



Pillar 3 Disclosures 2023-24

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1. Introduction

The purpose of this document is to disclose key information regarding The Chorley and District Building Society's (the Society) approach to risk management for each type of risk it faces. It also describes the quality and quantity of capital resources and capital requirements, which are maintained to protect the interests of Members and other stakeholders.

This document has been produced in accordance with the Prudential Regulatory Authority (PRA)'s rules and guidance, specifically the Disclosure Chapter (Pillar 3) of the PRA Rulebook and is publicly accessible via the Society's website.

In common with all other building societies in the UK, the Society operates under the regulatory framework established by the European Union Capital Requirements Directive (CRD) and the Capital Requirements Regulation (CRR). Collectively these are known as CRD IV, which became effective on 1 January 2014 and are implemented by the Prudential Regulation Authority (PRA) and the FCA.

The aim of CRD IV is to ensure that banks, building societies and investment firms hold adequate capital to protect the interests of their Members and depositors.

The CRD IV framework comprises three elements referred to as 'Pillars':

- **Pillar 1:**

Minimum capital requirements required to meet credit, market and operational risks.

The Society meets the capital requirements prescribed for credit and operational risks by adopting the Standardised Approach (SA) and the Basic Indicator Approach respectively.

- **Pillar 2A:**

This represents the additional capital requirements assessed by the Society and its regulatory supervisors based on the specific risks not covered by Pillar 1.

- **Pillar 2B:**

This represents regulatory capital buffers which are maintained to cover potential capital requirements in certain stressed conditions.

The Society undertakes an Internal Capital Adequacy Assessment Process (ICAAP) and the regulator undertakes a Supervisory Review and Evaluation Process (SREP) in assessing the amount of Pillar 2 capital to hold.

- **Pillar 3:**

This is the disclosure of key information in relation to the Society's approach to risk management, the quality and quantity of capital resources and capital requirements.

Subsequently, on 31st December 2020 CRD V was implemented in the UK to address the quantity and quality of capital and liquidity resources. It introduced an enhanced Pillar 2 approach to the management and control of interest rate risk in the banking book (IRRBB) and introduced a number of EU-specific measures designed to further harmonise micro and macro prudential supervision and to introduce greater proportionality in prudential requirements.

1.2 Frequency, Basis and Location of Disclosure

The Society publishes its Pillar 3 disclosures on an annual basis in light of its characteristics, size, scale and complexity. The Society operates as a solo entity with no subsidiaries. If it materially diversifies away from its business model or if the risk profile materially changes, it will consider publishing an update to this disclosure document in accordance with CRR Article 433.

This document has been prepared in accordance with the requirements of the CRR Articles 431-455.

The Society's Pillar 3 disclosure and Internal Capital Adequacy Assessment Process (ICAAP) are approved by the Board of Directors on an annual basis, however risk and capital adequacy is monitored on an ongoing basis.

In addition, the Society is subject to a formal external regulatory capital review, known as a Supervisory Review and Evaluation Process (SREP) which last took place in November 2023.

This disclosure document is published in conjunction with the Society's Annual Report and Accounts each year.

Unless otherwise stated, all financial data contained within this document is correct as at 5 February 2024.

The disclosure report is available on the Society's website www.chorleybs.co.uk.

The Society's Financial Services Registration number is 206023.

If the reader of this disclosure document requires further explanation, an application should be made in writing to the Society Secretary at The Chorley and District Building Society, Key House, Foxhole Road, Chorley, Lancashire PR7 1NZ.

2. Risk Management Objectives and Policies

The Society recognises that risk is inherent in the delivery of the Board's Member-led strategy. Whilst these risks can never be eliminated entirely, through effective risk management they can be mitigated to levels within the Board's risk appetite. The Board has agreed a risk appetite that establishes the amount of risk acceptable to the business in pursuit of its overall strategy, helping the Society achieve sustainable growth and serving the best interests of its Members and customers. The Board's risk appetite is reviewed at least annually to ensure it continues to align with the Society's operating environment, strategy and risk management framework.

The Society's Risk Management Framework documents in detail how it manages, operates and responds to the risks it faces. This framework has been designed such that all risks faced by the Society are regularly reviewed and assessed by either the Board and/or the supporting sub-committees, the details of which are included in section 2.1 below.

2.1. Governance Arrangements

Board of Directors (Board)

The Board recognises that the Society must be governed effectively with the long term success of the Society placed front and centre of all decision making. The Board considers that robust governance arrangements are essential for independent and effective decision making, ensuring the objective of safeguarding Members' interests.

As at 5 February 2024, the Board comprised four Executive and eight Non-Executive Directors, providing a balance of skills, diversity and experience appropriate for the requirements of the business.

The principal functions of the Board are:

- To provide leadership and direction within a framework of prudent and effective controls;
- To determine the Society's strategy;
- To review business performance; and
- To ensure that the necessary financial and business systems, procedures, controls and human resources are in place for the management of risk and to safeguard the interests of Members.

There is a formal, rigorous and transparent procedure for the appointment of new Directors to the Board. The Nominations & Remuneration Committee leads the process for Board appointments and makes recommendations to the Board although the Board makes the final decision. All appointments are made on merit, based on the specific skills, competencies and experience required under the Society's succession plan. The Board considers equality and diversity and inclusion although it has adopted the principle that appointments should be made on merit. Additionally each Director must meet the tests of fitness and propriety prescribed by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA), and roles that fall into the Senior Managers Regime must also receive regulatory approval.

There are specific matters reserved for Board decision-making, complemented by specialist Board sub-committees with delegated powers, as detailed below. Committee and Board membership is reviewed annually to ensure that appropriate expertise and skills are maintained.

A new governance structure to future proof the Society was agreed and approved by the Board in 2023, resulting in the introduction of one key new sub-committee of the Board, the Board Risk Committee, and the Audit, Risk & Compliance Committee becoming the Board Audit Committee. This new structure will improve the oversight and focus on risk, and strengthen the Board's authority and responsibilities in providing oversight in key financial, operational, strategic and risk areas across the business.

Board Sub-Committees

Board Audit Committee (previously the Audit, Risk & Compliance Committee)

This Committee comprises entirely Non-Executive Directors and meets at least four times a year to consider all aspects of audit and compliance for oversight of all of the Society's financial reporting, internal controls, internal audit, external audit arrangements, compliance, whistleblowing and fraud arrangements, and regulatory reporting procedures.

It reviews the fairness and accuracy of disclosures and recommends acceptance of the Annual Report and Accounts to the Board. It monitors the performance, independence, objectivity, competence and effectiveness of the internal and external Auditors and is responsible for recommending appointment, re-appointment or removal of the internal and external Auditors.

At the year end, the following Non-Executive Directors were members of this Committee:

- Gail Teasdale - Chair
- David Bagley
- Lee Bambridge
- Kevin Bernbaum
- Julia Cattanach
- Peter Brickley

The Chief Executive, Finance Director, Chief Risk Officer and Customer Services Director attend representing the Executive, together with the Head of Compliance. Representatives of the Society's internal Auditors and external Auditors attend each Committee meeting by invitation, and at least once a year, the Committee meets with the Society's external and internal Auditors without any employee present. The Head of Compliance has a reporting line directly to the Chair of the Committee. The Board is satisfied that the composition of the Committee provides recent and relevant financial experience.

Board Risk Committee

This Committee is comprised only of independent Non-Executive Directors and therefore acts independently from the executive management team. The Committee's purpose is to ensure that the interest of Members is protected in relation to the management of risk. Its role is to consider all risk related matters, including forward looking risks, to ensure the Society has an effective risk management framework, has a defined risk culture, an effective control environment and that risk is being managed robustly.

