Dudley Building Society

Pillar 3 Disclosure

Year ended 31 March 2023

CONTENTS

GLOSSARY

ALCO	Assets and Liabilities Committee
CRR	Capital Requirements Regulation
ERMF	Enterprise Risk Management Framework
FCA	Financial Conduct Authority
ICAAP	Internal Capital Adequacy Assessment Process
ILAAP	Internal Liquidity Adequacy Assessment Process
LTV	Loan to Value
PRA	Prudential Regulation Authority
RWA	Risk Weighted Assets
SREP	Supervisory Review Evaluation Process
TCR	Total Capital Requirement
TFS	Term Funding Scheme
TFSME	Term Funding Scheme for Small and Medium Enterprises

1. Overview and Purpose

1.0 Overview

The Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD) came into force on 1 January 2014 and together are commonly referred to as CRD IV or Basel 3. The CRD governs how much capital all banks and building societies are required to hold to protect their members, depositors and shareholders. The revisions introduced by CRD IV seek to strengthen the capital position of firms within the financial services sector and make them more resilient to financial and economic shocks. In the United Kingdom, CRD IV is implemented by the Prudential Regulation Authority (PRA).

Dudley Building Society (the "Society") aims to ensure the protection of Members' savings by having sufficient capital and liquidity resources to absorb any reasonably foreseeable losses and liquidity events during a significant economic downturn.

1.1 Purpose of this document

The CRD determines a framework for the disclosure of the following items:

- Capital requirements;
- Risk exposures;
- Risk assessment processes; and
- Risk management processes

The CRD incorporates these requirements into three main "Pillars", these are identified as follows:

- 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 market risk. The Basic Indicator Approach is applied to operational risk.
- Pillar 2: Assessment of capital requirements by the Society through the ICAAP and the PRA through the Supervisory Review and Evaluation Process (SREP) to determine whether additional capital is required to be held for specific risks that are not fully addressed under the Pillar 1 requirements. The Pillar 2 capital requirements includes the capital buffers that can be utilised to absorb losses in stressed conditions; and
- Pillar 3: Disclosure of key information about risk exposures, the management of those risks, capital adequacy and their liquidity positions.

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

For small societies, of which the Society is one, the Pillar 1 assessment is based on a formulaic risk-based capital calculation focusing particularly on credit and operational risks to determine the Capital Resources Requirement.

1.2 Scope of application

This document contains the Pillar 3 disclosures for the Society (Firm Reference Number 161294). The principal office of the Society is 7 Harbour Buildings, The Waterfront, Brierley Hill, West Midlands, DY5 1LN.

1.3 Basis and frequency of disclosures

This document sets out the Pillar 3 disclosure requirements of the CRD and Capital Requirements Regulation 2 (CRR2) Pillar 3 and has been prepared in accordance with the Disclosure Part of the Prudential Regulation Authority (PRA) Rulebook. The Society meet the criteria for being classified as a small and non-complex institution and this disclosure has been prepared on that basis.

The Pillar 3 disclosures have been prepared purely to comply with the CRD, in seeking to explain the basis on which the Society has prepared and disclosed certain capital requirements and information about the management of certain risks. It also provides asset information and capital calculations under Pillar 1.

Unless otherwise stated all information relates to the Society's assets as at 31 March 2023.

This document is updated at least annually to ensure that the disclosures, verification and frequency remain appropriate and will be 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 making economic decisions. No disclosures have been omitted based on materiality or confidentiality.

1.4 External audit and verification

Verification

This document has been reviewed by the Society's Second Line of Defence and approved by its Board on XX July 2023.

External audit

The disclosures provided in this document are not required to be, and have not been, subject to an external audit with the exception of where those disclosures are equivalent to those prepared under accounting standards for inclusion in the Society's audited financial statements for the year ended 31 March 2023.

The disclosures incorporated within this document do <u>not</u> constitute any form of Financial Statement and must not be relied upon in making any judgement on the Society. All figures within this document are correct as of 31 March 2023 unless stated otherwise.

1.5 Publication media and location

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

2. UK KM1 Key metrics

The table below provides an overview of the key metrics at 31 March 2023 and 31 March 2022.

		31 March 2023 £m	31 March 2022 £m
	Available own funds (amounts)		
1	Common Equity Tier 1 (CET1) capital	29.7	27.4
2	Tier 1 capital	29.7	27.4
3	Total capital	30.5	27.9
	Risk-weighted exposure amounts		
4	Total risk-weighted exposure amount	186.3	172.6
	Capital ratios (as a percentage of risk-weighted exposure amount)		
5	Common Equity Tier 1 ratio (%)	15.9%	15.9%
6	Tier 1 ratio (%)	15.9%	15.9%
7	Total capital ratio (%)	16.4%	16.2%
	Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)		
UK 7a	Additional CET1 SREP requirements (%)	0.00%	0.28%
UK 7d	Total SREP own funds requirements (%)	8.00%	8.28%
	Combined buffer requirement (as a percentage of risk-weighted exposure amount)		
8	Capital conservation buffer (%)	2.50%	2.50%
9	Institution specific countercyclical capital buffer (%)	1.00%	0.00%
11	Combined buffer requirement (%)	3.50%	2.50%
UK 11a	Overall capital requirements (%)	11.50%	10.78%
12	CET1 available after meeting the total SREP own funds requirements (%)	7.94%	7.58%
	Leverage ratio		
13	Leverage ratio total exposure measure excluding claims on central banks	548.7	528.0
14	Leverage ratio	5.0%	4.8%
	Liquidity Coverage Ratio		
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	90.8	100.1
UK 16a	Cash outflows - Total weighted value	33.9	38.2
UK 16b	Cash inflows - Total weighted value	2.7	2.2
16	Total net cash outflows (adjusted value)	31.2	36.1
17	Liquidity coverage ratio (%)	291%	278%
	Net Stable Funding Ratio		
18	Total available stable funding	491.1	492.9
19	Total required stable funding	321.2	307.6
20	NSFR ratio (%)	153%	160%

3. Risk Management Policies and Objectives

UK – OVA Risk management approach

3.1 Risk statement approved by the management body (Point (f) of Article 435(1) CRR)

The day-to-day operations of the Society, namely that of developing and retailing financial products, principally in the form of mortgages and savings expose it to a range of financial and non-financial risks. Each of those risks is owned by a member of the Executive. The management of those risks aims to ensure that the outcome of any risk-taking activity is consistent with the Society's Strategy and Corporate Plan. The Board-approved risk appetite is appropriate to the Society's business, is compliant with current regulation and gives due regard to regulatory guidance. In this way, risk management also seeks to achieve an appropriate balance between risk and reward in order to optimise member returns and, where issues arise, to manage exposures to ensure the best outcome for the Society and its members.

The Society adopts a "Three Lines of Defence" model to separate risk management activities between those responsible for the management of risks and effectiveness of controls, independent oversight support and challenge, and internal / external audit assurance. The Society also has an Enterprise Risk Management Framework (ERMF) that provides a foundation for achieving the risk management objectives through:

- Articulating the Society's risk management strategy, risk appetite, culture, 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 ERMF documents the Society's approach to managing risk through:

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

The Society's ERMF is the fulcrum around which all other processes operate and informs the business of the indicators used to monitor performance along with the risk appetite limits and escalation process should be limits be breached. These risk appetite limits are a key foundation of the Society's Recovery Plan, ICAAP and ILAAP, via the consistent application of the Capital and Liquidity stress tests and indicators.

The principal business risks to which the Society is exposed are described below.

Principal risk	Definition	Risk Committee
Credit risk	Credit risk refers to the potential risk that arises from customers (or counterparties) failing to meet their obligations as they fall due, resulting in an actual or potential loss exposure for the Society.	Credit Risk Committee[1]
Interest rate risk	Interest Rate risk is the risk that the value of, or income arising from, the Society's assets and liabilities vary as a result of changes in interest rates. Interest rate risk arises from imperfect matching of different interest rate features, repricing dates and maturities of mortgages, savings and wholesale products.	Assets & Liabilities Committee[1]
Liquidity risk	Liquidity risk is the risk that the Society is unable to make available sufficient resources to meet its current or future financial obligations as they fall due or is only able to at a premium cost. This risk also includes the risk the Society attracts excessive liquidity through poor product management, acting as a drag on financial performance.	Assets & Liabilities Committee[1]
Operational risk	Operational risk is the risk of loss arising from failed or inadequate internal processes or systems, human error or other external factors.	Operational & Conduct Risk Committee[1]
Regulatory risk	This is the risk to the business, through financial loss or reputational damage that arises from a lack of compliance with relevant laws and regulations.	Regulatory Review Committee
Conduct risk	This risk can arise when a firm's actions or behaviours result in inappropriate or poor outcomes for customers.	Operational & Conduct Risk Committee[1]
IT Security risk	Cyber-crime and the security of information held by the Society are a constant risk. The Society acknowledges the risk of a disruption caused by a successful cyber-attack on core IT systems, which may result in the loss or inappropriate use of data or sensitive information.	Operational & Conduct Risk Committee[1]
Climate risk	Climate related risks in the form of physical or transitional risk present a risk to the Society and its members both in the immediate present and in the future. The Society strongly believes in making a positive contribution towards reducing the impact of climate change through its Board approved Strategy.	Credit Risk Committee[1]

Notes:

[1] – The Credit Risk, Assets & Liabilities and Operational & Conduct Risk Committees are Executive Committees that report to Board Risk Committee.

