PILLAR 3 DISCLOSURES 2021

Newbury
Building Society

Contents

EXECUTIVE SUMMARY

The table below presents a summary of the key metrics on capital adequacy.

Key metrics	31 October 2021	31 October 2020
Available capital	**£m**	**£m**
Total Common Equity Tier 1	88.4	81.9
Total Tier 2 capital	1.5	1.5
Total capital	89.9	83.4
Total risk weighted assets (RWAs)	431.0	428.6
Capital ratios	**%**	**%**
Common Equity Tier 1 ratio	20.5	19.1
Total capital ratio	20.9	19.4
Total regulatory requirement	10.5	10.5
Leverage ratio		
Leverage ratio exposure measure	£1,407.4m	£1,241.2m
Leverage ratio	6.3%	6.6%
Liquidity		
Liquidity Coverage Ratio	372%	263%
Net Stable Funding Ratio *	154%	153%

* At 30 September each year

1. Introduction

1.1. Background

The Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD IV) came into force on 1 January 2014 and is the European implementation of Basel III which sets standards for capital and liquidity adequacy. In the UK the Prudential Regulation Authority (PRA) is responsible for ensuring that the banks, building societies and investment firms that it regulates have implemented the CRD.

The rules include disclosure requirements known as 'Pillar 3' which apply to banks and building societies and are designed to promote market discipline through the disclosure of key information about risk exposures and risk management processes.

The CRD comprises three main elements, or 'Pillars'.

Pillar 1: Minimum regulatory capital requirements relating to credit, market and operational risks. The Society meets the minimum capital requirements by applying the standardised approach to credit risk and the Basic Indicator Approach to operational risk;

Pillar 2: Assessment of capital requirements by the Society through the Internal Capital Adequacy Assessment Process (ICAAP) and the PRA through the Supervisory Review and Evaluation Process (SREP) to determine whether additional capital should be held for specific risks not covered under Pillar 1;

Pillar 3: Disclosure of key information about risk exposures, the management of those risks and capital adequacy.

The Pillar 3 Disclosures are designed to promote market discipline through external disclosure of a firm's risk management framework and risk exposures.

1.2. Pillar 3 Disclosure.

This covers the disclosures that the Society is required to make under Titles II and III of Part Eight of Regulation (EU) No 575/2013, pursuant to Article 434a of Regulation (EU) No 575/2013. In preparing these disclosures the Society has also had regard to the EBA final report 'Final Draft Implementing Technical Standards on public disclosures by institutions of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013' (dated June 2020).

In accordance with the CRR, certain information required for Pillar 3 disclosures is provided in the Society's report and accounts.

1.3. Scope of application

This document contains the Pillar 3 disclosures for the Newbury Building Society (PRA Firm Reference Number 206077). The principal office of the Society is 90 Bartholomew Street, Newbury, Berkshire, RG14 5EE.

1.4. Basis and frequency of disclosures

This document sets out the Pillar 3 disclosure requirements of the CRD and CRR Pillar 3, as relevant to the size and complexity of the Society.

The Pillar 3 disclosures have been prepared to provide information about the management of certain risks together with asset information and capital calculations under Pillar 1.

Unless otherwise stated all information relates to the Society's assets as at 31 October 2021.

This document is updated annually to ensure that the disclosures, verification and frequency remain appropriate and is based on the Society's most recent audited financial statements.

Confidential information and materiality

Information is considered material if its omission or misstatement could change or influence the assessment of decision of a user relying on that information for the purpose of making economic decisions. No disclosures have been omitted on the basis of materiality or confidentiality.

1.5. External audit and verification

Verification

This document has been reviewed by the Society's Risk Committee and approved by the Society's Board in December 2021 alongside the Annual Report and Accounts.

External audit

The disclosures provided in this document have not been subject to external audit except where they are equivalent to those prepared under accounting standards and included in the Society's audited financial statements for the year ended 31 October 2021.

1.6. Publication media and location

The Pillar 3 disclosure document will be prepared and published on an annual basis and is available on the Society's website (www.newbury.co.uk). Should you require further information on this document please contact the Society Secretary at the principal office address.

2. Risk Management Objectives and Policies

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

2.1. Society's Risk Management framework

Newbury Building Society is a traditional Building Society, developing and retailing financial products, principally in the form of mortgages and savings. In executing the Society's strategy and in carrying out its routine business and activities, the Society is exposed to a number of financial and non-financial risks. The primary goal of risk management is to ensure that the outcome of risk-taking activity is consistent with the Society's strategy and risk appetite and appropriate for the level and types of risks it takes paying regard to regulatory guidance. Good risk management ensures there is an appropriate balance between risk and reward in order to optimise Member returns and, when issues arise they are managed for the best outcome for Members and the Society.

The Board is the custodian of Members' and key stakeholders' interests and is ultimately responsible for the effective management of risk.

The Society has a Risk Management Framework (RMF) that documents the Society's formal structure for managing risks and sets out the Board's risk appetite. The RMF, including the risk appetite statement, and principal risk policies is approved by the Board following a review and recommendation by the Risk Committee. The Board delegates oversight of the implementation of the RMF to the Risk Committee. The Chief Risk Officer, who is an Executive Director on the Board, oversees the effective implementation of the RMF, including the review of risks and uncertainties in the business. As part of the RMF the Society's Assets & Liabilities Committee (ALCO) is charged with the responsibility for managing and controlling balance sheet exposures and the use of financial instruments for risk management purposes within approved limits.