The Board has implemented a clearly defined Risk Management Framework that contains the following features:

- A risk-focused governance structure.
- Risk policy and risk limits.
- Risk identification, monitoring and reporting processes.
- An effective internal control framework

It is supported by regular reports from both the first line of defence (the operational areas) as well as the second line of defence (risk & compliance).

At the year end, the following Non-Executive Directors were members of this Committee:

- Kevin Bernbaum - Chair
- Lee Bambridge
- Julia Cattanach
- Joanna Hall
- Gail Teasdale

The Chief Executive, Customer Services Director, Finance Director and Chief Risk Officer attend representing the Executive, together with the Head of Compliance. At least once a year, the Committee will arrange for periodic reviews of its own performance. The Chief Risk Officer has a reporting line directly to the Chair of the Committee. The Board is satisfied that the composition of the Committee provides recent and relevant financial experience.

Nominations & Remuneration Committee

This Committee comprises entirely Non-Executive Directors and meets at least twice annually but can meet as frequently as is required to fulfil its duties and considers matters relating to Board and management succession and remuneration. It leads the process for Board appointments and makes recommendations to the Board. It considers the balance and diversity of skills, knowledge and experience of the Board, Executive and Senior Management team, the requirements of the business and recommends change where appropriate. It is responsible for approving the Remuneration Policy. The Board is satisfied that the composition of the Committee provides recent and relevant experience.

As at the year end, the following Non-Executive Directors were members of this Committee:

- Joanna Hall - Chair
- David Bagley
- Peter Brickley

The Chair of the Board, Chief Executive, Customer Services Director and Head of HR, Training & Facilities and H&S attend each meeting of the Committee although none are involved in consideration of any matters relating to their own remuneration and are absented from any such discussion.

Digital Advisory Panel

A new advisory panel was established in May 2023 by the Board to advise the Society on fulfilling its governance responsibilities and provide oversight on the role of technology in executing its business strategy. The Panel consists of up to three external independent industry subject matter experts and two Non-Executive Directors members. The Panel meets up to four times a year, as and when required; to put forward recommendations on technology and investment, the Society's digital strategy, and business operational transformation, with the aim of creating accessibility and usability value for the Society's member's long term.

At the year end, the following Non-Executive Directors were members of this Committee:

- Peter Brickley
- Gail Teasdale

The Chief Executive, Customer Services Director, Chief Risk Officer and Head of IT attend each meeting.

Management Committees

The Board delegates authority in other matters to a number of Management Committees, as part of the Society's governance structure. These committees are Executive-led and report to the Board or one of its sub-committees.

Executive Committee

The Committee comprises of Executive Directors and meets every month to manage the day-to-day activities of the Society through the development and implementation of the Board strategy, operational plans, policies, processes and budgets. It steers and monitors the Society's operational and financial performance, effectively manages risks as per the Society's Risk Management Framework, allocates and prioritises appropriate resource and ensures compliance with all governing legislation and regulations.

Assets & Liabilities Committee (ALCO)

This Committee is chaired by the Chief Executive and at the year end, comprised four Executive Directors and members of the Senior Management team. The Committee meets monthly and is responsible for monitoring the structure of the Society's assets and liabilities, controlling financial, liquidity and treasury risks and reviewing control procedures including limits, reporting lines and mandates. The Committee focuses on liquidity risk, interest rate risk, counterparty credit risk, funding risk, basis risk and refinancing risk. In addition, this Committee is responsible for developing and recommending new products and changes to existing products. The Board is satisfied that the composition of the Committee provides recent and relevant financial experience.

Mortgage Credit Risk Committee

This Committee meets at least three times a year, and more often as is required to fulfil its duties. It monitors and controls mortgage credit risk, and the risk of financial losses arising from a mortgage borrower failing to meet their financial obligations to the Society, within the parameters of the lending policy.

Conduct & Operational Risk Committee

In November 2023, this new Committee replaced the Society's Risk and Compliance Committee. Its remit is to provide focus on conduct, operational and regulatory risks and issues.

The Terms of Reference for all Committees are approved by the Board and are available on the Society's website or by writing to the Secretary at the Society's Head Office. Proceedings of all Committees are formally minuted and minutes are reported to and considered by the full Board.

2.2. Risk Management Framework

The Society adopts a 'Three Lines of Defence' approach to the management of risk as illustrated below.

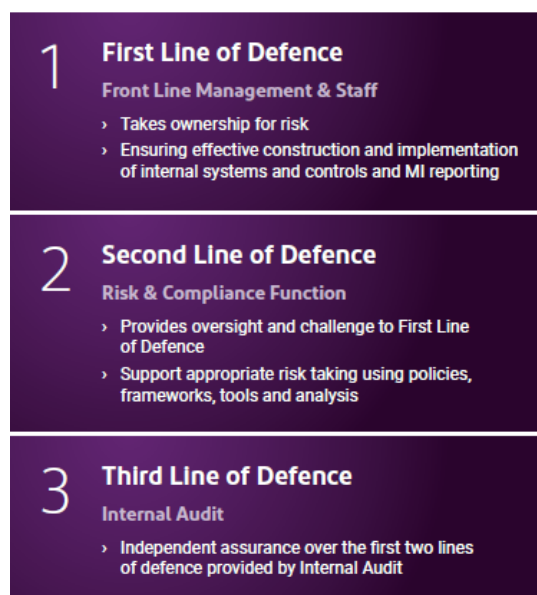
The first line of defence lies within each business department where operational activity takes place. Here, risks are identified and controls are put into place and assessed. Each department is responsible for updating and monitoring departmental risk registers.

The second line of defence lies within the Risk and Compliance Function, where policies are tested and challenged. In addition, risk appetites, limits and triggers are reviewed and assessed. Key responsibilities for the second line include the creation and maintenance of the Risk Management Framework and Risk Appetite, balancing the challenge and support of the first line of defence.

Furthermore, the Risk and Compliance function is responsible for reviewing and challenging the risks assessed by each business department, including the systems and controls in place to mitigate those risks. The Board and Sub-Committees receive regular risk reports and compliance assurance reports.

The third line of defence is provided through independent assurance activities from internal audit. The Board Audit Committee is responsible for the appointment and removal of the Internal Auditors, approving the risk-based internal audit plan and monitoring relevant activity, including the progress made by management in addressing any audit findings. The Society has outsourced its internal audit function to RSM Risk Assurance Services LLP.

On an annual basis and thereafter on a rolling three year basis, the Society's internal Auditor undertakes a programme of risk-based audits. The plan covers aspects of both first and second lines of defence. Each audit examines the Society's control environment, tests that controls are robust and that they work effectively in accordance with the Society's policies and procedures and wider laws and regulations. Additionally, the audits will review the Society's relevant records and reports for accuracy and reliability.



First line of Defence – Front Line Management & Staff

The First Line of Defence is responsible for taking ownership of risk and ensuring that effective systems and controls are constructed and implemented, including appropriate MI reporting. An effective Risk Management Framework (RMF) is reliant on the operational rigour of First Line managing risk through the operation via effective systems and controls and management of supervisory controls and checks.

The First Line of Defence is accountable for the controls that the Society has in place to manage its day-to-day operations. First Line manage risks within the Society to pre-agreed limits and stated Risk Appetites.

First Line also identifies, manages and monitors risks through regular reporting and by escalating issues as necessary.

Second Line of Defence – Risk & Compliance Function

The Second Line of Defence is responsible for challenging risks, policies and controls in place and monitoring Risk MI.

The Risk & Compliance Function is independent from the business managers and can therefore uphold the principles and policies of the Society, as set out in this document.

The Risk & Compliance Function provides oversight of the First Line of Defence Functions and independently report into the Board Audit and Risk Committees.