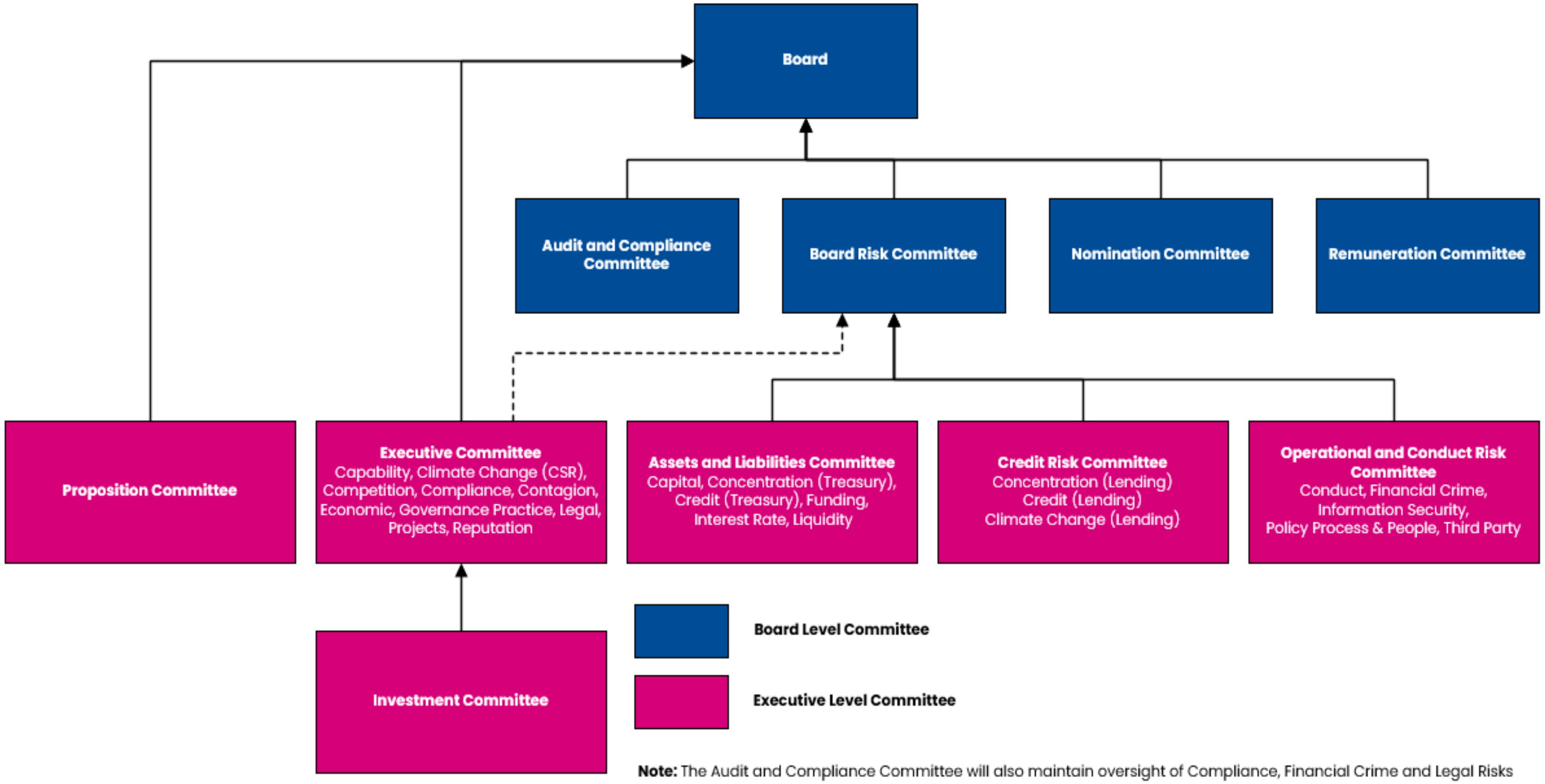
The Society's risk appetite is aligned to these principal risks and is expressed in qualitative terms with measures supported by limits and triggers. These measures have been consistently applied over the last 12 months. All measures are subject to at least annual review and challenge to ensure that they are fit for purpose and appropriate to the environment within which the Society operates.

Proposed changes to the limits and triggers have to be reviewed by 2nd Line of Defence and approved by the appropriate risk committee prior to approval by the Board and implementation by the operational business.

3.2 Information on the risk governance structure for each type of risk (Point (b) of Article 435(1) CRR)

The Board is ultimately responsible for the assessment of the principal risks facing the Society. The Board approves the Society's risk appetite and metrics following consideration by the relevant executive committee and Board Risk Committee. Additionally, the Board receives regular reports and assessments of the Society's risk and control processes and recommendations from Board Risk Committee on all matters risk related.

The Board delegates its risk oversight to a Risk Committee, which reviews risk limits, reporting lines, mandates and other control procedures. The principal Committees of the Society at 31 March 2023 responsible for the management and / or oversight of risk are shown below.



Note: The Audit and Compliance Committee will also maintain oversight of Compliance, Financial Crime and Legal Risks

Note: All Committees have a dotted line to the Board Risk Committee to ensure any identified or emerging risks are escalated

To ensure the Board Risk Committee has the ability to oversee and challenge the Society's risk management approach, risk metrics are split into two tiers, namely:

BRC Tier - metrics are presented to the allocated executive committee in accordance with the diagram shown above and are presented to the Board Risk Committee regardless of status; and

Executive Tier - metrics are presented to the allocated executive committee in accordance with the diagram shown above. Any indicators which trigger an "amber" or "red" status are presented to the Board Risk Committee.

It is the responsibility of the Board Risk Committee to determine whether the risk appetite position needs to be escalated to the Board for consideration.

The principal function of each Committee, along with their membership at 31 March 2023 is shown in the table below. The Board of the Society has been included for completeness purposes. Where applicable, the table identifies the number of Non-Executive Directors who are members of a specific Committee, in all other cases all Non-Executive Directors are members.

Board Committees

Committee	Function	Membership
Board	To determine the strategy, risk management framework and policies of the Society, overseeing their implementation to ensure its long-term sustainability, ensuring that the Society operates within: • the Society's Rules; • rules and guidance issued by regulatory authorities; • all applicable laws; and • Board approved risk appetite. The Board also maintains a risk framework to enable risks to be assessed and managed in accordance with the Board's appetite to risk, including through review and approval of the Society's ILAAP, ICAAP and Recovery Plan documents. The Board delegates the implementation of the strategy and the day-to-day management of the Society to the Executive team, which is led by the Chief Executive.	Members • Chairman • Executive Directors • Non-Executive Directors
Audit and Compliance Committee	The Committee's principal function is to ensure that the interests of the Society's members are protected in relation to financial reporting and internal controls. The Committee considers financial controls and reporting, internal and external audit arrangements, and maintains oversight of the Society's second line of defence. The Committee meets at least four times each year. Every three years, a	Members • Non-Executive Directors x3 By invitation • Chairman • Executive Directors • Representatives from Internal and

	full review of internal and external audit provision is conducted.	External audit • Chief Risk Officer • Head of Risk & Governance & Society Secretary • Financial Controller • Head of Compliance and Financial Crime
Board Risk Committee	The principal function of the Committee is to assist the Board in fulfilling its oversight responsibilities for risk management. This is achieved by overseeing the implementation, embedment and continual improvement of the Society's Enterprise Risk Management Framework. The Committee reviews the Chief Risk Officer's report which provides an assessment of key issues, risks and emerging risk themes through regular horizon-scanning activity. The Society's risk reporting includes the ICAAP, ILAAP and Recovery Plan documents.	Members • Non-Executive Directors x4 By invitation • Chairman • Executive Directors • Chief Risk Officer • Head of Risk & Governance & Society Secretary
Nomination Committee	The Committee has responsibilities relating to the structure, skillset, composition and effectiveness of the Board and its committees, as well as reviewing succession planning for both Non-Executive and Executive Directors. The Committee reviews the structure, size and composition of the Board, evaluating skills, knowledge and experience and, when required, nominates candidates (for election and re-election) to fill Board vacancies. The Committee has due regard for the benefits of diversity, inclusion and equality, and its responsibility to ensure continued fitness and propriety of Senior Management Function holders.	Members • Chairman • Non-Executive Directors By invitation • CEO • Head of Risk & Governance & Society Secretary • Head of Employee Experience
Remuneration Committee	The Committee meets at least twice each year and is responsible for setting the over-arching principles of the remuneration policy such that they support the long-term success of the Society and attract, retain and motivate directors and senior management of the quality required to	Members • Non-Executive Directors x3 By invitation

	achieve the Corporate Plan. No director is involved in decisions regarding their own remuneration.	• Chairman • Executive Directors • Head of Risk & Governance & Society Secretary • Head of Employee Experience