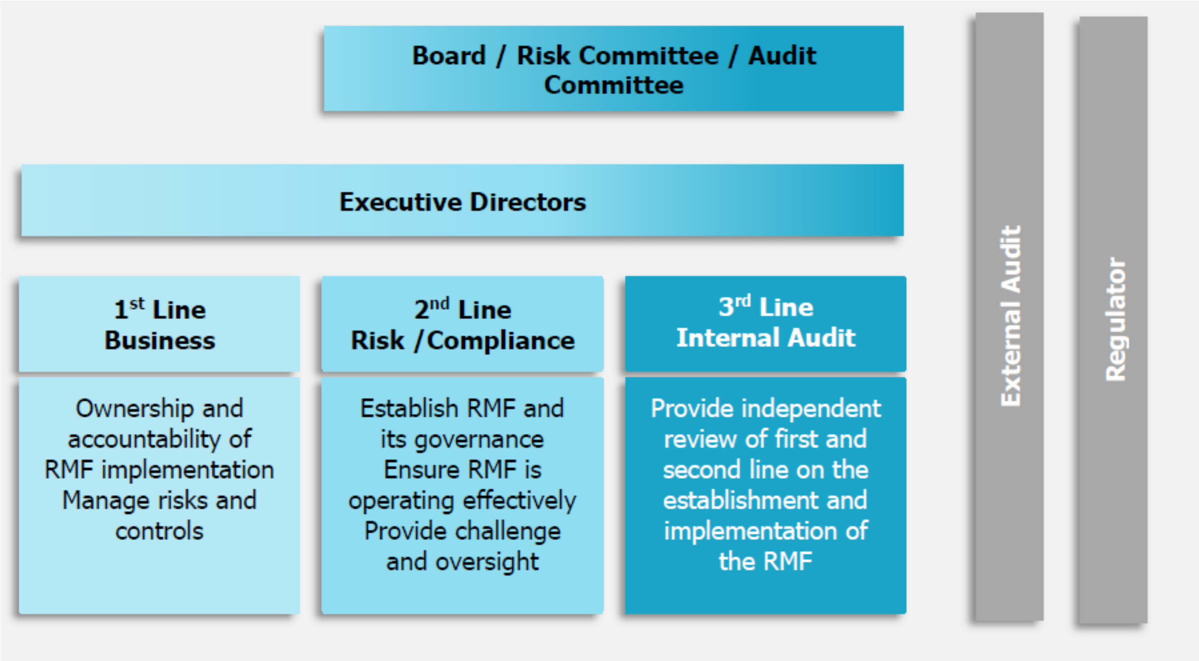
The Society's RMF provides the foundation for achieving risk management objectives through:
- Articulating the Society's risk management strategy, risk appetite, practices and procedures;
- Documenting a consistent framework;
- Establishing minimum standards around key risk management issues; and
- Directing the approach to risk governance throughout the Society.

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

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

2.2. Risk and control management and governance

The RMF provides a structured and disciplined approach to risk management and supports the identification, assessment, management and reporting of all material risks. The Society adopts a three lines of defence model which ensures a clear separation between the ownership and management of risk and controls (first line), oversight, support, and challenge (second line) and internal audit assurance (third line). The three lines of defence approach is illustrated below:



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

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

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

2.2.1. Risk culture and appetite

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

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

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

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

2.3. Principal risks

The table below lists the principal risks of the Society and references to where they are considered in this document.

Risk	Definition	Reference
Strategic	Risks resulting from the Society's strategic decisions which have the potential to reduce the Society's profit levels and contribution to capital, thereby threatening the financial strength of the Society	Section 8.2
Credit	The risk of losses arising from a debtor's failure to meet their legal and contractual obligations as they fall due. For example a mortgage loan customer or treasury counterparty defaulting on their obligation to repay the Society.	Section 5
Liquidity	The risk of the Society failing to meet its financial obligations as they fall due, ultimately resulting in the inability to support normal business activity and failure to meet regulatory liquidity requirements. This includes the funding risk of not being able to find new funding to replace outflows or maturing facilities.	Section 7
Market	The risk of losses arising from changes in market rates or prices. Market risk includes interest rate risk and basis risk. Interest rate risk is the risk of mismatches between the dates on which interest receivable on assets and interest payable on liabilities are reset to market rates, impacting on profitability and the value of the Society's assets and liabilities. Basis risk is the risk that assets and liabilities re-price on a different basis as interest rates change.	Section 8.1
Operational	The risk of losses and/or the availability of key business services arising from inadequate or failed internal processes or systems, human error or external events. Therefore, operational risks can potentially arise from all the Society's activities, across all business areas.	Section 6
Conduct (including culture)	The risk of developing systems, behaviour and attitudes within the Society which do not deliver fair customer outcomes, or which create an environment which does not result in staff being open, honest, and doing the right thing. This can result in the risk of reputational loss, customer redress or regulatory fines.	Section 8.3

The Board approves the policies which set out how the principal risks are managed. The Risk Committee's terms of reference detail which policies are reviewed before recommendation to the Board for approval. These policies relating to credit risk, liquidity risk and financial risk management are reviewed and approved by the Board at least annually.

Each principal risk has a Risk Owner within the Society and there are Risk Champions in each business area to support the effective operation of the RMF.

2.4. Emerging risks

Emerging Risks are threats for which the potential impact upon the Society is not yet possible to reasonably assess. Timely identification and monitoring of these emerging risks can enable the Society to take steps to begin to mitigate against the emerging threat. The Society has identified a number of risks which may have a future impact on the Society. These include climate change (see section 8.4.), building material issues with mortgaged properties and changes to the shared ownership model that have been introduced. These risks will be transitioned into active risk management if they develop to a state where they can be reliably assessed. Emerging risks are reviewed at each risk committee meeting.

2.5. Stress testing

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

1 Understand the levels of capital and liquidity that is required to ensure sustainability of the Society in all reasonably foreseeable circumstances; and

2 Understand the level of extreme stress that would cause failure (reverse stress testing) so the Board can consider whether this is acceptable or should be further mitigated. This will inform the level of the Society's risk appetite and the resulting key risk indicators.

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

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

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

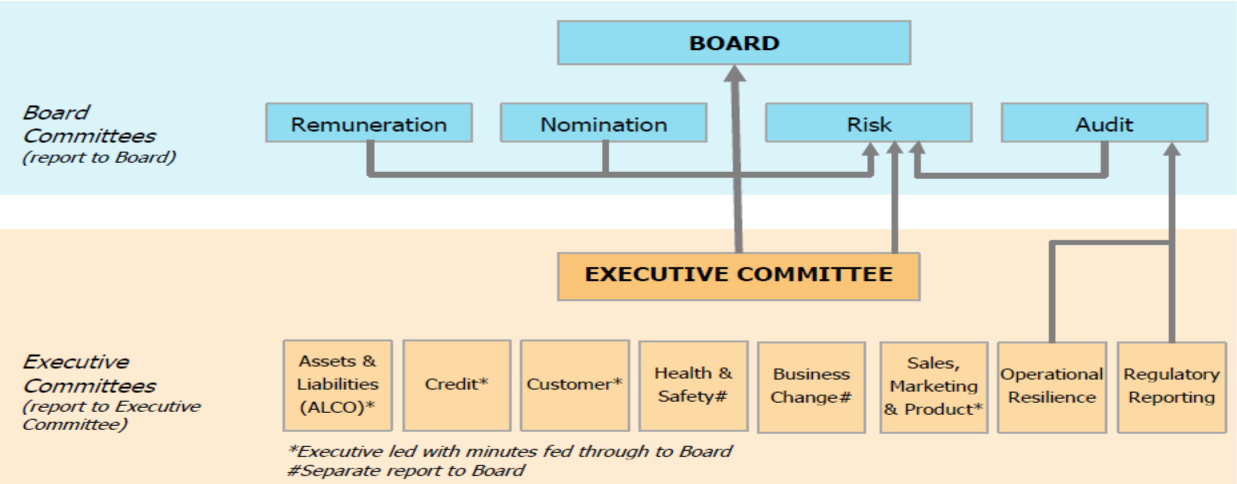
Other: The Society also undertakes interest rate risk stress testing to ensure that the impact of changes in interest rates on its earnings and economic value remains within risk appetite and that the Society holds sufficient capital to cover potential losses arising from changes in interest rates. Interest rate risk scenarios model and evaluate the impact of a range of positive and negative changes to interest rate bases (Bank rate and Sonia) on interest income.

