Dudley Building Society
Pillar 3 Disclosure
Year ended 31 March 2025

Powering Life

CONTENTS

Powering Life

1. Introduction

1.0 Background

This document sets out the Pillar 3 disclosures on capital and risk management for Dudley Building Society (the "Society") for the year ended 31 March 2025.

The regulatory framework under which the Society operates for capital and liquidity requirements is set out in the Capital Requirements Directive (CRD) and Capital Requirements Regulations (CRR) and are commonly referred to as CRD IV or Basel III. These regulations were implemented in the UK by the Prudential Regulation Authority (PRA) under the PRA Rulebook (CRR) Instrument 2021. The regulations came into force on 1 January 2022. The Society has adopted the Standardised Approach for Credit risk and the Basic Indicator Approach for Operational risk.

The regulations set out the rules that determine the amount of capital institutions must hold in order to provide security for members and depositors, based on the characteristics of their business and their Board's assessment of the risks they face.

The CRD comprises three main elements, or "Pillars" 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 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; and
- Pillar 3: Disclosure of information relating to the risk exposures, the management of those risks and capital adequacy, in accordance with the Disclosure (CRR) Part of the PRA Rulebook.

The PRA has issued the following consultations which will impact on the Society's Pillar 1 and 2 exposures and metrics, and Pillar 3 disclosures:

- Part one PS 17/23 'Implementation of the Basel 3.1 standards near-final. Issued 12 December 2023 with proposed implementation of 1 January 2025. Note that the implementation date has been superseded by the release of PS 9/24.

- Part two PS 9/24 "Implementation of the Basel 3.1 standards near-final. Issued 12 September 2024 with proposed implementation of 1 January 2026.
- On 17 January 2025, the PRA announced the delay of the implementation of Basel 3.1 standards to 1 January 2027.
- PS 15/23 'The Strong and Simple Framework: Liquidity and Disclosure requirements for Simpler-regime Firms. Issued 5 December 2023 with implementation date of 1 July 2024.
- CP 7/24 "The Strong and Simple Framework: The simplified capital regime for Small Domestic Deposit Takers (SDDTs)". Issued 12 September 2024 with proposed implementation date of 1 January 2027.

1.1 Purpose of this document

The Pillar 3 disclosures are designed to promote market discipline through external disclosures of a firm's risk management framework and risk exposures. Accordingly, the disclosure includes details of the Society's:

- Approach to risk management;
- Governance structure;
- Capital resources;
- Regulatory capital requirements; and
- Compliance with the EU Capital Requirements Regulation.

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

The Society meets the criteria for being defined as a small and non-complex institution ("SNCI") under Article 433b of the CRR as contained in the PRA Rulebook. As such, these disclosures comply with the requirements of the derogation for small and non-complex institutions that are non-listed institutions, as set out in Article 433b.

The Board acknowledges that under the proposed changes as noted in section 1.0, the Society would meet the definition of a Small Domestic Deposit Taker ("SDDT"). Subsequent to the release of CP7/24 and before the reference date, the Society submitted a formal application to the PRA to be subject to the Small Domestic Deposit Takers regime. On 10 April 2025, the Society received formal notification that it was subject to the Small Domestic Deposit Takers regime and Interim Capital Regime by way of a modification by consent of the PRA Rulebook, effective 11 April 2025.

Row numbers in the standardised templates and tables within the document relate to PRA prescribed references. Where rows are not relevant to the Society, they have been excluded for the purposes of enhancing the readability and understandability of these disclosures in line with Article 432. In accordance with Article 432, certain information has not been disclosed on the basis that it represents non-material, proprietary or confidential information.

The disclosures are issued on an annual basis, unless more frequent disclosure is deemed necessary by the Society's Board, following publication of the Society's audited Annual Report & Accounts.

Unless stated otherwise, all information relates to the Society's assets at 31 March 2025.

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 Verification and External audit

Verification

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

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 2025.

The disclosures incorporated within this document do not 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 2025 unless stated otherwise.