Executive Committees

Committee	Function	Membership
Executive Committee	The principal function of the Committee is to implement and deliver the Strategy and Corporate Plan in accordance with the Society's purpose, vision and values. The Committee oversees day-to-day operations with focus on performance, cost management and people and culture, as well as reviewing matters which are to be presented to the Board and / or its Sub-Committees.	Members • Executive Directors • Senior Management team
Assets and Liabilities Committee	The principal function of the Committee is to manage the structure of the Society's assets and liabilities. The Committee has specific responsibilities for liquidity, funding, counterparty credit, interest rate and capital risk management. Matters raised are escalated to the Board Risk Committee.	Members • Executive Directors • Head of Planning, Information and Prudential • Products Manager By invitation • Chief Risk Officer • Financial Controller • Head of Risk and Governance & Society Secretary
Credit Risk Committee	The principal function of the Committee is to manage the Society's lending	Members

	strategy and policy in accordance with risk appetite set by the Board. The Committee monitors the quality and profile of its mortgage portfolio in accordance with regulatory lending limits and conducts regular stress and scenario tests to identify and manage potential credit risk exposure. Matters raised are escalated to the Board Risk Committee.	• Chief Risk Officer • Executive Directors • Chief Customer Officer By invitation • Distribution Director • Head of Risk and Governance & Society Secretary • Credit Risk Analyst • Mortgage Servicing Supervisor
Investment Committee	The principal function of the Committee is to review requests for investment and, where there is sufficient and appropriate business justification for the spend, allocate the Society's Investment Budget. Matters raised are escalated to the Executive Committee.	Members • Chief Financial Officer • Chief Customer Officer • Head of Change By invitation • Head of Risk and Governance & Society Secretary • Financial Controller
Operational and Conduct Risk Committee	The principal function of the Committee is to manage and oversee the identification, impact and mitigation of operational and conduct risks to ensure the Society continues to have robust controls, processes and systems in place, and operates a framework that is focused on the delivery of fair customer outcomes. Matters raised are escalated to the Board Risk Committee.	Members • Chief Executive • Chief Customer Officer • Head of Compliance and Financial Crime • Head of Employee Experience • Products Manager By invitation • Head of Risk and Governance & Society Secretary • Finance Manager

		• Customer Services Manager • Mortgage Servicing Supervisor
Proposition Committee	The principal function of the Committee is to oversee product-related performance – with particular focus on margin management – against the Society's proposition, product and pricing strategy, and to consider key drivers such as competitor analysis and market data. Matters raised are escalated to the Board and / or Board Risk Committee.	Members • Executive Directors • Chief Customer Officer • Head of Compliance and Financial Crime • Head of Planning, Information and Prudential • Products Manager By invitation • Chief Risk Officer • Head of Risk and Governance & Society Secretary • Distribution Director • Market and Communications Manager • Economy and Market Research Specialist • Products Assistant Apprentice

The roles and responsibilities of the Board are as follows:

Role	Responsibilities
Society Chairman	Sets the culture and direction of the Board, facilitating and encouraging effective contribution and challenge from Directors, and maintaining constructive relations between Non- Executive and Executive Directors.
Non-Executive Directors	To constructively challenge and help develop proposals on strategy and oversee executive performance.

Risk Appetite

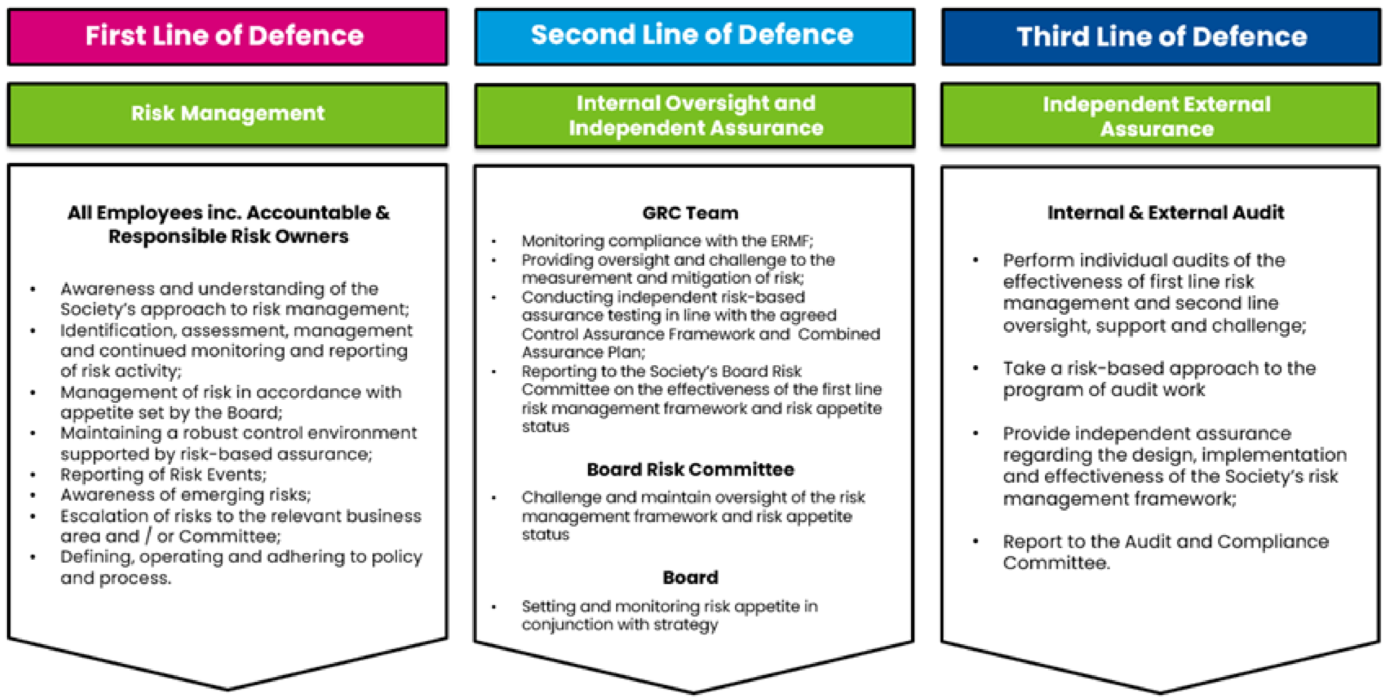
The Board defines risk appetite as "the level of risk the Society is prepared to accept whilst pursuing its business strategy as a mutual organisation set up for the benefit of its members, recognising a range of possible outcomes as the business plan is implemented". Risk appetite is reflected in qualitative measures set out in the Society's ERMF and in a series of quantitative measures reported to the relevant executive committee, Board Risk Committee and the Board. Risk appetite is formally reviewed at least annually but may be revised more frequently to reflect emerging risks, changes to the economic and market environment or for any other reasons considered appropriate.

Risk Culture

The Society considers its mutual status as being paramount to its identity. The culture embedded within the Society includes the implicit rules, ideas and norms that sustain our values and enables our Employee Expectations Framework, which defines required behaviours, decision making principles and wider practices, to operate successfully. Risk culture is a subset that governs how the Society's employees manage the risks associated in delivering the Corporate Plan, the agreed strategy and day-to-day operations. Risk culture also incorporates risk awareness, understanding, appetite and mitigation.

The Society is governed by and is proud of its strong risk culture and aims to maintain a low exposure to risk, in order to best protect members' interests. The Board places significant emphasis on every line of defence having the correct ownership of risk through training, management and reporting. Exemplary conduct is expected from everyone in the organisation as defined by our Society values. Over the last twelve months, the Society has continued to invest in evolving the design of the ERMF. This has driven enhanced embeddedness of risk through first line of defence business areas, further efficiency and effectiveness within the second line Governance, Risk and Compliance (GRC) team and improved cohesion with the Society's out-sourced internal audit provider.

Though everyone has a role to play in risk management, the Society adopts a "Three Lines of Defence" model that is tailored to suit the size and complexity of the Society. The model separates risk management activities between:



The requirements of the PRA's Supervisory Statement SS20/15 "Supervising building societies' treasury and lending activities" are incorporated within the Society's Credit Risk and Lending Policy and within the Treasury and Prudential Risk Management Policy. Specifically, the Society has adopted the Limited Lending Approach and the Matched Treasury Approach to risk management from SS20/15.