The output from all processes used to inform Board risk appetite, policies, management actions and contingency plans.

2.6. Risk governance, Board and Committee structure

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

Board and Committee structure



Conduct matters are reported to the Customer committee and onwards to the Risk committee. These committees receive a quarterly Conduct report which includes all conduct KRIs which cover governance and culture, product design, sales/transaction processing, and post sales.

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

2.7. Reporting

Capital adequacy is reported to the PRA quarterly in the Common Reporting (CoREP) returns. The Risk Committee also receive a quarterly report on capital adequacy. It is also reported at each Board meeting as part of the Society's Management Information pack. In order to provide clear linkage between the Society's Corporate Plan, RMF, ICAAP, ILAAP and Recovery Plan, the Society has also established Key Risk Indicators for each Principal Risk which reflect the Society's cautious approach to risk and which ensure the Corporate Plan will be executed in accordance with the Risk Strategy. The Risk Committee reviews both the key risk indicators for each principal risk and the output from a range of stress and scenario testing on a regular basis to ensure that risk levels remain within the Society's agreed risk appetite.

3. Capital Resources (Own Funds)

The Society's capital resources are calculated in accordance with Pillar 1 of the CRD. The scope of these resources as at 31 October 2021 relate to the Society only. The Society has no subordinated debt, permanent interest-bearing shares, core capital deferred shares or any other capital instruments.

3.1. Tier 1 Capital

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

3.2. Tier 2 Capital

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

3.3. Capital composition (own funds)

The following table is a summary of the Society's capital resources as at 31 October 2021:

Table 1

Capital			**Notes**	**£m**
Tier 1	General Reserve			87.8
	Revaluation Reserve			1.0
	Intangible assets		1	(0.4)
		Tier 1 total		**88.4**
Tier 2	Collective Provision			
		Tier 2 total		1.5
		Total Capital Resources		**89.9**
		Risk weighted assets		**431.0**
Capital ratios			**Notes**	
		CET1 ratio		**20.5%**
		Total capital ratio		**20.9%**

Notes:

1) Intangible fixed assets are computer software and system development costs after amortisation. CRD IV requires intangible fixed assets, net of any deferred tax liabilities, to be deducted from CET1 capital. The useful life considered for prudential purposes is the lower of the useful life as estimated for accounting purposes and 3 years, starting from the date on which the software asset is available for use and begins to be amortised for accounting purposes.

3.4. Reconciliation of regulatory capital

A reconciliation of equity attributable to members per the Statement of Financial Position to regulatory capital is shown in Table 2 below.

Table 2

	£m
Equity attributable to members per the statement of financial position	**88.8**
Adjustments for items not eligible for inclusion in CET1 capital	
Intangible assets	(0.4)
Prudent valuation adjustment	-
Total adjustments to common equity tier 1	(0.4)
Adjustments to tier 2 capital	
Collective impairment provision	1.5
Total adjustments to tier 2 capital	1.5
Total regulatory capital	**89.9**

3.5. Regulatory buffers

Under CRD institutions are required to meet the following own funds requirements:

- CET1 ratio 4.5%
- Tier 1 capital ratio 6.0%
- Total capital ratio 8.0%

There is also a cap on the amount of provisions that can count as Tier 2 capital being 1.25% of credit risk weighted assets, equivalent to £5.4m for the Society.

In addition to the minimum capital requirements, CRD IV requires institutions to hold capital buffers that can be utilised to absorb losses in stressed conditions. All buffers must be met with CET1 resources.

The Society is not deemed globally systemically important as defined by Article 131 of EU Directive 2013/36.

Capital conservation buffer (CCB)
The CCB is designed to ensure that institutions build up capital buffers outside of times of stress that can be drawn upon if required. From January 2019 the CCB was 2.5% of risk-weighted assets.

Countercyclical buffer (CCyB)
The CCyB requires financial institutions to hold additional capital to reduce systemic risks associated with the excess build-up of credit by providing additional loss-absorbing capacity to act as an incentive to limit further credit growth. The Financial Policy Committee (FPC) is responsible for setting the UK CCyB rate within a range of between 0% and 2.5%. On 13th December 2021 the Bank of England announced that the CCyB will increase to 1% in 12 months' time. At 31 October 2021 the UK CCyB was set to 0%.

Each institution's specific countercyclical buffer rate is a weighted average of the CCyB's that apply in the jurisdictions where the relevant credit exposures are located. All of the Society's credit exposures are in the UK therefore the Society's institution specific CCyB is also 0%.

The Society is required to meet at least 56% of its capital requirements with CET1 in excess of the buffers noted above and a maximum of 25% may be in the form of Tier 2 capital. The Society has met this requirement throughout the year ended 31 October 2021.

4. Capital Adequacy Assessment

4.1. Pillar 1 capital

Under PRA rules a minimum level of Pillar 1 capital must be held to cover credit risk, operational risk and for the credit valuation adjustment.

The Society applies the Standardised Approach for credit risk in calculating the Society's capital requirements that support the corporate plan objectives. Under the Standardised Approach, a risk weighted asset value is applied to each exposure class and 8% of that value is provided as the minimum capital requirement for credit risk.

The Society applies the Basic Indicator Approach for operational risk in calculating the Society's capital requirements that support the corporate plan objectives. Under this approach the Society calculates its average net income over the previous 3 years and provides 15% of the average net income as the minimum capital requirement for operational risk. See section 6, Operational Risk.