Key responsibilities for Second Line include:

1. The creation and maintenance of the Risk Management Framework (RMF) and the Risk Appetite (RAF)
2. Carefully balancing both challenge and support of the First Line of Defence
3. Provide oversight and leadership on all of the Society's risk matters
4. Monitor the execution and ongoing self-assurance testing by the First Line of Defence
5. Provide independent oversight and guidance on risks relevant to the Society's strategy and activities
6. Maintains an aggregate view of risk, and monitor risk performance in relation to the Board's Risk Appetite

Third Line of Defence – Internal Audit

Internal Audit provides independent assurance to the Board, via the Board Audit Committee, that both the First Line of Defence and the Second Line of Defence are effective in discharging their respective responsibilities.

2.3. Risk Appetite

The Risk Appetite Framework ("RAF") is the overall approach through which the Society's Risk Appetite is established, communicated and monitored. It includes an Overarching Risk Appetite Statement and a sub set of Risk Appetite Statements for each applicable Risk Type, in addition to establishing Risk Metrics and Limits. It also outlines the roles and responsibilities of those overseeing the implementation and monitoring of the RAF.

The Society's Overarching Risk Appetite Statement is:

CBS's Overarching Risk Appetite Statement

"In pursuit of our corporate strategy, we are willing to take defined calculated risks as long as they remain within our Board approved risk appetite. Such risks, at an individual level, in any combination, or in aggregate, must not undermine our ability to remain as a strong and independent Building Society delivering long-term value to our Members."

The RAF sets out how the Society monitors its performance against the Risk Appetites that have been determined by the Board.

It is reviewed on an annual basis by the Board Risk Committee and recommended for approval to the Board of Directors.

2.3.1 Risk Measures and Reporting

Departmental risks are identified as a result of day-to-day business activities and subsequent mitigating controls are implemented and assessed. These risks are recorded on risk registers and reported to the Conduct & Operational Risk Committee and the Board Risk Committee.

The methodology for assessing risk scores is based on the impact and likelihood of the risk materialising and this is documented in the Risk Management Framework. Risks that are considered as high risk are escalated and reported to the Board monthly. A detailed review of the risk registers is undertaken by the Conduct & Operational Risk Committee and the Board Risk Committee.

Measures of risk appetites are approved by the Board and are agreed by way of setting limits and triggers that are recorded in the Lending Policy, Financial Risk Management Policy (FRMP) and the Risk Appetite Framework. Limits and triggers are recorded and reported in the Key Risk Indicator Report, which is reviewed and summarised for the Board monthly.

The Risk Management Framework makes use of stress and scenario testing to consider potential stressed outcomes for the Society. For example, the stresses caused by falling house prices, volatile interest rates, rising unemployment, and rising levels of inflation impacting cost of living pressures. The results of the stress and scenario testing are then used to evaluate the adequacy of the Society's financial strength, its key controls in place, and to test the Society's management responses if such events did transpire. The results of the stress testing demonstrates the Society's robust financial strength, with the results showing that the Society has sufficient capital and liquidity resources to withstand a range of severe but plausible stress scenarios. The Business Plan has also been reviewed and scenarios have been modelled which take into account potential adverse market conditions, which again reaffirm the Society's financial strength.

2.4. Principal Business Risks

2.4.1. Credit Risk

This is the risk that mortgage borrowers or treasury counterparties to whom the Society has lent money may be unable to meet their obligations as and when they fall due, resulting in financial loss.

Mortgages

The Board manages credit risk associated with mortgage borrowers by maintaining an approved Lending Policy. This policy includes clearly defined criteria and processes for approving individual mortgages. By way of example, the criteria include requirements to undertake a full credit history check and affordability assessment of the borrower and a full valuation of the proposed security by a suitably qualified valuer.

The Board also maintains an Arrears & Payment Shortfalls Policy. This clearly stipulates the processes and parameters for managing borrowers with credit problems, including when and how the Society considers forbearance measures. The Society monitors borrowers on an on-going basis, with appropriate and timely action taken on those mortgages which fall into arrears.

Both these policies are reviewed annually by the Mortgage Credit Risk Committee and/or the Board Risk Committee prior to being recommended to the Board for final approval.

Furthermore, the Board maintains a Mortgage Impairment Policy. This clearly defines the criteria for making appropriate provisions for potential mortgage impairments. In the ICAAP, arrears balances are firstly reduced by any specific mortgage impairment provisions, however adjustments are not recognised for any forbearance measures that may be in place.

Treasury Counterparties

The Board manages credit risk arising from deposits made with treasury counterparties by maintaining an approved Financial Risk Management Policy (FRMP). This includes clearly defined criteria and processes for placing deposits with counterparties. By way of example, the criteria restrict the Society to placing deposits with UK institutions only and counterparties with high quality credit ratings. In addition, the Society operates with maximum exposure limits for individual counterparty exposures. The FRMP is reviewed annually by the Asset & Liabilities Committee (ALCO) and the Board Risk Committee prior to being recommended to the Board for final approval.

Asset Encumbrance

Asset encumbrance is the process by which assets are pledged in order to secure, collateralise or credit-enhance a financial transaction from which they cannot freely withdraw.

The Society has mortgage assets encumbered with the Bank of England in order to participate in the Bank's Term Funding Scheme with additional incentives for Small and Medium Enterprises (TFSME). At 5 February 2024, £48.4m (2023: £35.0m) of mortgage assets held by the Society were pledged to the Bank of England as collateral. The loans remain fully owned and managed by the Society, but are reported as encumbered assets.

The Society may also be required to pledge cash collateral (variation margin) to its interest rate swap counterparties depending on the daily fair value of the interest rate swaps and whether the fair value movements are greater than pre-agreed minimum transfer amounts. At 5 February 2024 the Society had cash collateral pledged of £0.2m (2023: £nil).

Concentration

This is the risk that the Society makes a loss arising from an exposure to a single large counterparty, group of counterparties, counterparties in the same geographic region, economic sector or from the same activity, product or market segment.

The Society's Board of Directors set risk appetite limits and triggers to manage concentration risk. These are documented in the Lending Policy and the Financial Risk Management Policy (FRMP). Exposures are reported to Assets & Liabilities Committee, the Mortgage Credit Risk Committee and the Board on a monthly basis in the Key Risk Indicator Report.

2.4.2. Financial Risk

Financial Risk is broken down into three sub-risk types as follows:

2.4.2.1. Liquidity and Funding Risk

This is the risk that the Society, although solvent, either does not have available sufficient financial resources to meet its financial obligations as they fall due or can do so only at excessive cost. The Board manages liquidity risk by maintaining a Board approved Financial Risk Management Policy (FRMP), a Prudential Funding Plan and an Internal Liquidity Adequacy Assessment Process (ILAAP). The FRMP clearly defines the parameters that must be met to ensure sufficient funds are available at all times, including times of stress, in liquid form. The purpose of the ILAAP is to document and demonstrate the Society's overall liquidity adequacy setting out its approach to liquidity and funding.

Maintaining an adequate amount and composition of liquidity is essential to cover cash flow imbalances, fluctuations in funding, maintain public confidence in the solvency of the Society and to enable it to meet its financial and regulatory obligations.

Stress tests are carried out regularly to confirm that the Society can withstand normal and abnormal cash outflows.

The FRMP, Prudential Funding Plan and ILAAP are reviewed annually by the Assets & Liabilities Committee and the Board Risk Committee prior to being recommended to the Board for final approval.

Measurement of Liquidity Risk – Liquidity Coverage Ratio (LCR)

The Society also measures liquidity risk through the monthly production of its LCR calculation. The Liquidity Coverage Ratio (LCR) is a Pillar 1 liquidity standard that aims to ensure that a firm maintains an adequate level of unencumbered High Quality Liquid Assets that can be converted into cash to meet its liquidity needs for a 30 calendar day time horizon under a significantly severe liquidity stress scenario specified by relevant Regulators.