3.3 Declaration approved by the management body on the adequacy of the risk management arrangements (Point (e) of Article 435(1) CRR)

The Board, as the ultimate management body, is responsible for ensuring that the Society's risk management and internal control systems remain effective. As a sub-committee of the Board, the Audit & Compliance Committee is responsible for reviewing the effectiveness and appropriateness of the controls in place. Page 44 of the Annual Report and Accounts for the year ended 31 March 2023 provides details of the reviews of the internal controls systems that were undertaken during the year.

3.4 Scope and nature of risk disclosure and/or measurement systems (Point (c) of Article 435(1) CRR)

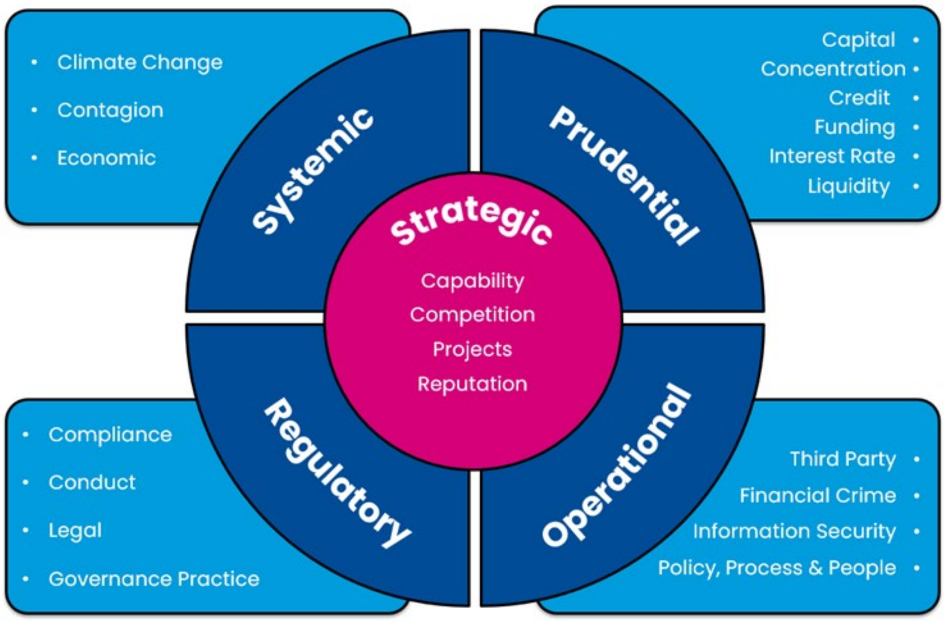
The statement noted in the section 3.3 above is reviewed and approved by Board Risk Committee and Board, following on from the annual assessment of the effectiveness of the ERMF.

3.5 Information on the main features of risk disclosure and measurement systems (Point (c) of Article 435(1) CRR)

The main features of the risk disclosure and measurement systems are set out in the section 3.6 below.

3.6 Strategies and processes to manage risks for each separate category of risk (Point (a) of Article 435(1) CRR)

Risk management at the Society is underpinned by a positive risk culture, enabled by the ERMF. The ERMF categorises each risk within a Risk Universe. The Risk Universes are divided into categories which represent the Society's key risks. This is shown in the chart below:



As part of the ERMF, the Board agrees a risk appetite statement against each key risk.

Stress testing

Stress testing is a key risk management tool used by the Society to understand the impact of severe but plausible scenarios on its business performance. The Society uses a prescribed ICAAP and ILAAP to identify capital and liquidity risks with stress testing forming an intrinsic part of these processes. These tests are agreed by the Board ahead of the assessments being carried out. Other stress tests, including operational and IT based risk events, are also undertaken with the output from all processes used to inform Board risk appetite, policies, management actions and contingency plans.

Capital stress tests are conducted in the ICAAP. These include stresses of risks existing in the business and potential future risk scenarios. During the year, as part of regular reforecasting, the Board receives outputs from stress tests on the mortgage assets, including on the impact of changes to the base rate of interest.

Liquidity stress tests are performed regularly with results reported to the ALCO. These stress tests help to identify any shortfalls in the Society's levels of liquidity in a range of scenarios. The Society has a Board-agreed risk appetite for interest rate risk whereby hedging measures are required to be put in place such that the impact on earnings of a 2% shift in interest rates cannot exceed £600,000 and the outcome of stress tests is measured against this risk appetite.

The PRA carries out periodic assessments of the Society and may issue specific minimum capital and liquidity levels based on its assessment of the risks faced by the Society, including under stressed conditions. The PRA did not undertake an assessment during the year. However, subsequent to the year-end, the PRA carried out an assessment focussing on the liquidity-based risks faced by the Society. At the time of this Pillar 3 document the response from the PRA had not been received.

The Society has a strong level of open and transparent communication with its regulatory supervisory team enabling advance notification of plans to be managed more effectively.

3.7 Information on the strategies and processes to manage, hedge and mitigate risk (Point (a) of Article 435(1) CRR)

Further to the approach identified in section 3.0 above, the ongoing review of the adoption of the ERMF and compliance with the risk appetite has not identified any material gaps that may impede the overall management of risk at the Society. The governance of risk management at the Society ensures that a change in strategy or corporate plan or when a material unexpected event occurs the risk appetite statements can be updated accordingly to accommodate those changes.

4. Capital Resources

The Society's capital resources are calculated under Pillar 1 of the CRD. The scope of these resources at 31 March 2023 relate to the activities of the Society only. The Society had no subsidiary undertakings at 31 March 2023.

4.1 Tier 1 Capital

Common Equity Tier 1 capital comprises the Society's general and other reserves, net of regulatory adjustments.

4.2 Tier 2 Capital

Tier 2 capital comprises amounts held as collective provision balances. The Society only recognises the value of collective provisions that have been subject to review by external audit as part of the annual statutory audit.

4.3 Capital composition (own funds)

The Capital Resources of the Society principally relate to the reserves of the organisation, which are classified as Tier 1. The Society has a small amount of Tier 2 capital, being the level of collective impairment provisions maintained in the Society's Balance Sheet. At 31 March 2023, the Society's capital comprised:

Table 1: Regulatory Capital		Capital Resources
	Note	31 March 2023
Common Equity Tier 1 Capital (CET1)		£m
General Reserves		31.167
Available for Sale Reserve		-
Less: Regulatory adjustments		
Intangible Assets	1	(1.459)
Prudent Valuation Adjustment	2	(0.003)
Total Tier 1 Capital		**29.705**
Tier 2 Capital		
Collective Impairment Provisions		0.795

Total Tier 2 Capital		0.795
Total Capital		30.500
Total risk weighted assets		186.34

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.
2) CRR2 requires financial institutions to apply prudent valuation to all fair value positions. The prudent valuation adjustment is directly deducted from CET1 capital and reflects 0.1% of the value of assets held at market value.

The Society's capital resources are the same under the CRD IV transition arrangements as on the full end point definitions.

4.4 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 on the following page.

Table 2: Reconciliation of Regulatory Capital	31 March 2023 £m
Equity attributable to members per the Statement of Financial Position	31,167
Adjustments for items not eligible for inclusion in CET1 capital	
Intangible Assets	(1.459)
Prudent valuation adjustment	(0.003)
Total adjustments to Common Equity Tier 1 Capital	29.705
Adjustments to Tier 2 capital	
Collective impairment Provisions	0.795
Total adjustments to Tier 2 Capital	0.795
Regulatory Capital	30.500

4.5 Regulatory buffers

Under CRD IV, 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.

These form an institution's Pillar 1 requirements. Pillar 2A covers risks not considered to be fully addressed through Pillar 1. 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.

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 whilst avoiding breaching minimum capital requirements. At 31 March 2023 the CCB was set at 2.5% of risk-weighted assets.

CounterCyclical Buffer (CCyB)

Generated during periods of favourable economic conditions, 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 and thus acting as an incentive to limit further credit growth.

Each institution's specific rate is 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. The Bank of England's Financial Policy Committee (FPC) is responsible for setting the UK CCyB rate. At 31 March 2023 the UK CCyB was set at 1.0% of risk-weighted assets.

5. Capital Adequacy

5.1 Pillar 1 capital

Under PRA rules a minimum level of Pillar 1 capital must be held to cover credit risk, market risk, operational risk and for the Credit Valuation Adjustment (CVA). The Society calculates credit risk under the Standardised Approach, operational risk under the Basic Indicator Approach and CVA under the Standardised Method.

Under this approach the level of capital required against a given level of exposure to credit risk is calculated as:

Credit risk capital requirement = Exposure value x Risk weighting x 8%

Under the Basic Indicator Approach for operational risk the Society calculates its average net income over the previous three years and provides 15% of the average net income as the minimum capital requirement for operational risk. See section 7 for further information.