4.2. Pillar 2 capital

The Board has carried out an assessment of the risks that the Society is exposed to that are not covered under Pillar 1 to determine whether an additional amount of capital is required to cover these risks (Pillar 2A). A further stress testing assessment has been undertaken to identify the level of any additional capital required to be held over and above regulatory requirements in the event of a severe economic downturn.

Pillar 2 capital is provided to cover specific risks faced by the Society that are not considered to be covered by the capital requirements determined for Pillar 1. As at 31 October 2021 the Society's Pillar 2A capital requirement was 0% of RWAs.

4.3. Internal Capital Adequacy Process (ICAAP)

The Society maintains a 4-year corporate plan which is approved annually by the Board. A requirement of the plan is that the Society maintains sufficient capital to meet the Board's risk appetite, taking into account the projected activities and current and possible changing economic conditions.

In addition to the Corporate Plan the Society prepares an ICAAP. The ICAAP sets out the framework for the Society's internal governance and oversight of its risk and capital management policies and involves a review of all risks of relevance to the Society and an assessment of the capital required to ensure the Society's capital resources are sufficient to support its plans – in normal and stressed conditions.

The Board sets the economic scenarios to be used in calculating capital requirements, with input from the results of the Society stress models. The Society also uses scenarios set by the PRA.

Finally, the Board approves the capital assessment taking into account any areas where they may feel the models and internal assessments do not adequately capture the full risk exposure and holding extra capital, where appropriate. The Board approved the latest ICAAP in September 2021.

4.4. Total capital requirement and buffers

In addition to the ICAAP process the PRA issues the Society with specific requirements as to the minimum capital the Society must hold. The table below sets out the total capital requirement and buffer requirements as they apply to the Society at 31 October 2021.

Table 3

Pillar 1	**% of RWAs**	**£m**
Risk weighted assets at 31 October 2021		**431.0**
Capital requirements		
Total capital requirements (including Pillar 1)	8.0%	**34.5**
Capital Conservation Buffer	2.5%	**10.8**
Countercyclical buffer	0.0%	**-**
Total	**10.50%**	**45.3**

4.5. Risk weightings

The Society determines credit risk weightings according to the standardised approach as set out in the CRR. Risk weightings vary depending on the nature of the assets and factors such as loan to value, security, or for wholesale assets, counterparty, credit rating and duration. The evaluation of capital required to cover Operational risk is calculated as explained in 4.1. above.

4.6. Capital requirement summary (Pillar 1)

The table below sets out the Society's minimum capital requirement under Pillar 1 as at 31 October 2021

Table 4

Pillar 1	Assets £m	Risk Weighted Assets £m	Capital Requirement £m
Credit Risk in the Mortgage Book - FSRP	1,062.1	379.7	**30.4**
Credit Risk in the Mortgage Book - FSOL	5.7	5.1	**0.4**
Individual Provision	-	-	-
Total Credit Risk in the Mortgage Book	**1,067.8**	**384.8**	**30.8**
Liquid Asset Credit Risk – Central banks	316.1	-	-
Liquid Asset Credit Risk – Banks	5.6	1.1	**0.1**
Total liquid asset credit risk	**321.7**	**1.1**	**0.1**
Other Assets	**9.1**	**9.1**	**0.7**
Total credit risk	**1,398.6**	**395.1**	**31.6**
Operational risk		**31.9**	**2.6**
Credit valuation adjustment		**1.6**	**0.1**
Counterparty credit risk		**2.4**	**0.2**
Total Pillar 1 capital resource requirement		**431.0**	**34.5**

Other assets include tangible fixed assets and intangible fixed assets, net of amounts deducted from capital.

4.7. Leverage ratio

CRD IV requires the Society to calculate a non-risk based Leverage Ratio, to supplement risk-based capital requirements. The leverage ratio measures the relationship between the capital resources of the Society and its total assets. The purpose of monitoring and managing this metric is to enable regulators to constrain the build-up of excessive leverage, which was considered to be one of the drivers of the banking crisis.

It is calculated as: Tier 1 capital / total on and off-balance sheet assets adjusted for deductions. The ratio does not apply risk-weighted factors to assets but acts as a primary constraint to building a firm's asset size to a level which is excessive in proportion to its capital base. The minimum leverage ratio capital requirement, which must be met at all times, is 3% of the leverage exposure measure (LEM) defined in the Leverage Ratio (CRR) Part of the PRA Rulebook.

The measure of total exposure and calculation of leverage ratio are shown below, together with a reconciliation between total exposure and total asset values as reported in the Society's Annual Report and Accounts.

Table 5

Summary reconciliation of accounting assets and Leverage Ratio exposures	Notes	31 October 2021 £m
Total balance sheet assets as reported in the Annual Report and Accounts		**1,401.1**
Adjustments for derivative financial instruments	1	**1.2**
Adjustments for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	2	**4.0**

Other adjustments	
- Intangible assets	(0.4)
- Collective provisions	1.5
Total leverage rate exposure measure	**1,407.4**
Tier 1 Capital (from Table 1)	88.4
Leverage ratio	**6.3%**

Notes

1. The accounting value of derivatives has been converted into an exposure measure
2. Commitments in the form of offered mortgage business are converted at a factor of 10% for leverage purposes.

At 31 October 2021 the Society's leverage ratio was 6.3%. (2020 6.6%), considerably in excess of the regulatory minimum. The ratio has declined in the year despite a £6.5m (7.9%) increase in Tier 1 capital due to the proportionately higher increase in liquid assets.

The risk of excessive leverage is managed through the corporate planning process and is monitored by ALCO.