The LCR is a largely prescribed high level liquidity stress test that all financial institutions are required to carry out in accordance with Basel III and the Liquidity Coverage Delegated Act produced by the European Commission and is calculated as follows:

$$\text{LCR} = \frac{\text{High Quality Liquid Assets}}{\text{Total Outflows} - \text{Total Inflows}}$$

As a minimum, the stock of liquid assets should enable the Society to survive until day 30 of the stress scenario, by which time it is assumed that appropriate corrective actions can be taken.

The table shows yearly average figures and not the position at the reporting period.

| Liquidity Coverage Ratio | 05-Feb-24 | 06-Feb-23 |
|---|-----------|-----------|
| | £000s | £000s |
| Total high-quality liquid assets (HQLA) (Weighted value -average) | 66,697 | 53,805 |
| Cash outflows - Total weighted value | 28,548 | 24,959 |
| Cash inflows - Total weighted value | 5,352 | 4,254 |
| Total net cash outflows (adjusted value) | 23,195 | 20,705 |
| Liquidity coverage ratio (%) | 288% | 260% |

The increase in the average LCR from 2023 to 2024 is due to the increase in HQLA being proportionately larger than the increase in net outflows. The increase in HQLA is mainly due to an increase in amounts held with the Bank of England mainly due to savers inflows received in the period.

Measurement of Liquidity Risk – Net Stable Funding Ratio (NSFR)

The Society also measures funding risk through the quarterly production of its Net Stable Funding Requirement (NSFR) calculation.

The NSFR measures the amount of longer-term, stable sources of funding employed by an institution relative to the liquidity profiles of the assets funded.

The NSFR aims to limit over-reliance on short term wholesale funding during times of buoyant market liquidity and encourage better assessment of liquidity risk across all on and off-balance sheet items and is calculated as follows:

$$\text{NSFR} = \frac{\text{Available Amount of Stable Funding}}{\text{Required Amount of Stable Funding}}$$

The below is a yearly average of the Key Metrics required:

| Net Stable Funding Ratio | 05-Feb-24 | 06-Feb-23 |
|--------------------------------|-----------|-----------|
| | £000s | £000s |
| Total available stable funding | 338,289 | 298,467 |
| Total required stable funding | 213,096 | 187,695 |
| NSFR ratio (%) | 159% | 159% |

There is no change to the average NSFR from 2023 to 2024 due to proportionate increases in Available Stable Funding (ASF) and Required Stable Funding (RSF).

2.4.2.2. Capital Risk

The risk that the Society has insufficient capital to cover regulatory requirements and/or to support its growth plans. The Society manages Capital Risk via the Board approved Capital Risk Appetite which is assessed via the Five-Year Business Plan and through capital stress testing.

Key assumptions, risks and controls around the management of capital risk is outlined within the Internal Capital Adequacy Assessment Process (ICAAP). Stress tests are carried out regularly to confirm that the Society can withstand severe but plausible capital stresses. The ICAAP is reviewed annually by the Assets & Liabilities Committee and the Board Risk Committee prior to being recommended to the Board for final approval.

2.4.2.3. Market Risk (Interest Rate Risk)

Market risk is the risk of losses resulting from adverse changes in values of positions arising from movements in market prices across commodity, credit, equity, foreign exchange and interest rate factors, including:

- Commodity risk - the risk that commodity prices (e.g. corn, copper, crude oil) and/or implied volatility will change
- Equity risk - the risk that stock prices and/or the implied volatility will change
- Currency risk - the risk that foreign exchange rates and/or the implied volatility will change
- Interest rate risk - the risk that interest rates and/or the implied volatility will change

The Society is not exposed to commodity, stock exchange, foreign exchange or interest rate risk arising from tradeable instruments. However, it is exposed to interest rate risk in the non-trading banking book.

Interest Rate Risk

This is the risk that the value of, or income from, assets and liabilities change adversely, as a consequence of movements in interest rates including market rates.

The Board manages interest rate risk arising from the differing interest rate characteristics and maturity profile of its mortgage and savings products, by maintaining an approved FRMP. This policy defines the Board's risk appetite for interest rate risk and includes clear limits and triggers for off-setting assets and liabilities. In addition, the policy includes limits and triggers for Basis Risk. Basis Risk arises when interest rates with the same maturity profile may behave in an unequal way where there is no legal or contractual relationship in place between two rates. Furthermore, the policy allows for the use of financial derivative instruments where appropriate.

The FRMP is reviewed annually by the Assets & Liabilities Committee and the Board Risk Committee prior to being recommended to the Board for final approval.

Derivatives will only be used by the Society in accordance with the Building Societies Act 1986. They are used solely to reduce the risk of loss arising from changes in interest rates and are not used for trading or speculative purposes.

The Society uses interest rate swaps (pay fixed, receive SONIA) to hedge against the interest rate risk exposure on fixed rate mortgages that are funded by variable rate savings.

The Society uses standardised International Swaps and Derivatives Association (“ISDA”) and Credit Support Annex (“CSA”) agreements with other financial institutions. The ISDA contracts grant legal rights of set off for derivative transactions with the same counterparty, and the CSA sets the terms relating to the provision of collateral. These can reduce potential credit risk where the derivative contracts may be for offsetting values and where collateral is received for swaps with a positive fair value.

Interest Rate Risk in the Banking Book

Interest Rate Risk in the Banking Book (IRRBB) is the impact on the Economic Value of and earnings from the Society’s assets and liabilities. This arises from timing differences between the dates on which interest receivable and payable rates reset to market rates.

The Board monitors this risk on an on-going basis and produces monthly reports to the Assets & Liabilities Committee, highlighting the effects of an interest rate shock of 2%. In addition impact of a decline in Economic Value of Equity on Tier 1 Capital is monitored using the prescribed Outlier Tests. This is performed on a quarterly basis and is also reported to the Assets & Liabilities Committee.

The management of interest rate risk against interest rate gap limits (including a 5 year maximum term for fixed rate mortgage and savings products) is supplemented by monitoring the sensitivity of the Society’s financial assets and financial liabilities to various interest rate scenarios. The key scenario that is considered on a monthly basis is that of a 200 basis point (bps) parallel fall or rise in the yield curve.

The interest rate sensitivity of the Society at 5 February 2024 was:

| | 05-Feb-24 | 06-Feb-23 |
|------------------------------------|-----------|-----------|
| Sensitivity to profit and reserves | £000s | £000s |
| 200bps parallel increase | 240 | 145 |
| 200bps parallel decrease | (254) | (158) |

2.4.3. Operational Risk

This is the risk of direct or indirect loss resulting from the following:

- People & Processes Risk: The risk of loss arising from human error or inadequate processes.
- Change Management Risk: The inability to execute and control changes effectively to budget or to an acceptable quality.
- Financial Crime Risk: The risk of a material financial loss, or loss of reputation as a result of the Society’s activities being used by criminals for the purposes of money laundering, terrorist financing, bribery and corruption and fraud.
- Operational Resilience Risk: The risk of inadequate business recovery and disaster recovery and disaster capability to recover from any operational disruption and to continue to provide critical product or service delivery to our Members.
- Cyber & Information Security Risk: The risk of inappropriate disclosure of personal or sensitive information and/or inappropriate access to internal data sources. In particular, cyber security threats to the Society and its Members as a result of attacks through the use of computer systems. The Society holds cyber insurance to mitigate any potential financial loss or disruption.

- Information Technology Risk: Risks to the availability, performance and capacity of IT systems/telephony/internet.
- Financial Control & Management Risk: The risk that timely, robust and accurate management information is not available to support the Society's financial and operational performance.

