued)

(e) The ways in which the Society seeks to link performance during a performance measurement period with levels of remuneration

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 Customer, Financial, Change, Risk and People. Further information on the Society objectives for the year ended 31 March 2023 is given in the Directors' Remuneration Report within the 2023 Annual Report and Accounts.

For the CEO and CFO, performance-related pay (PRP) is split 20% to individual objectives and 30% to the above Society objectives (this was also the arrangement for the GFOD who left the Society on 31 December). 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 IT Service & Solutions and Divisional Director Marketing & Intermediary Sales. For the Chief People Officer the split is 40% individual and 10% Society objectives. The Chief Internal Auditor 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 2022/23 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.

(f) The ways in which the Society seeks to adjust 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).

(g) Main parameters and rationale for any variable components scheme and any other non-cash benefit

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

(h) Upon demand from the relevant Member State or competent authority, total remuneration for each member of the management body or senior management

Total remuneration for identified staff, in aggregate, is shown in template UK REM1 below. Remuneration for each of the Society's Executive Directors and NEDs is disclosed in the 2023 Annual Report and Accounts.

(i) Information on whether the Society benefits from a derogation laid down in Article 94(3) CRD in accordance with point (k) of Article 450(1)

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 17 (2022: 18) identified staff, 10 (2022: 10) would also benefit from the derogation set out in paragraphs 12.2 (second subparagraph) and 15.A1(3). These 10 (2022: 10) individuals received total remuneration of £924,000 (2022: £811,000), comprising fixed remuneration of £865,000 (2022: £751,000) and variable remuneration of £59,000 (2022: £60,000) for the financial year. The fixed, variable and total remuneration for all identified staff in aggregate is shown in template 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

Template UK REM1 below shows the amount and type of fixed and variable remuneration awarded to identified staff.

UK REM1 - Remuneration awarded for the financial year

Year ended 31 March 2023			a MB Supervisory function	b MB Management function	c Other senior management	d Other identified staff
1	Fixed remuneration	Number of identified staff	7	4	6	-
2		Total fixed remuneration (£000)	489	1,263	881	-
3		Of which: cash-based	489	1,258	878	-
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	-	5	3	-
9	Variable remuneration	Number of identified staff	-	4	6	-
10		Total variable remuneration (£000)	-	609	226	-
11		Of which: cash-based	-	609	226	-
12		Of which: deferred	-	229	89	-
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)		489	1,872	1,107	-

UK REM1 - Remuneration awarded for the financial year (continued)

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.

Template UK REM2 below details special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff).

Template UK REM2 - Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff)

Year ended 31 March 2023		a	b	c	d
		MB Supervisory function	MB Management function	Other senior management	Other identified staff
Guaranteed variable remuneration awards					
1	Guaranteed variable remuneration awards - Number of identified staff	-	-	-	-
2	Guaranteed variable remuneration awards -Total amount (£000)	-	-	-	-
3	Of which guaranteed variable remuneration awards paid during the financial year, that are not taken into account in the bonus cap	-	-	-	-
Severance payments awarded in previous periods, that have been paid out during the financial year					
4	Severance payments awarded in previous periods, that have been paid out during the financial year - Number of identified staff	-	-	-	-
5	Severance payments awarded in previous periods, that have been paid out during the financial year - Total amount (£000)	-	-	-	-
Severance payments awarded during the financial year					
6	Severance payments awarded during the financial year - Number of identified staff	-	1	-	-
7	Severance payments awarded during the financial year - Total amount (£000)	-	160	-	-
8	Of which paid during the financial year	-	110	-	-
9	Of which deferred	-	50	-	-
10	Of which severance payments paid during the financial year, that are not taken into account in the bonus cap	-	110	-	-
11	Of which highest payment that has been awarded to a single person	-	160	-	-

Notes

1 There were no guaranteed variable remuneration awards, severance payments awarded or severance payments paid to Code Staff during the year ended 31 March 2022, hence no comparative information is presented.

Template 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 and amounts which will vest in future periods.

UK REM3 - Deferred remuneration

Year ended 31 March 2023

		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**	329	145	184	-	-	-	145	-
8	Cash-based	329	145	184	-	-	-	145	-
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**	207	91	116	-	-	-	91	-
14	Cash-based	207	91	116	-	-	-	91	-
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**	536	236	300	-	-	-	236	-

UK REM3 - Deferred remuneration (continued)

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 template 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 2023

		a	b	c	d	e	f	g	h	i	j
		Management body remuneration			**Business areas**						
		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**										**17**
2	Of which: members of the MB	**7**	**4**	**11**							
3	Of which: other senior management				**-**	**2**	**-**	**2**	**2**	**-**	
4	Of which: other identified staff				**-**	**-**	**-**	**-**	**-**	**-**	
5	**Total remuneration of identified staff (£000)**	**489**	**1,872**	**2,361**	**-**	**443**	**-**	**326**	**338**	**-**	
6	Of which: variable remuneration	**-**	**609**	**609**	**-**	**110**	**-**	**81**	**35**	**-**	
7	Of which: fixed remuneration	**489**	**1,263**	**1,752**	**-**	**333**	**-**	**245**	**303**	**-**	

Year ended 31 March 2022

		a	b	c	d	e	f	g	h	i	j
		Management body remuneration			Business areas						
		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 - 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.