Leverage ratio common disclosure

Table 6

Leverage ratio common disclosure	31 October 2021 £m
On Balance Sheet Exposures (excluding derivatives and Securities Financing Transactions (SFTs)	
On Balance Sheet Exposures (excluding derivatives and SFTs, but including collateral)	**1,399.0**
Asset amounts deducted in determining Tier 1 capital	**(0.4)**
Total on-balance sheet exposure	**1,398.6**
Derivative exposures	
Replacement cost associated with all derivative transactions	3.6
Add-on amounts for potential future exposures associated with all derivatives (MtM method)	1.2
Total derivative exposures	**4.8**
Other off-balance sheet exposures	
Off-balance sheet exposures at gross notional amount	39.9
Adjustments for conversion to credit equivalent amount	(35.9)
Total other off-balance sheet exposures	**4.0**
Capital and Total exposure measures	
Tier 1 Capital (from Table 1)	88.4
Leverage ratio total exposure measure	**1,407.4**
Leverage ratio	**6.3%**

Table 7

Leverage Ratio – Split-up of on-balance sheet exposures (excluding derivatives and SFTs)	31 October 2021 £m
Total On Balance Sheet Exposures (excluding derivatives and SFTs)	**1,398.6**
Of which:	
Exposures treated as Sovereigns	**316.1**
Institutions	**5.6**
Secured by mortgages on immovable properties	**1,064.7**
Exposures in default	**3.1**
Other exposures	**9.1**

5. Credit Risk

Credit risk is the risk that mortgage loan customers or treasury counterparties default on their obligation to repay the Society. The total credit risk exposure of £1,398.6m reconciles to the Annual Report and Accounts as follows:

Table 8

Reconciliation of credit risk exposure to the Annual Report and Accounts	£m
Total assets per the Statement of Financial Position as at 31 October 2021	**1,401.1**
Add: Collective provisions	**1.5**
Less: Intangible fixed assets (net of amounts deducted from capital)	**(0.4)**
Less: Derivatives	**(3.6)**
Total Credit risk	**1,398.6**

The residual maturity on a contractual basis of credit exposures as at 31 October 2021 is as follows:

Table 9

£m	Up to 3 months	4-12 months	1-5 years	Over 5 years	Individual impairment	No specific maturity	Total
Mortgage assets	3.2	5.3	77.5	981.8	-	-	**1,067.8**
Central banks and sovereigns	316.1	-	-	-	-	-	**316.1**
Financial institutions	5.6	-	-	-	-	-	**5.6**
Other items	-	-	-	-	-	9.1	**9.1**
Total credit risk	**324.9**	**5.3**	**77.5**	**981.8**	**-**	**9.1**	**1,398.6**

5.1. Retail Credit Risk – Loans and advances to customers

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

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

The following tables provide a breakdown of the Society's loan book residual maturity profile, performance and concentrations as at 31 October 2021.

Table 10: Loans and Advances to customers

	Loans and Advances £m
Loans fully secured on residential property before adjustments	1,062.1
Other loans: fully secured on land before adjustments	5.7
Total loans before adjustments	**1,067.8**
Effective interest rate adjustment	0.9
Provision for impairment losses on loans and advances	(1.5)
Fair value adjustment for hedged risk	(2.8)
	1,064.4

Table 11: Performance

Performance	Loans and Advances £m	Risk Weighted Assets £m	Risk Weight density	Capital £m
Fully secured on residential properties (FSRP)	**1,062.1**	**379.7**	**35.7%**	**30.4**
Performing	1,059.0	376.6	35.6%	30.1
Non-Performing*	3.1	3.1	100%	0.3
Fully secured on land (FSOL):	**5.7**	**5.1**	90.5%	**0.4**
Performing	5.7	5.1	90.5%	0.4
Non-Performing*	-	-	-	
Total	**1,067.8**	**384.8**	36.0%	**30.8**
Performing	1,064.7	381.7	35.8%	30.5
Non-Performing*	3.1	3.1	100%	0.3

Non-Performing*: Loans which are more than 90 days in arrears with their payments are considered to be 'past due' and in default.

Exposure by geographic region

Table 12: Geographical analysis of performance

Concentration	Performing £m	Non-Performing £m	Total £m	% of Book
East Anglia	25.1	-	25.1	2.4%
East Midlands	21.0	0.3	21.3	2.0%
Greater London	150.2	0.3	150.5	14.1%
North	3.9	-	3.9	0.4%
North West	20.6	-	20.6	1.9%
South East	630.8	2.2	633.0	59.3%
South West	162.9	0.3	163.2	15.3%
Wales	9.8	-	9.8	0.9%
West Midlands	27.2	-	27.2	2.5%
York & Humberside	13.2	-	13.2	1.2%
Total	**1,064.7**	**3.1**	**1,067.8**	**100%**

Change in stock of defaulted loans and debt securities

Note: The Society does not hold any debt securities and so the information below relates to defaulted loans only.

Table 13: Change in stock of defaulted loans

Change in stock of defaulted loans	31 October 2021 £m
Defaulted loans at 1 November 2020	**4.2**
Loans that have defaulted during the year	1.9
Loans that have returned to non-defaulted status	(2.9)
Any other movements	(0.1)
Defaulted loans at 31 October 2021	**3.1**

Table 14: Geographical analysis by loan type

Concentration	Prime Income	Buy to Let	Lifetime	Commercial (FSRP)	Commercial (FSOL)	Total
	£m	£m	£m	£m	£m	£m
East Anglia	24.5	0.6	-	-	-	25.1
East Midlands	20.4	0.9	-	-	-	21.3
Greater London	127.9	22.6	-	-	-	150.5
North	3.8	0.1	-	-	-	3.9
North West	20.3	0.3	-	-	-	20.6
South East	531.1	93.9	1.4	1.0	5.6	633.0
South West	135.7	27.2	0.2	-	0.1	163.2
Wales	9.4	0.4	-	-	-	9.8
West Midlands	26.0	1.2	-	-	-	27.2
York & Humberside	13.0	0.2	-	-	-	13.2
Total	**912.1**	**147.4**	**1.6**	**1.0**	**5.7**	**1,067.8**

Credit risk adjustments – impairment provisions

The Society assesses at each year end date whether there is objective evidence that a financial asset is impaired. Objective evidence of impairment can be defined as one or more events occurring after the initial recognition of the asset that have an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

The Society first assesses whether objective evidence of impairment exists for financial assets using the following criteria:

- Deterioration in payment status;
- Forbearance being applied;
- Expected future increase in arrears due to change in loan status; and
- Any other information suggesting that a loss is likely in the short to medium term.

If the Society determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment, and for which an impairment loss is or continues to be recognised, are not included in a collective assessment of impairment.

A collective provision is made against a group of loans and advances where there is objective evidence that credit losses have been incurred but not identified at the reporting date.

The table below details the Society's provisions as at 31 October 2021.

Table 15

Allowances for losses on loans and advances £000s	Collective provision	Individual provision	TOTAL
At 1 November 2020	1,540	437	**1,977**
Credit for the year	(41)	(399)	**(440)**
Utilisation	-	(4)	**(4)**
At 31 October 2021	**1,499**	**34**	**1,533**

Further details of the level of mortgage provisions can be found in the Society's 2021 Annual Report and Accounts.