5.2 Pillar 2 capital

Pillar 2 capital is provided to cover specific risks faced by the Society or risks that are not considered to be covered by Pillar 1. At 31 March 2023 the capital requirement for Pillar 2A was 0.00% of Risk Weighted Assets (RWAs).

5.3 Internal Capital Adequacy Assessment Process (ICAAP)

The Strategic Plan and Annual Corporate Plan process establishes risk appetites for all key risks detailed within the Risk Universes. Through this process the Society ensures it has sufficient financial and non-financial resource to meet the Strategic Plan objectives.

In addition to the Strategic Plan and 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 ICAAP production involves reviewing all business areas with estimates for capital allocation across the Corporate Plan period, which covers a period of at least three years from the end of the current financial year. The Board approves the stress testing economic scenarios to be used in calculating capital requirements, with input from the results of the Society's stress models.

Finally, the Board approves the capital assessment, taking into account any areas where they consider that the models and internal assessments do not adequately capture the full risk exposure and therefore require the holding of extra capital, where appropriate.

5.4 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. Table 3 below sets out the total capital requirement and buffer requirements as they apply to the Society at 31 March 2023.

Table 3	% of RWA	£m
RWAs		186.34
Capital requirements		
Total capital requirement per SREP requirement (including Pillar 1)	8.00%	14.91
PRA buffer	0.00%	0.00
Capital Conservation Buffer	2.50%	4.66
Countercyclical Buffer	1.00%	1.86
Total		21.43

The Society is not deemed a Globally Systemically Important firm as defined by Article 131 of EU Directive 2013/36.

5.5 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 asset and additional factors such as loan to value and securitisation For wholesale assets, factors such as counterparty, credit ratings and duration are also considered. In addition, an evaluation of capital required to cover operational risk is calculated under the Basic Indicator Approach and determined by reference to the net income of the Society averaged over the previous three years.

5.6 Capital requirement summary

The Society's minimum capital requirement under Pillar 1 is the sum of the credit risk capital requirement and the operational risk capital requirement. The Society only undertakes transactions in GBP and does not have a trading book. Accordingly, the Society's Pillar 1 capital requirement for market risk is currently set at nil.

Table 4 Template UK OV1 – Overview of risk weighted exposure amounts[1]

		Risk weighted exposure amounts (RWEAs)		Total own funds requirements
		a	b	c
		31 March 2023 £m	31 March 2022 £m	31 March 2023 £m
1	Credit risk (excluding CCR)	157.79	149.06	12.62
2	Of which the standardised approach	157.79	149.06	12.62
6	Counterparty credit risk - CCR	6.63	3.64	0.53
7	Of which the standardised approach	4.64	2.58	0.37
UK 8b	Of which credit valuation adjustment - CVA	2.36	0.76	0.19
9	Of which other CCR	(0.37)	0.30	(0.03)
15	Settlement risk	-	-	-
16	Securitisation exposures in the non-trading book (after the cap)	-	-	-
17	Of which SEC-IRBA approach	-	-	-
18	Of which SEC-ERBA (including IAA)	-	-	-
19	Of which SEC-SA approach	-	-	-
UK 19a	Of which 1250%/ deduction	-	-	-
20	Position, foreign exchange and commodities risks (Market risk)	-	-	-
21	Of which the standardised approach	-	-	-
22	Of which IMA	-	-	-

UK 22a	Large exposures	-	-	-
23	Operational risk	21.92	19.87	1.75
UK 23a	Of which basic indicator approach	21.92	19.87	1.75
UK 23b	Of which standardised approach	-	-	-
UK 23c	Of which advanced measurement approach	-	-	-
24	Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)	-	-	-
29	**Total**	**186.34**	**172.57**	**14.91**

Notes:

1) Certain rows of this table have not been presented as they are not applicable to the Society.

5.7 Leverage ratio

CRD IV introduces a non-risk-based leverage ratio to supplement the risk-based capital requirements. The leverage ratio is defined as the ratio between Tier 1 capital and the total on and off-balance sheet exposures. The objective is to reduce the risk of excessive leverage i.e. an excessively low amount of own funds compared to total assets as well as acting as a back-stop against the model complexities involved in calibrating risk weights. The CRD IV requirement is for the minimum leverage ratio to be 3.0%. The Society's leverage ratio is the same under both transitional and full implementation of CRD IV.

The measure of total exposure and calculation of leverage ratio are shown on the following page, 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 March 2023 £m
Total balance sheet assets as reported in the Annual Report and Accounts		544.75
Adjustments for derivative financial instruments	1	2.81
Adjustments for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	2	5.25
Other adjustments		
- Intangible assets		(1.46)

- Collective provisions		0.79
Total leverage rate exposure measure		**552.14**

Leverage ratio		**5.02%**

Notes:

1) The accounting value of derivatives has been converted into an exposure measure
2) Commitments in the form of offered mortgage business are stated after applying a 20% risk weighting in accordance with the amended CRD IV.

The increase in the asset exposure measure compared with the increase in Tier 1 Capital caused the leverage ratio to increase from 4.75% to 5.02% as at 31 March 2023. The leverage ratio of the Society is well above the 3% regulatory minimum and it is forecast to remain so within the Corporate Plan. The risk of excessive leverage is managed through the corporate planning process using the leverage ratio and is monitored by ALCO.

Leverage ratio common disclosure

Table 6: Leverage Ratio common disclosure	31 March 2023 £m
On Balance Sheet Exposures (excluding derivatives and Securities Financing Transactions (SFTs)	
On Balance Sheet Exposures (excluding derivatives and SFTs, but including collateral)	542.04
Asset amounts deducted in determining Tier 1 capital	(1.46)
Total on-balance sheet exposure	**540.58**
Derivative exposures	
Replacement cost associated with all derivative transactions	2.81
Add-on amounts for potential future exposures associated with all derivatives (MtM method)	5.26
Total derivative exposures	**8.07**
Other off-balance sheet exposures	
Off-balance sheet exposures at gross notional amount	14.06
Adjustments for conversion to credit equivalent amount	(8.81)
Total other off-balance sheet exposures	**5.25**
Capital and Total exposure measures	

Tier 1 Capital (from Table 1)	29.71
Leverage ratio total exposure measure	552.14
Leverage ratio	5.02%

Table 7: Leverage Ratio – Split-up of on-balance sheet exposures (excluding derivatives and SFTs)	31 March 2023 £m
Total On Balance Sheet Exposures (excluding derivatives and SFTs)	**540.58**
Of which:	
Exposures treated as Sovereigns	91.74
Multi-lateral Development Banks	-
Institutions	9.66
Secured by mortgages on immovable properties	436.52
Exposures in default	0.42
Other exposures	2.25

5.8 Capital reporting

Capital adequacy is reported to the PRA quarterly in the Common Reporting (CoREP) returns. It is also monitored monthly through ALCO and reported at each Board meeting.

6. Credit Risk Quality

6.1 UK CRA – General Qualitative Information about Credit risk

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

At Dudley Building Society, we lend in a responsible, affordable and sustainable way to ensure we safeguard members and the financial strength of the Society for the duration of the credit cycle. The Society is fully committed to responsible lending and a focus on championing good conduct and fair outcomes.

As a primary lender, the Society faces credit risk as an inherent component of its lending activities. Adverse changes in the credit quality of the Society's borrowers, deterioration in U.K. economic conditions or adverse changes in U.K. or even global systemic risks could reduce the recoverability of the Society's assets.

The criteria and approach used for defining the credit risk management policy and for setting credit risk limits

Credit risk is mitigated through Board-approved Lending and Treasury Policies and risk appetites which reflect our low risk tolerance which include clear guidelines in respect of processes and exposures.

ALCO is responsible for managing Treasury activity and recommends limits on Treasury counterparties, country exposures and types of financial instruments for approval by the Board within regulatory guidelines.

Lending and business decisions

The Society translates its overall risk appetite for credit risk into individual lending limits controlling the exposures to be taken on by the Society. The performance against these limits is monitored monthly and reviewed at least annually.

Pricing

Pricing models are used for all mortgage products and provide guidance as to the appropriate rate required to meet target level of return on all mortgages offered.

The Society does not use credit risk mitigation techniques other than taking a first legal charge on the property, offered as security for a mortgage. However, where the value of the loan is greater than 80% of the valuation of the property and subject to the insurer's approval, the Society will enter into Mortgage Indemnity Guarantee Insurance to reduce the risk of financial loss in the event that mortgage repayments cease.

Credit risk weightings are determined by the "Standardised Approach" following the approach set out in the CRR. The minimum capital requirement by standardised credit exposure class at 31 March 2023 is set out in Table 4 above.

Credit concentration risk

Where a firm's exposure to a single borrower or several borrowers is large, the risk of large losses should the borrower default increases. Concentration risk is concerned mainly with the fact that in some cases these losses maybe sufficient to threaten a firm's solvency.