1.5 Attestation

The director listed below confirms that, to the best of their knowledge, the disclosures provided according to Disclosure (CRR) Part of the PRA Rulebook (CRR) Instrument 2021.

Approved by the Dudley Building Society Board of Directors and signed on its behalf by:

Michael Bhopal
Chief Financial Officer
16 July 2025

2. UK KM1 Key metrics

The table below provides an overview of the key metrics at 31 March 2025 and 31 March 2024.

		31 March 2025 £m	31 March 2024 £m
	Available own funds (amounts)		
1	Common Equity Tier 1 (CET1) capital	32.1	31.4
2	Tier 1 capital	32.1	31.4
3	Total capital	32.8	32.2
	Risk-weighted exposure amounts		
4	Total risk-weighted exposure amount	216.9	200.0
	Capital ratios (as a percentage of risk-weighted exposure amount)		
5	Common Equity Tier 1 ratio (%)	14.8%	15.7%
6	Tier 1 ratio (%)	14.8%	15.7%
7	Total capital ratio (%)	15.1%	16.1%
	Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)		
UK 7d	Total SREP own funds requirements (%)	8.00%	8.00%
	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 (%)	1.56%	1.68%
11	Combined buffer requirement (%)	4.06%	4.18%
UK 11a	Overall capital requirements (%)	12.06%	12.18%
12	CET1 available after meeting the total SREP own funds requirements (%)	6.80%	7.71%
	Leverage ratio		
13	Leverage ratio total exposure measure	631.0	642.0
14	Leverage ratio excluding claims on central banks	5.7%	6.1%
	Liquidity Coverage Ratio		
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	100.6	146.2
UK 16a	Cash outflows - Total weighted value	65.3	66.8
UK 16b	Cash inflows - Total weighted value	3.1	2.9
16	Total net cash outflows (adjusted value)	62.2	63.9
17	Liquidity coverage ratio (%)	162%	229%
	Net Stable Funding Ratio		
18	Total available stable funding	562.2	543.6
19	Total required stable funding	366.2	353.3
20	NSFR ratio (%)	154%	154%

Note – Certain rows of this table have been omitted as they are not applicable to the Society.

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 the Society to a range of financial and non-financial risks. All identified risks are owned by a member of the Society's Executive and are assigned to an Accountable Risk Owner. Once each risk has been assessed, the Society will seek to Tolerate, Treat, Terminate or Transfer that risk.

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.

To ensure that the management of financial and non-financial risks is appropriate, 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's Enterprise Risk Management Framework (ERMF) provides the foundation for achieving the risk management objectives through:

- Articulating the Society's risk management approach, risk appetite, culture, practices and procedures;
- Documenting a clear and 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 Risk Management Approach through:

- Identification of key risks that are aligned to the Society's Risk Universe (see section 3.3 below);
- Definition and construction of risk appetites and risk appetite statements;
- Detailing the three lines of defence model;
- Determining the governance relating to risk management;

- Identifying roles and functions 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

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 sub-risks to which the Society is exposed as disclosed in the Strategic Report of the 2025 Annual Report and Accounts and those Executive Committees that are accountable for those risks are as follows:

Sub Risk	Definition	Committee
Business risk	The risk that the sustainability of the Society's business model is threatened by the external environment or its internal capabilities.	Executive Committee
Change risk	Change risk refers to the risk that an uncertain event or condition occurs and has a negative effect on the quality or delivery of a project's objectives	Executive Committee
Economic risk	The risk that macroeconomic conditions and economic downturn adversely impact the Society.	Executive Committee
Climate change	The risk that climate change adversely impacts the Society's credit position or its reputation as a responsible business. The regulatory expectations in relation to climate change continue to be developed by both the Bank of England and the regulators. At present the largest impact on the Society is from the proposed introduction of stricter Energy Performance Certificate requirements on Buy-to-let landlords.	Credit Committee / Environmental, Social & Governance Committee
Credit risk: Lending	Lending Credit risk refers to the potential that mortgage customers fail to meet their obligations as they fall due, and that this results in a loss for the Society. Mortgage credit risk is an inherent component of our lending activities. Adverse changes in the credit quality of the Society's borrowers or the value of their houses,	Credit Risk Committee