The Board manages operational risk through a series of approved policies including:

- Financial Crime
- Cyber Security (including Cyber Incident Response Plan)
- Information Security
- Operational Resilience (including an Outsourcing & Third Party Supplier Policy and Business Continuity Plan)

These policies are reviewed annually by the Conduct & Operational Risk Committee (COR) and recommended for approval by the Board Risk Committee. In 2023/24, the Society also implemented a Change Management Framework.

Operational risk registers are maintained by senior management for each department and are subject to regular review and assessment by the COR. In addition, the mitigating controls are equally subject to regular review and assessment. Furthermore, operational risks are reported to the COR on a quarterly basis, or more often where required.

2.4.4. Legal and Regulatory Risk

This is the risk of legal or regulatory sanctions/fines/censures, or material loss, as a result of a failure to comply with laws, regulations, codes of conduct and standards of good practice. Changing laws, the volume and complexity of regulatory requirements and the risk of non-compliance with increased regulatory requirements may also impact the Society's ability to compete and grow. The Society's internal Risk and Compliance function operates to identify and monitor regulatory changes to allow management to respond in an appropriate manner. This risk is regularly reviewed by the Board Risk Committee.

2.4.5. Conduct Risk

This is the risk that actual or potential Member detriment arises, or may arise, from the way the Society conducts its business. The Board has primary responsibility for ensuring that the way the Society conducts dealings with its Members is fair and delivers good outcomes, which are in their interests.

This culture is embedded throughout the business and the Board considers all matters that impact upon the fair treatment of our Members. The Society manages conduct risk by maintaining a Conduct Risk Framework. This describes the Board's risk appetite for conduct risk and details the responsibilities for ensuring that the Society conducts its dealings with Members in a fair and transparent manner that is in their best interests. By way of example, matters are considered in relation to product & services, price and value, Member understanding and Member support. The Conduct Risk Framework is reviewed annually by the COR and recommended for approval to the Board via the Board Risk Committee.

In 2023/24 the Society successfully completed its Consumer Duty implementation plan prior to the first key deadline of 31 July 2023 for live products, with Consumer Duty considerations being fully incorporated into the Conduct Risk Framework.

2.4.6. Strategic Risk

Strategic Risk is the risk that the Society is not able to continue in business or that it may not be able to carry out its business plans and/or strategy, resulting in a risk to earnings, reputation and financial viability.

During 2023 the Bank of England Base Rate increased to 5.25%, putting further pressure on households after a prolonged period of inflation. Towards the end of the year, inflation has reduced to lower levels, albeit at a position that is still higher than the Monetary Policy Committee's 2% CPI target. Further downward inflationary pressure is anticipated, with the money markets currently predicting that the next rate change from the Bank of England will be to lower rates.

However, geo-political and political risks remain elevated, with the Society monitoring this area of Strategic Risk closely. This area of Strategic Risk has been considered within the Society's stress testing framework, with the results demonstrating that the Society has sufficient capital and liquidity resources to withstand a range of severe stress scenarios.

2.5. Financial Risks from Climate Change

Due to the all-encompassing nature of this risk discipline, the Financial Risks from Climate Change has not been added as a new principal business risk, instead it has been incorporated into the considerations for each of the Society's existing principal business risks.

The Society recognises the risks and challenges posed by climate change, particularly in the form of physical risks and transition risks.

- Physical risks relate to specific weather events such as flooding, or longer-term events such as rising sea levels. A key element of this risk is to property, both the Society's own properties and properties held as security for lending.
- Transition risks can arise from the process of adjustment towards a low-carbon economy. This could lead to a changing regulatory expectation in terms of the way the Society is expected to run its own business, including who it uses as suppliers. It may also impact property held as security, for example the energy efficiency expectations of mortgaged properties.

The Society has successfully embedded both physical and transition climate change risks into its risk management, risk metrics, governance and scenario analysis practices.

Risk Management

Financial risks of climate change have been fully incorporated the Society's Risk Management Framework and incorporated into risk appetites, risk metrics, risk policies, risk registers and with forward looking horizon scanning practices.

The Society continues to offer a green mortgage range specifically designed to assist borrowers with retrofitting their properties and making them more energy efficient.

Risk Metrics

The Society has developed its climate change risk metrics, by incorporating both physical and transition risk metrics into the Society's management information, for the purpose of enhancing reports received by the Board Risk Committee, to discharge its responsibilities to oversee risk, to the Board.

The Society has integrated climate change metrics into both its mortgage credit risk considerations, as well as into its treasury credit risk considerations.

When the Society has obtained an Energy Performance Certificate (EPC) for the underlying security in connection with its mortgage lending (80% of total mortgage balances), the following table shows the breakdown of mortgage balances by EPC rating as at 5 February 2024:

| | EPC A | EPC B | EPC C | EPC D | EPC E | EPC F | EPC G |
|--|-------|-------|-------|-------|-------|-------|-------|
| Mortgage balances as at 5 February 2024 | 2% | 21% | 21% | 36% | 17% | 3% | 0% |
| Mortgage balances as at 6 February 2023 | 1% | 19% | 20% | 37% | 19% | 3% | 1% |

Governance

Under the senior management regime, financial risks from climate change have been allocated to the Chief Risk Officer, who has been successful in embedding practices within the governance risk structure. In 2023/24, further work was undertaken to ensure that matters from this risk discipline are incorporated into the Society's terms of references, in addition to being incorporated into job descriptions of relevant first line staff.

Scenario Analysis

Over the year, the Society has continued to develop its scenario analysis through a combination of internal and external quantitative analysis, and additional qualitative analysis. Internal long-term scenarios developed include a mixture of physical and transition risk, which take into account physical flooding risks, in addition to transition risks covering the energy efficiency ratings of properties. When assessing these specific long-term scenarios, the Society has allocated a small amount of capital within its Internal Capital Adequacy Assessment Process (ICAAP) to take into account these long-term risks.

In 2023, this internal scenario analysis has continued to be complemented with a long-term qualitative assessment, which takes into account the impact of both physical and transition risks using various climate pathways. The Society's internal analysis is then validated via the use of third-party loan portfolio screening, covering the physical risks of flooding, coastal erosion and subsidence. This also covers the cost of remediation to make lower energy efficient properties more efficient. This exercise was conducted in 2023, with the output continuing to show that the Society's exposure to climate risks remains low.

3. Capital Resources

Capital is the core measure of financial strength for banks and building societies and is held to protect the interests of the Society's Members in times of economic stress or unexpected loss. Therefore, holding appropriate levels of capital is significant to the safety and soundness of the Society and the wider financial services (banking) system.

Capital is defined by tiers reflecting the priority given to different types of capital whereby:

- Tier 1 capital is of the highest quality and ability to absorb losses. This includes permanent shareholders' equity and disclosed reserves (retained earnings); and
- Tier 2 capital, which includes collective mortgage loss provisions, revaluation reserves, hybrid (debt/equity) capital instruments and subordinated term debt.

The Society's capital almost entirely consists of Tier 1, disclosed reserves (retained earnings), adjusted for Tier 2, collective mortgage loss provisions. The regulations stipulate that firms must always hold capital at an amount equating to at least 8% of its assets measured according to their riskiness. Therefore, the riskier the asset, the more capital must be held.

The Society's capital resources as at 5 February 2024 as calculated in accordance with CRD V are as follows:

| Capital Resources | 05-Feb-24 £000s | 06-Feb-23 £000s |
|--|--------------------|--------------------|
| Tier 1 Capital: | | |
| Accumulated profits held as general reserves | 23,511 | 23,240 |
| Deductions from Tier 1 Capital: | | |
| Intangible assets | (554) | (398) |
| Tier 1 Capital | 22,957 | 22,842 |
| Tier 2 Capital: | | |
| Collective provisions for impaired loans | 406 | 256 |
| Total Capital | 23,363 | 23,098 |

The Society's only source of Tier 1 capital is through retained earnings, which meets the definition of Common Equity Tier 1 Capital (CET 1) under the European Capital Requirements Directive (CRD). The regulator does allow Tier 2 capital to be reported as Tier 1 under certain circumstances and set limits in relation to this. As the Society does not report any Tier 2 capital as Tier 1, it is not impacted by these limits.