Credit concentration risk need not be in the form of large loans to borrowers and could be a concentration of exposure within the same category, which may include geographic location, product type, sector or counterparty type as well as a concentration of high risk / high LTV lending.

As a regional building society that operates through an intermediary based model, the Society is able to provide mortgages throughout England and Wales. Whilst there are geographic areas that constitute a higher proportion of the mortgage book than others, there is not currently a reliance on the West Midlands as its core lending area.

As noted in section 3.2, information on the risk governance structure for each type of risk, Credit Risk Committee is responsible for the setting, management and reporting of credit concentration risk alongside setting the lending risk appetites.

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

The Board is ultimately responsible for the assessment of the principal risks facing the Society, which includes credit risk. The Board approves the Society's risk appetite and metrics following consideration by Board Risk Committee and receives regular reports and assessments of the Society's risk and control processes and recommendations from Board Risk Committee on all matters risk related.

The Board delegates its risk oversight to the Board Risk Committee, which reviews risk limits, reporting lines, mandates and other control procedures. The Credit Risk Committee is responsible for ensuring that the lending activities of the Society adhere to the credit risk policies and risk appetite limits set by the Board.

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

Please refer to the Risk Culture section of "3.2 Information on the risk governance structure for each type of risk" for information relating to the management of credit risk

6.2 Total credit risk exposure

The total credit risk exposure of £550.56m at 31 March 2023 reconciles to the Annual Report and Accounts as follows:

Table 8: Reconciliation of Credit Risk Exposure to the Annual Report & Accounts	£m
Total Credit Risk	**552.14**
Less Total Off-Balance Sheet	(8.06)
Less Individual Impairment Provision	(0.79)
Add Intangible Fixed Assets	1.46
Add: Other non-credit exposures	-
Total Assets per the Statement of Financial Position as at 31 March 2023	**544.75**

The residual maturity on a contractual basis of credit risk exposures at 31 March 2023 is as follows:

Table 9: Residual maturity of credit risk	Up to 3 months £m	4 - 12 months £m	1 - 5 years £m	Over 5 years £m	Individual Impairment £m	Total £m
Residential mortgages	2.24	3.11	25.89	408.31	(0.36)	439.19
Other secured lending	0.50	-	0.02	-	-	0.52
Accounting adjustments[1]	(2.77)	-	-	-	-	(2.77)
Total retail credit risk exposures	**(0.03)**	**3.11**	**25.91**	**408.31**	**(0.36)**	**436.94**
Central banks and sovereigns	91.74	-	-	-	-	91.74
Financial institutions	14.91	-	-	-	-	14.91
Total treasury risk credit exposures	**106.65**	**-**	**-**	**-**	**-**	**106.65**
Total credit risk exposures	**106.62**	**3.11**	**25.91**	**408.31**	**(0.36)**	**543.59**
Off-balance sheet items						**8.06**

Items with no specific maturity		0.49
Total credit risk (per table 5)		552.14

Note:

1) Accounting adjustments includes adjustments for fair value and the effective interest rate (EIR).

6.3 Retail credit risk – Loans and advances to customers in the form of residential mortgages

Retail credit risk exposures are limited to and arise from the provision of loans secured on properties within England and Wales. All mortgage loan applications are reviewed by an individual underwriter and are assessed against the credit risk appetite as set out in the Society's Board-approved credit risk policy. Retail credit risk exposure are monitored each month by Credit Risk Committee, with additional reporting of risk appetite to the Board Risk Committee and Board. In accordance with SS20/15, the Society's Credit Risk and Lending Policy sets out the limits for concentration of loans and advances by occupation type and repayment type.

The Society's total portfolio of loans and advances mostly comprise of owner-occupied and buy-to-let mortgages. The Society also has a small portfolio of equity release mortgages but is not looking to expand this category of lending.

Table 10a: Loans and advances to customers by occupation type	31 March 2023 £m
Owner occupied	382.50
Buy-to-let	37.96
Equity release	1.62
Other	17.63
Accounting adjustments[1]	(2.77)
Total	**436.94**

Note:

1) Accounting adjustments includes adjustments for fair value and EIR.

The table below provides analysis of loans and advances to customers by loan repayment type.

Table 10b: Loans and advances to customers by repayment type	31 March 2023 £m
Repayment	290.57
Interest only	149.15
Accounting adjustments[1]	(2.77)
Total	**436.94**

Note:

1) Accounting adjustments includes adjustments for fair value and EIR.

Exposure by geographic region

The geographical distribution of mortgage asset exposures at 31 March 2023 is shown in the table on the following page.

Table 10c: Geographical Region[1]	Performing £m	PastDue[2] £m	Impairment Losses £m	Total £m	%
East Anglia	43.10	-	(0.02)	43.08	10%
East Midlands	21.42	0.10	(0.02)	21.50	5%
Greater London	78.28	-	(0.08)	78.20	18%
North	8.07	-	(0.01)	8.06	2%
North West	37.33	0.19	(0.06)	37.47	9%
South East	103.83	-	(0.07)	103.75	24%
South West	48.65	-	(0.02)	48.63	11%
Wales	10.79	-	-	10.79	2%
West Midlands	63.37	0.19	(0.07)	63.49	15%
Yorkshire & Humberside	24.76	-	(0.02)	24.74	6%
Accounting adjustments[3]	(2.77)	-	-	(2.77)	-
Total	**436.83**	**0.48**	**(0.36)**	**436.94**	**100%**

Notes:

1) In evaluating the above table, no breakdown of the mortgage assets into type is considered appropriate in view of the Society's mortgage assets being principally residential.
2) A loan is past due when it is 3 months or more in arrears or in possession. Past due amounts relate to the overall mortgage balances, not the amount in arrears, and include properties in possession.
3) Accounting adjustments include adjustments for fair value and EIR.

6.4 Credit risk adjustments – Impairment provisions

A financial asset or group of financial assets is 'impaired' when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired includes:

- significant financial difficulty of the borrower or issuer;
- default or delinquency by a borrower;
- the restructuring of a loan or advance by the Society on terms that the Society would not otherwise consider;
- indications that a borrower or issuer will enter bankruptcy;
- the disappearance of an active market for a security; or
- observable data relating to a group of assets such as adverse changes in the payment status ofborrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

The provision made on each mortgage account represents the amount required to reduce the outstanding balance of the asset to its expected realisable value, by using industry recognised house price indices, and adjusting for costs of realisation, other recoveries and the probability of possession.

Collective impairment provisions are made where it is considered that there is impairment in the value of assets at the year-end that is not already covered by individual impairment provisions.

In assessing collective impairment, the Society uses statistical modelling of historical trends of the probability of default, the timing of recoveries and the amount of loss incurred and makes adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than is suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

The collective impairment provisions made at the year-end represent the Board's assessment of the potential losses which, although not yet specifically identified as relating to payment arrears, are known from experience to exist in the Society's loan portfolio. These provisions have been deducted from the appropriate asset values shown in the balance sheet.

Impairment losses are recognised in the Income Statement and reflected in an allowance account against loans and receivables. Interest on the impaired assets continues to be recognised through the unwinding ofthe discount. If an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through the Income Statement.

Table 11 shows the movement on individual and collective impairment allowances at 31 March 2023.

Table 11: Impairment allowances	Loans fully secured on residential property £m	Other loans fully secured on land £m	Total £m
Individual impairment			
At 1 April 2022	0.376	-	0.376
Credit for the year	(0.012)	-	(0.012)
At 31 March 2023	**0.364**	**-**	**0.364**
Collective impairment			
At 1 April 2022	0.534	0.002	0.536
Charge for the year	0.259	-	0.259
At 31 March 2023	**0.793**	**0.002**	**0.795**

Further details of the level of mortgage provisions can be found in Note 14 of the 2023 Annual Report and Accounts of the Society.

6.5 Credit Risk - Forbearance

A range of forbearance options is available to support customers who are in financial difficulty. The purpose of forbearance is to support customers who have temporary financial difficulties and help them get back on track.

The options offered by the Society are:

- Temporary transfer to an Interest Only arrangement;

- Temporary reduced monthly payment;
- Product review;
- Capitalisation of arrears;
- Extension of mortgage term.

Before being granted a forbearance option, customers will need to provide information to support the request which is likely to include a budget planner, statement of assets and liabilities, bank / credit card statements, payslips etc., in order that the request can be properly assessed. If the forbearance request is granted the account is monitored in accordance with our policy and procedures. At the appropriate time the forbearance option that has been implemented is cancelled, except for capitalisation of arrears, and the customer's normal contractual payment is restored.

Loans that are subject to restructuring may only be classified as restructured and up-to-date once a specified number and / or amount of qualifying payments have been received. These qualifying payments are set at a level appropriate to the nature of the loan and the customer's ability to make the repayment going forward.

6.6 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.