Forbearance

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

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

In some cases, more than one forbearance solution is offered, for example where a customer can afford to pay more than just interest and combines with a part repayment. Capitalisation is usually an exception and is approved by Credit Committee. Further details can be found in Note 23 of the Society's 2021 Annual Report and Accounts.

5.2. Wholesale Credit Risk

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

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

Under TFSME the Bank lends the Society cash against the security of mortgage assets which are used as collateral against any drawdown. At 31 October 2021 the Society had provided mortgage assets with the Bank totalling £274m as collateral and drawn £155m under TFSME.

Counterparty credit risk

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

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

On-balance sheet items

The Society has exposures to banks in its treasury portfolio. These exposures are held for liquidity purposes. New bank counterparties for treasury investments must be authorised by the Bank of England to accept deposits and have either a UK Sovereign rating or an individual minimum Fitch long term credit rating of A. The Society's longstanding banker is NatWest (RBS), which is A+ rated. The Society's Board approved Treasury Policy also permits the Society to hold exposures with unrated institutions in the form of deposits placed with other building societies. The Society conducts an internal credit assessment on these institutions. Exposures to these institutions are assigned a risk weight according to the credit quality step they fall into. At 31 October 2021 the Society had no exposures to unrated institutions.

Off-balance sheet items
With regard to off-balance sheet items the Society has interest rate swaps (IRS) with single A rated counterparties (or better). At 31 October 2021 the Society had in place IRSs with a nominal value of £339.5m, from which the credit risk weighted amount is calculated using 0.5% of the nominal value of the swaps greater than one year to maturity. The value of the replacement costs at 31 October 2021 was £3.64m.

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

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

Credit valuation adjustment (CVA) capital charge
Risk weightings for derivative financial instruments are determined according to the mark-to-market approach for counterparty credit risk under the CRR and the standardised method for credit valuation adjustment (CVA) risk.

Table 17

	Exposure value £000s
Gross positive fair value of contracts	3,640
Potential future exposure	1,218
Total net derivatives credit exposure	4,858
RWA requirement	**1,641**

The following table shows the total exposure and impact of netting specifically for derivatives.

Table 18

	31 October 2021 £000s
Swaps with positive mark to market values	3,640
Swaps with negative mark to market values	(561)
Collateral (received) or posted	(2,100)
Net credit exposure	**979**

External Credit Assessment Institutions (ECAI)
Risk weighted exposure amounts using the Standardised approach are calculated with the credit quality steps referred to in the Capital Requirements Regulations (575/2013 CRR, Article 120). The higher the rating given by an eligible ECAI the lower the risk weighting the Society has to apply to its exposure.

Exposures to rated institutions of up to 3 months maturity and rated at BBB- and above are assigned a 20% risk-weight with a capital requirement of 8% of the risk weighted assets. Where the counterparty has a rating of A+ to BBB- and the maturity date is greater than 3 months a risk weighting of 50% with a capital requirement of 8% of the risk weighted assets is applied. Deposits with the Bank of England carry a zero capital requirement.

Tables 19 and 20 show the Society's treasury investments as at 31 October 2021.

Impairment of wholesale assets
At each balance sheet date the Society assesses the portfolio of wholesale assets for objective evidence of impairment. Wholesale assets classified as available for sale are considered impaired if an event has occurred after initial recognition of the asset that has an adverse impact on the estimate of future cash flows of those assets. Any charges for impairment are recognised in the income statement.

The Society has reported no such charges on its wholesale asset during the year ended 31 October 2021.

Table 19

Credit Quality Steps	Fitch Rating (or equivalent)	Banks £m	Building Societies £m	Central Government £m	Total £m
1	AAA to AA-	-	-	315.8	**315.8**
2	A+ to A-	5.6	-	-	**5.6**
3	BBB+ to BBB-	-	-	-	**-**
4	BB+ to BB-	-	-	-	**-**
5	B+ to B-	-	-	-	**-**
6	CCC+ and Below	-	-	-	**-**
	Unrated	-	-	-	**-**
	Total	**5.6**	**-**	**315.8**	**321.4**

The geographical distribution of the above exposures is the United Kingdom. Central Government exposure includes central bank exposures.

The residual maturity of the Society's Treasury assets at 31 October 2021 is analysed below:

Table 20

Credit Quality Steps	Fitch Rating (or equivalent)	On demand £m	<= 3 months £m	>3 months £m	Total £m
1	AAA to AA-	-	-	-	**-**
2	A+ to A-	5.6	-	-	**5.6**
3	BBB+ to BBB-	-	-	-	**-**
4	BB+ to BB-	-	-	-	**-**
5	B+ to B-	-	-	-	**-**
6	CCC+ and Below	-	-	-	**-**
	Unrated building societies	-		-	
	Balances with the Bank of England	315.8	-	-	**315.8**
	Total	**321.4**	**-**	**-**	**321.4**

5.3. Asset encumbrance

The Society has mortgage assets encumbered with the Bank of England Asset Purchase Facility Fund Limited to secure amounts drawn down under TFSME and other central bank facilities. At 31 October 2021, £274.4m (2020: £122.3m) 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 enters into derivative financial contracts as part of its management of interest rate risk, for which collateral in the form of cash deposits is also posted or received. The cash collateral pledged is considered to be encumbered as it is not under the legal ownership of the Society.

The tables below detail the levels of asset encumbrance. The Pillar 3 asset encumbrance disclosure templates have been compiled in accordance with the Threshold criteria under Regulatory Technical Standard (RTS) for disclosure of encumbered and unencumbered assets (EU) 2017/2295, replacing PRA supervisory statement SS11/14 (CRD IV: Compliance with the European Banking Authority's Guidelines on the disclosure of encumbered and unencumbered assets).

Table 21

	Carrying amount of encumbered assets	**Fair value of encumbered assets**	**Carrying amount of unencumbered assets**	**Fair value of unencumbered assets**
	£m	**£m**	**£m**	**£m**
Total assets of the reporting institution	**274.4**	**-**	**1,126.8**	**-**
Loans on demand	-	-	319.6	
Loans and advances (mortgages)	274.4		793.4	
Other assets	-		13.8	

Table 22

Sources of encumbrance	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
	£m	£m
Carrying amount of selected financial liabilities	155.0	274.4

Table 23

Collateral received	Fair value of encumbered collateral received
	£m
Cash collateral received by the Society	2.1

6. Operational Risk

The risk of losses and/or the availability of key business services arising from inadequate or failed internal processes or systems, human error or external events. Therefore, operational risks can arise from all of the Society's activities, across all business areas.