The Society's key capital ratios as at 5 February 2024 are as follows:

| | 05-Feb-24 | 06-Feb-23 |
|--|-----------|-----------|
| Risk-weighted exposure amounts | £000s | £000s |
| Total risk-weighted exposure amount | 129,436 | 113,212 |
| Capital ratios (as a percentage of risk-weighted exposure amount) | | |
| Common Equity Tier 1 ratio (%) | 17.74% | 20.18% |
| Tier 1 ratio (%) | 17.74% | 20.18% |
| Total capital ratio (%) | 18.05% | 20.40% |

4. Capital Adequacy

The Society maintains a five-year Corporate Plan that is approved by the Society's Board on at least an annual basis and supported by monthly forecasted positions. The Corporate Plan details the projections for capital resources over the next five years.

In addition, the Society produces an Internal Capital Adequacy Assessment Process (ICAAP) document, which demonstrates that the Society has undertaken a detailed risk-based assessment of its current and future assets based on the five-year Corporate Plan projections given the nature and scale of its business. The ICAAP is reviewed by the Assets & Liabilities Committee (ALCO) and recommended for approval to the Board at least annually. In addition, on-going assessments of current and future capital requirements are undertaken monthly and reported to the Board in the Finance Report. As part of adhering to the obligations under the Overall Pillar 2 Rule, firms must also;

- (1) “Make an assessment of the firm-wide impact of the risks identified in accordance with that rule, to which end a firm must aggregate the risks across its various business lines and units, taking appropriate account of any correlation between risks; and**
- (2) Take into account the stress tests that the firm is required to carry out under the general stress test and scenario analysis rule in 12.1 and any stress tests that the firm is required to carry out under the CRR”**

(PRA Rulebook, ICAAP 3.5)

In determining the Society’s overall capital requirements, the ICAAP document includes potential market-wide and idiosyncratic stress scenarios used to assess potential capital losses.

In calculating the minimum capital requirements, the Society has adopted the Standardised Approach for credit risk and the Basic Indicator Approach for operational risk, as permitted by the CRD.

The Standardised Approach for credit risk is calculated by applying different risk weightings to each of the Society’s asset classes according to the inherent risk posed, subject to a further 8%. Therefore, arriving at the minimum capital requirement for credit risk. The Basic Indicator Approach for operational risk is calculated by applying 15% to the Society’s average net interest income values over the previous three years, therefore arriving at the minimum requirement for operational risk.

The Society's minimum capital resources requirement under Pillar 1 as at 5 February 2024 are summarised as follows:

| Pillar 1 Capital Resources Requirement | Exposure | RWAs | Pillar 1 Capital |
|--|-----------------|----------------|-------------------------|
| | £000s | £000s | £000s |
| Loans and Advances to Customers (Mortgages) | | | |
| Residential performing loans | 310,624 | 110,325 | 8,825 |
| Non-residential performing loans | 536 | 536 | 43 |
| Past due items | 1,132 | 1,132 | 91 |
| Total Loans and Advances to Customers | 312,292 | 111,993 | 8,959 |
| | | | |
| Liquidity | | | |
| Central government | 87,456 | - | - |
| Credit institutions | 3,308 | 662 | 53 |
| Total Liquidity | 90,764 | 662 | 53 |
| | | | |
| Derivatives | 317 | 158 | 13 |
| Fixed and Other Assets | 2,549 | 2,549 | 204 |
| Mortgage Commitments | 8,548 | 3,138 | 251 |
| Total Credit Risk Exposures | 414,470 | 118,500 | 9,480 |
| Operational Risk Capital Required | | 10,936 | 875 |
| Pillar 1 Capital Resources Required | | 129,436 | 10,355 |

| Reconciliation of Total Exposures to Total Assets as per the Society's Annual Report | £000s |
|---|----------------|
| Total Credit Risk Exposures (above) | 414,470 |
| Add: Intangible Assets | 554 |
| Add: Effective interest rate adjustment | 354 |
| Add: Mortgages Fair Value Adjustment | 180 |
| Add: Derivative Assets Fair Value | 40 |
| Deduct: Derivatives Exposure Value | (317) |
| Deduct: Collective Impairment Provision | (406) |
| Deduct: Mortgage Commitments | (8,548) |
| Total Assets as per Annual Report | 406,327 |

4.1. Capital Buffers and Pillar 2 requirements

Capital Conservation Buffer (CCoB)

In addition to the minimum capital requirements comprising Pillar 1 capital, the Society must hold a Capital Conservation Buffer (CCoB). This was introduced in CRD IV to ensure that there is a build-up of capital outside periods of stress that can be drawn down when losses are incurred to avoid breaches of minimum capital requirements. The CCoB must be met with Common Equity Tier 1 capital and is currently 2.5% of risk weighted assets.

Counter-Cyclical Buffer (CCyB)

A second capital buffer was introduced in CRD IV called the Counter-Cyclical Buffer (CCyB). This was introduced at a country level to consider the overall risk environment and to ensure that there is a cushion in times of stress in the macro-financial environment in which financial institutions operate.

The level of CCyB will be determined by a national jurisdiction that monitors credit growth and other indicators that may signal a build-up of system-wide risk. It will make assessments of whether credit growth is excessive and is leading to the build-up of system-wide risk, a trigger for implementation.

Each Basel Committee member jurisdiction will identify an authority with the responsibility to make decisions on the size of the CCyB, which will vary between 0% and 2.5% of risk weighted assets, depending on their judgement as to the extent of the build-up of system-wide risk. The CCyB is currently 2% (prior to 5 July 2023 it was 1%).

Pillar 2A and 2B requirements

As a result of the last Capital Supervisory Review and Evaluation Process (C-SREP) performed by the PRA in 2023, the Society is required to hold a Pillar 2A capital requirement of 0.07% of risk weighted assets, and a Pillar 2B capital requirement of 0.48% of risk weighted assets.

Total capital requirements

| Total capital requirement (as a percentage of risk-weighted assets) | 05-Feb-24 | 06-Feb-23 |
|---|---------------|---------------|
| Capital conservation buffer (CCoB) | 2.50% | 2.50% |
| Countercyclical capital buffer (CCyB) | 2.00% | 1.00% |
| Combined buffer requirement | 4.50% | 3.50% |
| Pillar 1 capital requirement | 8.00% | 8.00% |
| Pillar 2A capital requirement | 0.07% | 0.00% |
| Pillar 2B capital requirement | 0.48% | 0.00% |
| Overall capital requirements | 13.05% | 11.50% |
| CET1 available after meeting Pillar 1 and Pillar 2A capital requirements | 9.67% | 12.18% |
| CET1 available after meeting total capital requirements (including buffers) | 4.69% | 8.68% |

The decrease in the CET1 available from 2023 to 2024 has been driven by the growth of the balance sheet and the resulting increase in capital requirements. The balance sheet growth is expected to generate sufficient profits in future years to absorb the additional leverage.

4.2. Leverage

The leverage ratio is a measure of capital strength assessing qualifying Tier 1 capital against on and off-balance sheet assets. The leverage ratio as at 6 February 2023 was 5.5% (6 February 2023: 6.7%) and although the 3.25% minimum regulatory limit, prescribed to firms with retail deposits in excess of £50 billion does not apply to the Society, it is in excess of this limit.

CRD IV introduced a country-by-country reporting requirement aimed at providing transparency of a financial institutions income and location of its operations. This report can be found in the Annual Report and Accounts.