Counterparty Credit Risk

The purpose of the Society's Treasury and Prudential Risk Management Policy is to ensure that the Society can obtain the best possible return whilst operating within prudent limits in respect of counterparties. Currently the Society only has two types of counterparty:

- UK Sovereign exposure – Bank of England and UK Government securities
- UK banks used for operational activity and interest rate hedging.

Counterparty exposures are monitored at ALCO every month. Replacement values of outstanding hedging instruments are calculated, and counterparty limits are adjusted to reflect any off-balance sheet exposure.

Interest rate swap derivative instruments are covered under collateralised agreements. Depending on the market value of the instruments this can result 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.

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 future cash flows of those assets. Any charges for impairment are recognised in the income statement. The Society reported no such charges on its wholesale assets during the year ended 31 March 2023.

The table below is a summary by standardised credit risk exposure class and credit quality step of the Society's Treasury Assets at 31 March 2023. The External Credit Assessment Institution (ECAI) ratings used in the table are based on Fitch Ratings.The highest credit quality step is step 1.

Table 12

Credit Quality Step	ECAI Long-Term Rating	Banks £m	Building Societies £m	Central Government £m	Local Authorities £m	Total £m
1	AAA to AA-	-	-	91.74	-	91.74
2	A+ to A-	5.25	-	-	-	5.25
3	BBB+ to BBB-	9.40	-	-	-	9.40
4	BB+ to BB-	0.26	-	-	-	0.26
5	B+ to B-	-	-	-	-	-
6	CCC+ & below	-	-	-	-	-
Unrated	-					
Total		14.91	-	91.74	-	106.65

The geographical distribution of the above exposures is the United Kingdom. Central government exposure includes central bank exposure. There are no exposures to any unrated counterparties.

The residual maturity of the Society's Treasury Assets at 31 March 2023 is analysed on the following page: -

Table 13

Credit Quality Step	Repayable on demand £m	In not more than months £m	In more than three months, but not more than one year £m	In more than one year but not more than five years £m	Total £m
1	91.74	-	-	-	91.74
2	5.25	-	-	-	5.25
3	9.40	-	-	-	9.40
4	0.26	-	-	-	0.26
5	-	-	-	-	-
6	-	-	-	-	-
Unrated					
Total	106.65	-	-	-	106.65

6.7 CVA risk

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. The Society's exposure values related to counterparty credit risk are shown below:

Table 14	Exposure value £000
Gross positive fair value of contracts	5,254.55
Potential future exposure	4,998.55
Total net derivatives credit exposure	189.07
RWA requirement	2,627.28

6.8 Asset encumbrance

The Society has mortgage assets encumbered with the Bank of England Asset Purchase Facility Fund Limited to secure amounts drawn down under the Term Funding Scheme with Additional Incentives for Small and Medium Sized Enterprises (TFSME) and other central bank facilities. At 31 March 2023, £116.5

million (31 March 2022: £72.9 million) 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 is also pledged and received.

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 15	Carrying amount of encumbered assets	of which notionally eligible EHQLA and HQLA	Fair value of encumbered assets	of which notionally eligible EHQLA and HQLA	Carrying amount of unencumbered assets	of which notionally eligible EHQLA and HQLA	Fair value of unencumbered assets	of which notionally eligible EHQLA and HQLA
	£000	£000	£000	£000	£000	£000	£000	£000
010 Assets of the reporting institution	65,200.8	-			442,546.9	87,595.1		
020 Loans on demand	-	-			95,492.4	87,595.1		
040 Debt securities	-	-	-	-	-	-	-	-
070 of which: issued by general government	-	-	-	-	-	-	-	-
100 Loans and advances other than loans on demand	65,200.8	-	-	-	347,120.7	-	-	-
110 of which: mortgage loans	65,200.8	-	-	-	347,120.7	-	-	-
120 Other assets	135.0				6,377.5	-		

Note that this information required to be disclosed as median values over quarterly positions during the 12 months preceding 31 March 2023 and as a result may differ from other information provided in this Pillar 3 disclosure.

7. Operational Risk

7.1 Risk Management objectives and policies

Operational risk management

Operational risk is the risk of loss arising from failed or inadequate internal processes or systems, human error or other external factors. The risk is managed by the departmental Managers of the Society – the 'Responsible Risk Owners' - who have responsibility for putting in place appropriate controls for their business area. A monthly report to the Operational and Conduct Risk Committee sets out key risk metrics. Items are escalated to the Board Risk Committee and Board as and when required.

To ensure the Society has sufficient capital to cover these operational risks, the Society also maintains a range of insurance policies to cover eventualities such as business interruption, loss of computer systems, crime etc.

Risk measurement and control

To monitor its operational risks, the Society records all its risks and quantifies these through risk likelihood and impact, together with a reduction in impact from application of the controls assigned to each risk. This allows us to establish a residual risk remaining after operation of controls for each business area within the Society. The Society has a Disaster Recovery and Business Continuity Plan and an Operational Resilience Self-Assessment which is kept under regular review and is designed to ensure that any breakdown in systems would not cause significant business disruption.

Operational risk reporting

The Society monitors and reports on the operational and conduct risk events which have occurred, to better understand those exposures and drive sustainable mitigation to prevent re-occurrence. For the purposes of this report, operational and conduct risk events include only those where a financial loss arises from the event.

Policies on hedging and mitigating operational risk

The Society has an adequate risk framework in place for the mitigation of operational risk that is proportionate to the size and complexity of the organisation. Refer to section 3.0 for information on the Society's policies relating to operational risk that are incorporated within the ERMF.

7.2 Approaches for the assessment of minimum own funds requirements

The basic indicator approach (BIA) is used to calculate Pillar 1 operational risk.

7.3 Description of the AMA methodology approach used

This is not applicable to the Society as we do not apply the Advanced Measurement Approach (AMA).

7.4 Operational risk own funds requirement

The calculation for the Pillar 1 capital requirement for Operational Risk as at 31st March 2023 was £1.59 million, calculated as follows:

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

Banking activities		a	b	c	d	e
		Relevant indicator			Own funds requirements	Risk weighted exposure amount
		31 March 2021	31 March 2022	31 March 2023		
		£m	£m	£m	£m	£m
1	Banking activities subject to basic indicator approach (BIA)	10.60	11.29	13.18	1.75	21.92
2	Banking activities subject to standardised (TSA) / alternative standardised (ASA) approaches	-	-	-	-	-
3	*Subject to TSA:*	-	-	-		
4	*Subject to ASA:*	-	-	-		
5	Banking activities subject to advanced measurement approaches AMA	-	-	-	-	-

In addition, the Society conducts stress testing within the ICAAP to determine whether additional capital should be held in Pillar 2A for Operational Risk.

8. Liquidity and Funding Risk

8.1 Liquidity Risk

Liquidity risk is the risk that the Society is unable to make available sufficient resources to meet is current or future financial obligations as they fall due or is only able to do so at a premium cost. This risk also includes the risk that the Society attracts excessive liquidity through poor product management, acting as a drag on financial performance. The Society's Liquidity Policy is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations in funding in order to retain full public confidence in the solvency of the Society 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.

The Society relies on its access to sources of funding to finance the origination of new 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.

Liquidity risk is overseen by ALCO. The Society seeks to mitigate this risk by managing the portfolio of liquid assets to maintain assets in liquid form in such proportion and composition (as determined by ALCO) as will at all times enable it to meet its liabilities as they arise (including any unexpected adverse cash flow). This results in the Society holding a significant amount of highly-liquid assets, mostly in the form of deposits with the Bank of England and when appropriate, Gilt Edged Securities, both eligible to satisfy liquidity buffers required by the Regulator. The Society also holds further assets for use as collateral with derivative counterparties and maintains adequate deposits on call or overnight with the Bank of England or other major banking organisations to meet operational cash flow needs without drawing on buffer-qualifying liquid assets.

8.2 Liquidity metrics

The Society calculates and expresses its liquidity requirement using the regulatory measures of Liquidity Coverage Ratio ("LCR") and Net Stable Funding Requirement ("NSFR").

LCR

The Society's LCR at 31 March 2023 was 291% (2022: 278%), highlighting a strong liquidity position. The Society's average LCR for the rolling 12 months to each quarter end date for the financial year ended 31 March 2023 is as follows:

TABLE 17	Total adjusted value £m			
Quarter ending on	30 June 2022	30 September 2022	31 December 2022	31 March 2023
Number of data points used in the calculation of the average	12	12	12	12
Liquidity buffer £m	96.55	90.45	89.12	88.20
Total net cash outflows £m	34.85	37.63	39.45	38.86
LCR %	277%	240%	226%	227%

NSFR

The Society's NSFR at 31 March 2023 was 147% (2022: 160%), exceeding the expected 100% minimum future requirement for NSFR.

9. Other Risks

9.1 Market Risk

Market risk is the risk of changes to the Society's financial condition caused by market interest rates or early redemption of assets. 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. The Society's Pillar 1 capital requirement for market risk is currently set to zero as the Society does not have a trading book.