Economic value of equity (EVE) 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. Non-interest-bearing capital is excluded from this calculation.

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.

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.

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.

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.

Extremely high quality liquid assets (EHQLA)

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

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 LCR 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 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 value of Society assets and liabilities to an immediate parallel shift in the yield curve (as with EVE), with fixed rate duration(s) assigned to non-interest-bearing capital liabilities in line with Board appetite.

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.

Securitisation special purpose entity (SSPE)

A corporation, trust or other entity, other than an originator or sponsor, established for the purpose of carrying out one or more securitisations, the activities of which are limited to those appropriate to accomplishing that objective, the structure of which is intended to isolate the obligations of the SSPE from those of the originator.

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.

Appendix 2 - List of templates not reportable by the Society

Reference	Name	Rationale for non-presentation
UK LI3	Outline of the differences in the scopes of consolidation (entity by entity)	There are no differences between the regulatory and accounting scopes of consolidation.
UK PV1	Prudent valuation adjustments (PVA)	The Society does not apply the core approach for the determination of the additional valuation adjustment for prudent valuation.
UK INS1	Insurance participations	The Society has no holdings in any insurance undertaking, reinsurance undertaking or insurance holding company.
UK INS2	Financial conglomerates information on own funds and capital adequacy ratio	The Society is not part of a financial conglomerate.
UK CR2a	Changes in the stock of non-performing loans and advances and related net accumulated recoveries	This template is only reportable by large institutions meeting certain reporting criteria. The Society is not a large institution.
UK CQ2	Quality of forbearance	This template is only reportable by large institutions meeting certain reporting criteria. The Society is not a large institution.
UK CQ4	Quality of non-performing exposures by geography	Non-domestic exposures are below the 10% reporting threshold.
UK CQ6	Collateral valuation - loans and advances	This template is only reportable by large institutions meeting certain reporting criteria. The Society is not a large institution.
UK CQ7	Collateral obtained by taking possession and execution processes	The Society does not recognise property in possession collateral on its balance sheet. It continues to report the mortgage loan until such time as the collateral is realised.
UK CQ8	Collateral obtained by taking possession and execution processes – vintage breakdown	This template is only reportable by large institutions meeting certain reporting criteria. The Society is not a large institution.
UK CRE	Qualitative disclosure requirements related to IRB approach	The Society does not apply the IRB approach.
UK CR6	IRB approach – Credit risk exposures by exposure class and PD range	The Society does not apply the IRB approach.
UK CR6-A	Scope of the use of IRB and SA approaches	The Society does not apply the IRB approach.
UK CR7	IRB approach - Effect on the RWEAs of credit derivatives used as CRM techniques	The Society does not apply the IRB approach.
UK CR7-A	IRB approach - Disclosure of the extent of the use of CRM techniques	The Society does not apply the IRB approach.
UK CR8	RWEA flow statements of credit risk exposures under the IRB approach	The Society does not apply the IRB approach.
UK CR9	IRB approach - Back-testing of PD per exposure class (fixed PD scale)	The Society does not apply the IRB approach.
UK CR9.1	IRB approach - Back-testing of PD per exposure class (only for PD estimates according to point (f) of Article 180(1) CRR)	The Society does not apply the IRB approach.
UK CR10	Specialised lending and equity exposures under the simple risk weighted approach	The Society does not apply the IRB approach.
UK CCR4	IRB approach – CCR exposures by exposure class and PD scale	The Society does not apply the IRB approach.
UK CCR5	Composition of collateral for CCR exposures	The fair value of total collateral posted and total collateral received both fall below the £125bn reporting threshold.
UK CCR6	Credit derivatives exposures	The Society does not use credit derivatives.
UK CCR7	RWEA flow statements of CCR exposures under the IMM	The Society does not apply the Internal Model Method for CCR exposures.
UK SEC2	Securitisation exposures in the trading book	The Society does not have a trading book.
UK MR1	Market risk under the standardised approach	The Society does not have a trading book and has no exposures to foreign exchange, settlement or commodities risk in its non-trading book.
UK MRB	Qualitative disclosure requirements for institutions using the internal Market Risk Models	The Society does not use Internal Market Risk Models.
UK MR2-A	Market risk under the internal Model Approach (IMA)	The Sociey does not apply the Internal Model Approach for market risk.
UK MR2-B	RWA flow statements of market risk exposures under the IMA	The Sociey does not apply the Internal Model Approach for market risk.
UK MR3	IMA values for trading portfolios	The Sociey does not apply the Internal Model Approach for market risk.
UK MR4	Comparison of VaR estimates with gains/losses	The Sociey does not apply the Internal Model Approach for market risk.
UK REM4	Remuneration of 1 million EUR or more per year	None of the Society's employees received remuneration in excess of €1m for the current or preceding financial year.

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