Operational risk also incorporates conduct risk (see 8.3. below) and legal and regulatory risk which is the risk of fines, public censure, limitations on business or restitution costs arising from failing to understand, interpret, implement and comply with legal and regulatory requirements. Legal and Regulatory change is closely monitored and reported to the Executive Committee and Board.

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

Whilst effective operational risk management will help to mitigate the likelihood and impact of operational risk it is not possible to eradicate the risk. To ensure operational resilience, the Society protects against disruption resulting from operational risk events (such as cyber or data loss) by having controls in place to reduce risk exposures (prevention), having clear tolerances on what can be absorbed and having actions in place to respond beyond these points (response), and having clear plans and arrangements in place to respond to and recover from incidents and to learn and adapt from operational disruption (recovery). A range of metrics and risk limits are used to monitor the Society's ability to recover from an operational risk event in line with the defined risk tolerances for the key business services.

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

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

The Operational Resilience framework, which includes the Operational Risk and Resilience Policy, the Business Continuity Plans and the Third Party Arrangements Policy, is reviewed by the Operational Resilience Committee. The Executive Committee and Risk Committee receive management information relating to operational risk and resilience. The Audit Committee is responsible for assessing the effectiveness of the system of inspection and control. The Operational Resilience Framework continues to be enhanced with the objective of meeting the new regulatory requirements effective from March 2022.

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

The Society operates the Basic Indicator Approach for the purpose of calculating its operational risk Pillar 1 capital requirement. The Society's capital requirement for operational risk at 31 October 2021 was £2.6m, equivalent to £31.9m of risk weighted assets (2020: £2.5m £31.7m RWAs). In addition, the Society conducts stress testing to determine whether additional capital should be held in Pillar 2A. Given the low risk nature of the Society and its risk appetite, it is considered unlikely that any operational issues would exceed the Pillar 1 requirement, so no additional capital is held.

7. Liquidity and Funding Risk

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

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

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

Mitigation

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

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

It is a requirement for all Banks and Building Societies to construct plans that detect possible failure and minimise the consequences of failure should it occur. The Society has a Board-approved Recovery Plan that outlines a menu of options the Society could credibly take to recover from a stress – whether Society specific or market-wide. The Society also has a Board-approved Resolution Plan containing prescribed information necessary for the Bank of England to establish an orderly resolution of the Society in the event that recovery cannot be achieved. Both documents are updated at least annually.

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

7.1. LCR

The Society's LCR at 31 October 2021 was 372% (2020: 263%), highlighting a strong liquidity position compared to the minimum regulatory requirement for 100%. The Society's average LCR for the rolling 12 months to each quarter end date for the financial year ended 31 October 2021 is as follows:

Table 24

	Quarter ended on			
£000s	January 2021	April 2021	July 2021	October 2021
Number of data points used in the calculation of averages	12	12	12	12
Liquidity buffer £m	195.7	200.4	213.0	233.0
Net cash outflows £m	70.0	74.3	77.7	79.2
LCR %	279.7%	269.6%	274.2%	294.1%

The LCR reported at 31 October 2021 was significantly higher than the average LCR maintained throughout the year due to the drawing of additional TFSME funding in October 2021 in advance of the scheme closure.

7.2. NSFR

The Society reports its NSFR on a quarterly basis. The table below sets out the Society's NSFR as at 30 September 2021 (being the closest date of submission to the Society's financial year end) and for the four preceding quarters.

Table 25

	Quarter ended on				
	September 2020	December 2020	March 2021	June 2021	September 2021
NSFR	153.2%	150.5%	144.8%	152.1%	154.0%

During the year ended 31 October 2021 the Society refinanced its existing borrowings under TFS onto the TFSME scheme and, in October 2021, drew down additional funding. There have been no other material changes to the Society's funding strategy or structure during the year.

8. Other Risks

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

Market risk includes interest rate risk and basis risk.

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

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

The Society's Pillar 1 capital requirement for market risk is set to zero as the Society does not have a trading book.

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

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

The sensitivity to changes in interest rates impacts the following activities:
1. Management of the investment of reserves and other net non-interest-bearing liabilities;
2. Fixed rate funding; and
3. Fixed rate mortgage and treasury lending.

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

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

As at 31 October 2021 the results of the interest rate risk analysis is shown below:

Table 26

	+200 bps parallel shift	-200bps parallel shift
	£000s	£000s
Net interest income impact	(1,093)	1,183

Further information on the Society's interest rate position at 31 October 2021 can be found in Note 25 of the Society's Report and Accounts.

The Society also monitors the impact against the prescribed series of standardised (parallel and non-parallel) interest rate shocks published by the European Banking Authority. The results as at 31 October 2021 are shown below:

Table 27

	Impact
	£000s
Parallel shift +2.5%	(1,354)
Parallel shift -2.5%	1,494
Short rates up	189
Short rates down	(437)
Flattener	(847)
Steepener	889

All of these results remain within the Society's risk appetite for interest rate risk.

8.2. Strategic risk

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

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

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

8.3. Conduct risk

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

The Society is committed to treating customers fairly and this is underpinned by the Society's Conduct Risk Framework, which is regularly reviewed. The Customer Committee monitors conduct risk at an operational level, with oversight provided by the Risk Committee.

8.4. Other risks

In addition to these, there are other material risks that the Society faces.

Climate change

The Society also recognises the risks and challenges posed by climate change. While the financial risks from climate change may only crystallise in full over longer time horizons, they are becoming apparent now. The Society particularly recognises two risks: physical and transitional. Physical risks relate to specific weather events such as flooding, or longer-term events such as rising sea levels. A key element of this risk is to property, both the Society's own properties and properties held as security for lending. 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 is increasingly mindful of these risks when making business decisions, including mortgage underwriting ones. Since 1 November 2021 the Finance Director has responsibility for monitoring climate change risk at an operational level, with oversight provided by the Risk Committee.

The Board has identified that the primary risk associated with climate change is that properties held as security become uninsurable or un-mortgageable due to the impact of climate change. In 2020 the Society commissioned externally sourced expertise to model the physical and transitional risks associated with climate change on the Society's mortgage assets. The exercise modelled the impact of climate change by 2050 in a high emissions scenario with the results factored into the Society's annual assessment of capital adequacy. The report identified that, whilst the greatest risks were considered to be flood risk and subsidence, this represented c1% of the Society's mortgage assets. The Board considered that this did not pose a material risk to the Society and required no change to the Society's lending activities.