9.2 Interest rate risk in the Banking Book (IRRBB)

Interest Rate risk is the risk that the value of, or income arising from, the Society's assets and liabilities varies as a result of changes in interest rates.

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.

Interest rate risk arises from imperfect matching of different interest rate features, repricing dates and maturities of mortgages, savings and wholesale products. The Society manages this exposure on a continuing basis, within limits set by ALCO using a combination of financial instruments. 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;
3. Fixed rate mortgage and treasury lending.

Where appropriate, interest rate swaps are used 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 benchmark. 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 not to exceed £600k. The results are reported to ALCO, Board Risk Committee and Board.

9.3 Strategic and Business risk

The Society faces competition in all the markets in which it operates. There is risk that the Society may not be able to achieve its Corporate Plan or pursue its desired strategy due to adverse circumstances outside of the Society's control, including the actions of its competitors. This is a risk that every business faces however, the Society looks to mitigate this risk by having a diverse range of products, so that its income source is not reliant on one product or one area of its business. The Society also maintains close relationships with stakeholders and participants in the markets in which it operates and is involved with sector-wide initiatives through the Building Societies Association. Through these activities the Society can identify market trends, opportunities and challenges to be addressed as a part of the Society's strategy.

9.4 IT security / Cyber

Cyber-crime and the security of information held by the Society are a constant risk. The Society acknowledges the risk of a disruption caused by a successful cyber-attack on core IT systems, which may result in the loss or inappropriate use of data or sensitive information. The Society's core systems are dependent upon the continuing availability and resilience of the managed service that is provided by Unisys Ltd. The Society works closely with Unisys Ltd and regular assurance activities are undertaken on third-party IT Governance and Controls. The Society has already invested heavily and continues to invest in new technologies to ensure the confidentiality, availability and integrity of Society Data.

9.5 Conduct risk

This risk can arise when a firm's actions or behaviours result in inappropriate or poor outcomes for customers. The Society has a customer-focused culture that is in line with the principle of an organisation which is owned by its members. Conduct Risk is assessed and monitored through the Society's Risk Committee structure, including via its Operational and Conduct Risk Committee which considers all the Society's customer interactions and metrics. The Society has asimple product range that aims to reduce potential exposure to conduct risk. All staff who engage with customers receive relevant training in accordance with the relevant Training and Competency Scheme to ensure customers are treated fairly.

9.6 Recovery Plan and Resolution Pack

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 scenario – whether that scenario be Society specific or market-wide. The Society also has a Board-approved Resolution Pack 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.

10. Remuneration paid to code staff

10.1 Information relating to the bodies that oversee remuneration

The Society has two Board Committees dealing with the appointment and remuneration of code staff: Remuneration committee; and Nominations committee, the purpose of which are described in section 3.2 of this document.

The Society has a remuneration policy that aligns to the FCA Regulations Remuneration Code. The detail required for the purposes of this Pillar 3 document is disclosed in our Annual Report and Accounts which is also published on the Society's website. The details are located in the Annual Report and Accounts within the Directors' Remuneration Report and Note 7. Note 7 of the Annual Report and Accounts gives a breakdown of the Directors' remuneration in the financial year; it should be noted that all Director Remuneration is fixed.

10.2 Components of remuneration

The components of remuneration are basic salary, pension contributions and other benefits.

Basic Salaries: Basic salaries are reviewed annually by undertaking an external benchmarking exercise whichcompares salaries in similar organisations.

Pension: Executive Directors of the Society are permitted to be enrolled within the Society's pension scheme. James Paterson and Stephen Heeley are enrolled into the pension scheme, both receiving an 11% employer contribution.

Benefits: Executive Directors of the Society are entitled to receive the benefits made available to all employees. James Paterson and Stephen Heeley receive access to a healthcare cash plan and have access to an online portal offering a range of retail discounts. James Paterson and Stephen Heeley receive private healthcare cover.

10.3 Code staff

The Society has considered which of its staff fall under the scope of "material risk taker" and are deemed Code staff. The activities of a material risk taker may have material impact on the Society's risk profile although not all affect the Society's risk profile in the same way. The Society deems material risk takes to be Non-Executive Directors, Executive Directors and certain management roles. These roles are identified and reviewed on an annual basis, and are subject to robust fitness and propriety assessments in accordance with FCA and PRA requirements.

The remuneration policy of the Society does not include payment of salary or bonus relating to the financial or operational performance of the Society.

No individuals were remunerated £850,000 or more.

10.4 Non-Executive Directors' remuneration

Non-Executive Director fees are based on comparable data from similar financial service organisations and are recommended by the Remuneration Committee. Remuneration comprises a basic fee with supplementary payments for Committee Chair. Non-Executive Directors fees are not pensionable, nor do the individuals participate in any incentive schemes or receive any other benefits. Non-Executive Directors have formal contracts of service.

10.5 Contracts of employment

James Paterson and Stephen Heeley have service contracts dated 1 May 2022 and 5 July 2021 respectively. Twelve months' notice is required to be given by the Society to James Paterson and twelve months' notice by the individual. Six months' notice is required to be given to Stephen Heeley and six months' notice by the individual.

There are no contractual arrangements in respect of bonuses, deferred consideration or amended arrangements in the event of a transfer of engagement.

Table 18 - Template UK REM1 - Remuneration awarded for the financial year ending 31 March 2023[1]

Aggregate information on remuneration for the year ended 31 March 2023 is provided in Table 18 below:

			a	b	c	d
£000			MB Supervisory function	MB Management function	Other senior management	Other identified staff
1	Fixed remuneration	Number of identified staff	5	4	7	4
2		Total fixed remuneration	183	825	557	306
3		Of which: cash-based	183	825	557	306
UK-4a		Of which: shares or equivalent ownership interests	-	-	-	-
5		Of which: share-linked instruments or equivalent non-cash instruments	-	-	-	-
UK-5x		Of which: other instruments	-	-	-	-
7		Of which: other forms	-	-	-	-
17	Total remuneration[2]		183	825	557	306

Notes:

1) Certain rows of this table have not been presented as they are not applicable to the Society
2) All remuneration paid to code staff is in the form of fixed remuneration, hence rows relating to variable remuneration have been omitted from this table.

Template UK REM2 – Special payments to staff whose professional activities have a material impact on institutions' risk profile

Table omitted as there are no special payments to staff in relation to the Society's risk profile.

Table 19 - Template UK REM5 – Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile

		a	b	c	g	j
		Management body remuneration			Business areas	
		MB Supervisory function	MB Management function	Total MB	Corporate functions	Total
1	Total number of identified staff					21
2	Of which: members of the MB	5	5	10		
3	Of which: other senior management				7	
4	Of which: other identified staff				4	
5	Total remuneration of identified staff	183	825	1,008	862	
7	Of which: fixed remuneration	183	825	1,008	862	

Note – Columns for business areas where there are no identified staff have been omitted.

APPENDIX: Template UK CC1 – Composition of regulatory own funds

		(a)	(b)
		£m	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
Common Equity Tier 1 (CET1) capital: instruments and reserves			
2	Retained earnings	31.167	
3	Accumulated other comprehensive income (and other reserves)	-	
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	31.167	
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	(0.003)	
8	Intangible assets (net of related tax liability) (negative amount)	(1.459)	(a)minus (d)
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	(1.462)	
29	Common Equity Tier 1 (CET1) capital	29.705	
Additional Tier 1 (AT1) capital: instruments			
36	Additional Tier 1 (AT1) capital before regulatory adjustments	-	
Additional Tier 1 (AT1) capital: regulatory adjustments			
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	-	
44	Additional Tier 1 (AT1) capital	-	
45	Tier 1 capital (T1 = CET1 + AT1)	29.705	
Tier 2 (T2) capital: instruments			
50	Credit risk adjustments	0.795	
51	Tier 2 (T2) capital before regulatory adjustments	0.795	

Tier 2 (T2) capital: regulatory adjustments

57	Total regulatory adjustments to Tier 2 (T2) capital	-	
58	Tier 2 (T2) capital	0.795	
59	Total capital (TC = T1 + T2)	30.500	
60	Total Risk exposure amount	186.340	
	Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	15.94%	
62	Tier 1 (as a percentage of total risk exposure amount)	15.94%	
63	Total capital (as a percentage of total risk exposure amount)	16.37%	
64	Institution CET1 overall capital requirement (CET1 requirement in accordance with Article 92 (1) CRR, plus additional CET1 requirement which the institution is required to hold in accordance with point (a) of Article 104(1) CRD, plus combined buffer requirement in accordance with Article 128(6) CRD) expressed as a percentage of risk exposure amount)	11.50%	
65	of which: capital conservation buffer requirement	2.50%	
66	of which: countercyclical buffer requirement	1.00%	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	7.58%	