The key metric below requires Banks and Building Societies to calculate their Tier 1 Capital against their Total Assets less those held in the Central Bank. The decrease in the leverage ratio from 2023 to 2024 has been driven by the growth of the balance sheet. The balance sheet growth is expected to generate sufficient profits in future years to absorb the additional leverage.

| Leverage ratio | 05-Feb-24 | 06-Feb-23 |
|--|-----------|-----------|
| | £000s | £000s |
| Total exposure measure excluding claims on central banks | 327,292 | 282,133 |
| Leverage ratio excluding claims on central banks (%) | 7.01% | 8.10% |

4.3. Credit Risk Exposures to Mortgages

A summary of credit risk in mortgages is as follows:

| Loans and Advances to Customers (Mortgages) | Assets £000s | RWAs £000s | Pillar 1 Capital £000s |
|--|-----------------|----------------|------------------------------|
| Fully secured on residential property | 310,624 | 110,325 | 8,825 |
| Fully secured on non-residential property (Secured on Real Estate) | 536 | 536 | 43 |
| Past due and fully secured on residential property | 1,132 | 1,132 | 91 |
| Past due and fully secured on non-residential property | 0 | 0 | - |
| Total | 312,292 | 111,993 | 8,959 |

The residual maturity of loans and advances to customers is as follows:

| Analysis of residual maturity of mortgages: | £000s |
|--|----------------|
| Properties in possession | 231 |
| Repayable in not more than 3 months | 2,172 |
| Repayable in more than 3 months but not more than 1 year | 6,756 |
| Repayable in more than 1 year but not more than 5 years | 45,494 |
| Repayable in more than 5 years | 257,945 |
| Less: Provisions for specific impairment losses | (306) |
| Total exposure value | 312,292 |
| Add: Effective interest rate adjustment | 354 |
| Add: Mortgages fair value adjustment | 180 |
| Less: Provisions for collective impairment losses | (406) |
| Total mortgages as per Annual Report | 312,420 |

A geographic analysis of the Society's loans and advances to customers is as follows:

| Region | Fully secured on Residential Property | | Fully secured on Non-Residential Property | | Total | |
|--------------------------|---------------------------------------|--------------|---|----------|----------------|-------------|
| | Performing | Past Due | Performing | Past Due | £000s | % |
| | £000s | £000s | £000s | £000s | | |
| North West | 70,417 | 573 | 302 | - | 71,292 | 22.80% |
| Outer South East | 37,392 | - | - | - | 37,392 | 11.95% |
| South West | 30,593 | 3 | - | - | 30,596 | 9.83% |
| Greater London | 26,284 | - | - | - | 26,284 | 8.41% |
| Outer Metropolitan Area | 25,404 | - | - | - | 25,404 | 8.13% |
| Yorkshire and Humberside | 23,098 | - | - | - | 23,098 | 7.39% |
| West Midlands | 21,982 | 95 | - | - | 22,077 | 7.07% |
| Scotland | 20,525 | - | - | - | 20,525 | 6.57% |
| East Midlands | 17,920 | 231 | - | - | 18,151 | 5.81% |
| Wales | 13,792 | 230 | - | - | 14,022 | 4.49% |
| East Anglia | 12,270 | - | - | - | 12,270 | 3.93% |
| North | 10,947 | - | 234 | - | 11,181 | 3.62% |
| Total | 310,624 | 1,132 | 536 | - | 312,292 | 100% |

4.3.1. Credit Risk Adjustments – Impairment Provisions

Where objective evidence of impairment is identified in relation to an individual mortgage, an assessment is carried out to determine whether a specific impairment provision to cover anticipated losses is required. Where the assessment does not result in a specific impairment provision being made, the mortgage is assessed for a collective impairment provision. Specific individual impairment assessments are carried out for mortgages which are in possession, are in arrears by two or more months, have known employment issues or are cases of significant concern for the Society.

The specific individual impairment assessment compares the current achievable market value of the security to the outstanding loan balance and calculates an impairment provision that would cover any potential losses. The current achievable market value is calculated by applying an industry recognised national house price index to the original valuation on advance and the calculation takes into account an appropriate allowance for costs of repossession and sale, the impact of any applicable Mortgage Indemnity Guarantee (MIG) cover and the expected time taken between the mortgage defaulting and the Society taking possession of the property.

Where the criteria for a specific impairment provision is not met, mortgages are assessed for a collective impairment provision. Collective impairment assessments are carried out on a portfolio basis using a risk-based approach and reflect the probability that other loans may also be impaired at the year end date with the result that the amount advanced may not be recovered in full. Such provisions are calculated based on estimated loss factors using the higher of the Society's historical experience of default and that of the Society's peers. The rates are regularly reviewed in the light of actual experience. The calculation incorporates the same assumptions for property value and sale costs as the specific provision calculation.

| Provisions for Impairment Losses | Loans Fully Secured on Residential Property £000s | | |
|----------------------------------|--|------------|------------|
| | Specific | Collective | Total |
| Brought forward | 162 | 256 | 418 |
| Utilised during the year | - | - | - |
| Charge for the year | 144 | 150 | 294 |
| Carried forward | 306 | 406 | 712 |

4.4 Credit Risk Exposures to Treasury Counterparties

The Society manages treasury counterparty risks by having an authorised counterparty list that is approved by the Board. The Society also limits the amount of treasury activities that are permitted with each counterparty based on their size and external credit rating as issued by the external credit assessment agencies Moody's and/or Fitch.

A summary of credit risk relating to Treasury Counterparties is as follows:

| Liquid Assets | Credit Rating | Total £000s | % of Total | RWAs £000s | Pillar 1 Capital £000s |
|--|---------------|----------------|-------------|---------------|------------------------------|
| Central government | AA- | 87,456 | 96.4% | - | - |
| Credit institutions by residual maturity: < 3 months | A+ | 3,308 | 3.6% | 662 | 53 |
| Total | | 90,764 | 100% | 662 | 53 |

| Derivative exposures | Credit Rating | Total £000s | RWAs £000s | Pillar 1 Capital £000s |
|--|---------------|----------------|---------------|------------------------------|
| Credit institutions by residual maturity: > 3 months | A+ | 317 | 158 | 13 |

Under Pillar 1, credit risk is assessed based on the credit quality assessment scale, as determined by the Regulator.

The Society is exposed 100% to UK counterparties.

An analysis of the residual maturity of liquid assets is shown below:

| Loans and Advances to Credit Institutions | £000s |
|--|---------------|
| Cash in hand | 216 |
| Accrued Interest | 63 |
| Repayable on demand | 90,065 |
| Repayable in not more than 3 months | - |
| Repayable in more than 3 months but not more than 1 year | 250 |
| Repayable in more than 1 year but not more than 5 years | 170 |
| Total Liquid Assets | 90,764 |

Repayable in more than 1 year but not more than 5 years is collateral pledged in relation to interest rate swaps of £170,000 based on the longest swap maturity date.

5. Remuneration

The Nominations & Remuneration Committee is a Board Sub-Committee that forms part of the Society's Corporate Governance Framework. The Committee operates within the Terms of Reference agreed by the Board which are reviewed annually. The Committee comprises entirely Non-Executive Directors. The Chair of the Board, Chief Executive, Customer Services Director and Head of HR, Training & Facilities and H&S attend each meeting of the Committee although none are involved in consideration of any matters relating to their own remuneration and are absented from any such discussion. The Committee reviews Non-Executive Directors', Executive Directors' and Material Risk Takers' (MRT) remuneration annually, taking into consideration data from comparable organisations and from the market within which the Society operates. Minutes of all Committee meetings are distributed to all Board members and the Chair of the Committee reports to the Board at the Board meeting following every Committee meeting.