However, the Society aspires to be a sustainable business which works in a socially responsible and environmentally friendly way by minimising our carbon footprint and helping our customers and communities live more sustainably. We understand that our operations have an impact on the environment and have identified three areas of strategic focus to realise our environmental ambition. These are set out on pages 14 and 15 of the Strategic Report in the Society's Annual Report and Accounts.

9. Remuneration paid to code staff

The Remuneration Committee has determined that, as at 31 October 2021, all of the current Non-Executive Directors and the four Executive Directors, as well as senior management roles reporting directly to the Executive Directors, are classified as Material Risk Takers (MRTs) and subject to the Remuneration Code. The Remuneration Committee does not consider that any members of staff who are not members of the Board or the Executive management team should be classified as MRTs.

The Society's objective when setting remuneration is to ensure that it is in line with the Society's business strategy, risk appetite and long-term objectives, by being consistent with the interests of the Society's members. Remuneration is set at a level to retain and attract individuals of the calibre necessary to operate and meet the Society's objectives.

The remuneration of the Non-Executive Directors, Executive Directors and other members of senior management is determined by the Remuneration Committee, which consists of three Non-Executive Directors with the Chief Executive attending by invitation. Further detail regarding the decision-making process, mandate, composition and meeting frequency of the Committee is available in the Society's Annual Report and Accounts.

In setting remuneration, the Committee considers the remuneration levels and structure provide by building societies that are similar in size and complexity. Periodically, a report may be commissioned from external consultants to assist in this process. The Committee did not use the services of an external consultant during the reporting period. The Committee also ensures that variable remuneration does not undermine the objectivity of the risk and compliance functions.

9.1. Components of remuneration

For all Material Risk Takers (MRTs) other than Non-Executive Directors, remuneration comprises basic salary, performance related pay plus other benefits.

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

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

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

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

As a mutual, the Society has no share option scheme, and none of the Directors has any beneficial interest in, or any rights to subscribe for shares in or debentures of, any connected undertaking of the Society.

The Society makes a contribution of up to 20.25% of salary (before salary sacrifice where applicable) to Executive Directors' private pension arrangements.

Executive Directors receive other benefits comprising private healthcare, death in service and income protection insurance. The Society does not provide concessionary home loans to Directors.

There have not been any cases of previously paid deferred remuneration being reduced by performance adjustments during the financial year. There are no individuals currently remunerated EUR 1 million equivalent or more.

9.2. Aggregate remuneration

Aggregate information on remuneration for the year ended 31 October 2021 is provided in the table below:

Table 28

£000s	Number of staff	Fixed remuneration	Variable remuneration	TOTAL
Executive directors	4	766	65	831
Non-executive directors	7	220	-	220
Other material risk takers	4	423	43	466
TOTAL	**15**	**1,409**	**108**	**1,517**

9.3. Non-executive directors' remuneration

The level of fees payable to Non-Executive Directors is assessed using information from comparable organisations. Non-Executive Directors chose to forego the recommended increase in 2021 due to the uncertain trading conditions as a result of Covid-19, and therefore their fees have not increased since 2019.

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

9.4. Other material risk takers

The Remuneration Committee is also responsible for determining the terms and conditions of other members of senior management, who are considered Material Risk Takers, in consultation with the Chief Executive. These are the Head of Customer Service, the Head of Risk & Company Secretary, the Head of People and the Head of IT & Business Change. These individuals are subject to the same variable pay performance targets and rewards as the Executive Directors and they also receive pension contributions from the Society of up to 15.25% of salary (prior to any salary sacrifice).

9.5. Contracts of employment

Roland Gardner, Lee Bambridge and Phillippa Cardno each have a service contract with the Society terminable by either party giving 12 months' notice. The agreements were signed on 30 July 2018. Darren Garner has a service contract with the Society signed on 22 April 2020 terminable by either party giving 6 months' notice.

9.6. Directors

A summary of the relevant experience of each of the Executive and Non-Executive Directors is given in the Report and Accounts, which are also available on the Society's website www.newbury.co.uk

Details of other directorships held by the Executive and Non-Executive Directors are shown in the Annual Business Statement in the Annual Report and Accounts.

9.7. Recruitment and diversity

Further information on the Society's policy regarding recruitment and diversity for selection of directors can be found in the Strategic Report on page 13 of the Annual Report and Accounts.

10. Conclusion

This Pillar 3 disclosure document has been prepared in accordance with the requirements of the CRR (Part 8) and provides information on the Society's approach to risk management based on its size and the complexity of its business operations and in line with the Society's CRD Pillar 3 disclosure policy set out in section 1.4.

The Board has applied a range of stress tests and scenario analyses to assess whether Pillar 1 capital is adequate.

During the year Capital Resources increased by £6.5m and as a result the Society is able to maintain overall capital well in excess of the minimum capital requirement under the Total Capital Requirement (TCR). The Society is therefore well capitalised which provides confidence that the Society is able to withstand challenging economic conditions and is well positioned to meet both its objectives and its regulatory capital requirements.

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

APPENDIX: EBA Own Funds Disclosure template

Common Equity Tier 1 (CET1) Capital: instruments and reserves		£m
2	General reserve	87.8
3	Accumulated other comprehensive income and other reserves	1.0
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	88.8
Common Equity Tier 1 (CET1) Capital: Regulatory adjustments		
8	Intangible assets	(0.4)
28	Total regulatory adjustments to CET1	(0.4)
29	Common Equity Tier 1 (CET1) Capital	88.4
Tier 2 Capital: Instruments and provisions		
50	Credit risk adjustment: Collective provision	1.5
51	Tier 2 capital before regulatory adjustments	1.5
59	Total capital	89.9
60	Total risk weighted assets	431.0

Capital ratios and buffers		
61	Common Equity Tier 1 Ratio (as % of RWA)	20.5%
62	Tier 1 ratio (as % of RWA)	20.5%
63	Total capital (as % of RWA)	20.9%
64	Institution specific buffer requirement (CET1 requirement plus CCB and CCyB)	6.0%
65	Of which: Capital conservation buffer requirement	2.5%
66	Of which: Countercyclical buffer requirement	0.0%
68	Common Equity Tier 1 available to meet buffers (as % of RWA)	14.5%