The Committee has adopted a simple remuneration structure which is appropriate to its business and is efficient and cost effective in promoting its long-term strategy. Transparent salary, other benefits and pension contributions are supplemented by a modest and straight-forward bonus scheme that promotes continued involvement in the Society's ongoing success.

The Remuneration Policy does not include significant performance related variable remuneration. The Society does not offer guaranteed variable remuneration, share options, or medium or long-term incentive schemes. The Society does not offer variable remuneration, commission, retention awards or cash payments in excess of a set percentage of overall basic salary. This is considered an important element of risk management so that variable remuneration does not form a significant element of total remuneration and so avoids incentivising behaviour inconsistent with the proper management and control of risk. The Nominations & Remuneration Committee will consider the maximum pay awarded in terms of variable remuneration on an annual basis.

Non-Executive Directors' Remuneration

The Society's remuneration policy rewards Directors through fees according to their time committed, expertise and experience, and overall contribution to the successful performance of the Society.

The remuneration of all Non-Executive Directors is approved by the Committee on an annual basis. The elements of Non-Executive Directors' remuneration comprise:

| Element | Approach |
|-----------------|--|
| Basic fee* | Reviewed annually taking into consideration fees from comparable financial services organisations and from the market within which the Society operates. |
| Additional fees | Payable for additional responsibilities such as Chair, Vice-Chair and Sub-Committee Chair positions held. |

*Non-Executive Directors fees include taxable travel expense paid

Non-Executive Directors do not participate in any performance pay scheme, bonus, pension arrangements or other benefits.

Executive Directors' and Material Risk Takers' Remuneration

The Society's remuneration policy sets remuneration levels which seek to attract and retain Executive Directors and to set rewards that reflect responsibilities, time commitment and overall contribution to the successful performance of the Society.

At 5 February 2024 Material Risk Takers comprise the Head of Finance, Head of Products, Head of IT, Head of HR & Training, Facilities & Health & Safety, Head of Compliance and Head of Operations. During the year Material Risk Takers also included the Chief Risk Officer before this role became an Executive Director, and the Head of Retail Distribution, which has been combined with the Head of Lending to become the Head of Operations.

The remuneration of all Executive Directors is approved by the Committee on an annual basis. The elements of Executive Directors' remuneration comprise:

| Element | Approach |
|-----------|--|
| Basic fee | Reviewed annually taking into consideration responsibilities, individual performance and salaries from comparable financial services organisations and from the market within which the Society operates. |
| Bonus | Reviewed annually taking into consideration a range of financial and non-financial performance measures established to ensure the business is managed in the best interests of Members and benchmarked against peer societies. Bonus arrangements are usually set at a percentage of overall basic salary. |
| Pension | The Society operates a defined contribution pension scheme, where both the Society and the individual make contributions to the private pension arrangements, and does not offer a defined benefits pension scheme. |
| Benefits | A number of benefits may be provided including car allowance and private medical insurance and other benefits as provided to employees generally. |

Contractual Terms

Non-Executive Directors have contracts for services and are appointed for an initial term of three years. The Chief Executive is employed on a contract of employment that may be terminated by either party giving twelve months' notice. The Finance Director, Customer Services Director and Chief Risk Officer are employed on a contract of employment that may be terminated by either party giving six months' notice.

Summary of all Material Risk Takers' Remuneration

Total remuneration of the Society's Material Risk Takers (MRT) is shown in the tables below.

| | Number during the year | Fixed Remuneration £000's | Variable Remuneration £000's* | Total £000's |
|-------------------------|------------------------|---------------------------|-------------------------------|--------------|
| 2024 | | | | |
| Non-Executive Directors | 8 | 209 | - | 209 |
| Executive Directors | 4 | 484 | 33 | 517 |
| Material Risk Takers | 8 | 499 | 29 | 528 |
| Total | 20 | 1,192 | 62 | 1,254 |
| Total % | | 95% | 5% | 100% |

*Variable remuneration reflects the annual bonus paid by the Society

No deferred, sign-on, or severance payments were made to MRT's in the period.

6. Attestation and Sign Off

This document and the disclosures included have been approved by the Board of Chorley & District Building Society. The Director below attests that, to the best of their knowledge, these Pillar 3 disclosures have been prepared in accordance with those requirements as laid out in the Disclosure (CRR) Part of the PRA Rulebook and the internal regulatory reporting framework.

David Shelley
Finance Director
Date: 27 March 2024

Appendix I – Key Metrics Table

The below is a summary of the Key Metrics for the Society.

| Key Metrics | 05-Feb-24 | 06-Feb-23 |
|---|--------------|--------------|
| Available own funds (amounts) | £000s | £000s |
| Common Equity Tier 1 (CET1) capital | 22,957 | 22,842 |
| Tier 1 capital | 22,957 | 22,842 |
| Total capital | 23,363 | 23,098 |
| Risk-weighted exposure amounts | £000s | £000s |
| Total risk-weighted exposure amount | 129,436 | 113,212 |
| Capital ratios (as a percentage of risk-weighted exposure amount) | | |
| Common Equity Tier 1 ratio (%) | 17.74% | 20.18% |
| Tier 1 ratio (%) | 17.74% | 20.18% |
| Total capital ratio (%) | 18.05% | 20.40% |
| Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount) | | |
| Additional CET1 SREP requirements (%) | 0.48% | 0.00% |
| Additional AT1 SREP requirements (%) | 0.00% | 0.00% |
| Additional T2 SREP requirements (%) | 0.00% | 0.00% |
| Total SREP own funds requirements (%) | 8.07% | 8.00% |
| Combined buffer requirement (as a percentage of risk-weighted exposure amount) | | |
| Capital conservation buffer (%) | 2.50% | 2.50% |
| Institution specific countercyclical capital buffer (%) | 2.00% | 1.00% |
| Combined buffer requirement (%) | 4.50% | 3.50% |
| Overall capital requirements (%) | 13.05% | 11.50% |
| CET1 available after meeting the total SREP own funds requirements (%) | 9.67% | 12.18% |
| Leverage ratio | £000s | £000s |
| Total exposure measure excluding claims on central banks | 327,292 | 282,133 |
| Leverage ratio excluding claims on central banks (%) | 7.01% | 8.10% |
| Liquidity Coverage Ratio | £000s | £000s |
| Total high-quality liquid assets (HQLA) (Weighted value -average) | 66,697 | 53,805 |
| Cash outflows - Total weighted value | 28,548 | 24,959 |
| Cash inflows - Total weighted value | 5,352 | 4,254 |
| Total net cash outflows (adjusted value) | 23,195 | 20,705 |
| Liquidity coverage ratio (%) | 288% | 260% |
| Net Stable Funding Ratio | £000s | £000s |
| Total available stable funding | 338,289 | 298,467 |
| Total required stable funding | 213,096 | 187,695 |
| NSFR ratio (%) | 159% | 159% |

Appendix II – Overview of risk weighted exposure amounts

The below table provides a summary of the Society's risk weighted exposure amounts.

| Overview of risk weighted exposure amounts | Risk weighted exposure amounts (RWEAs) - £000s | | Total own funds requirements - £000s |
|--|--|----------------|--------------------------------------|
| | 05-Feb-24 | 06-Feb-23 | 05-Feb-24 |
| Credit risk (excluding CCR) | 118,342 | 102,289 | 9,550 |
| Of which the standardised approach | 118,342 | 102,289 | 9,550 |
| Counterparty credit risk - CCR | 158 | - | 13 |
| Of which the standardised approach | 158 | - | 13 |
| Operational risk | 10,936 | 10,923 | 875 |
| Of which basic indicator approach | 10,936 | 10,923 | 875 |
| Total | 129,436 | 113,212 | 10,439 |