	including through deterioration in UK economic conditions or adverse changes in UK or global systemic risks could reduce the recoverability of the Society's mortgage assets.	
Credit risk: Treasury	Treasury Credit risk refers to the potential that our treasury counterparties fail to meet their obligations as they fall due, and that this results in a loss for the Society. Credit risk also arises from treasury activities due to liquid assets held and our interest rate hedging.	Assets & Liabilities Committee
Concentration risk	Concentration risk refers to the potential that there could be a lack of diversification in respect of prudential matters. Credit concentration occurs where the Society has a particular exposure to an individual borrower or a geographical or market segment.	Credit Risk Committee
Capital risk	Capital risk refers to the potential that the Society fails to maintain sufficient capital to absorb unexpected losses or losses that have not been provisioned for.	Assets & Liabilities Committee
Funding risk	Funding Risk refers to the potential that the Society is unable to fund its mortgage obligations, and the risks arising from the lack of diversification in funding. The Society relies on its access to a variety of sources of funding to finance new mortgage lending. 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. The Society considers the funding concentrations as part of the ILAAP process and manages these risks within Board approved limits.	Assets & Liabilities Committee
Interest rate risk	Interest Rate risk is the risk of exposures and / or loss the Society faces due to the value of, or income arising from, the Society's assets and liabilities varying as a result of changes in interest rates. Interest rate risk arises from imperfect matching of fixed rate mortgages and fixed rate savings and differences in the time taken for changes in interest rates to feed into changes in the product rates.	Assets & Liabilities Committee
Liquidity risk	Liquidity risk refers to the potential that the Society is unable to make available sufficient cash resources to meet its current or future financial obligations as they fall due or is only able to at a premium cost.	Assets & Liabilities Committee

	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.	
Third party	The risk that arises from the Society relying on third parties to perform services or activities that are expected of them on its behalf.	Operational Risk Committee
Financial crime risk	Financial crime risk arises where the Society is used to facilitate financial crime, i.e. laundering the proceeds of crime or the financing of terrorism. One of the Society's specialist areas of lending is to expats – i.e. British citizens who live overseas - who live in a wide range of countries, including countries assessed as High Risk by the global financial crime watchdog, the Financial Action Task Force.	Operational Risk Committee
People risk	People risk is associated with human factors, such as errors, misconduct, inadequate skills or training.	Operational Risk Committee
Operational risk: Process	Operational risk is the risk of loss arising from inadequate or poorly defined processes, or non-adherence by our people to defined processes.	Operational Risk Committee
Operational Resilience	Operational Resilience refers to the inability of the Society to respond, recover and learn from operational disruptions.	Operational Risk Committee
Information & Technology risk	Information and Technology Risk is the risk of operational disruption arising from failures of technology systems, infrastructure or data management. 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 third party managed services.	Operational Risk Committee
Model risk	Model Risk is the risk of an adverse business impact due to an error within or misuse of data.	Credit Risk Committee

	The complex nature of the Society's business requires the use of complex models to ensure that risks are measured accurately and business decisions are optimised. Material models include those used to calculate credit risk exposure, expected completion of the mortgage pipeline and to forecast future financial positions and performance.	
Legal risk	The risk of a legal event which results in a liability or other loss; failure to protect assets (e.g. intellectual property); or a change in law.	Credit Risk Committee
Compliance 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. Regulation from both the Financial Conduct Authority and the Bank of England's Prudential Regulation Authority have a critical impact on the Society's business. Failure to meet regulatory expectations could result in significant fines, restrictions on business and personal consequences for the Society's Senior Managers. Regulations are complex and subject to significant change.	Operational Risk Committee
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.	Product & Customer Committee

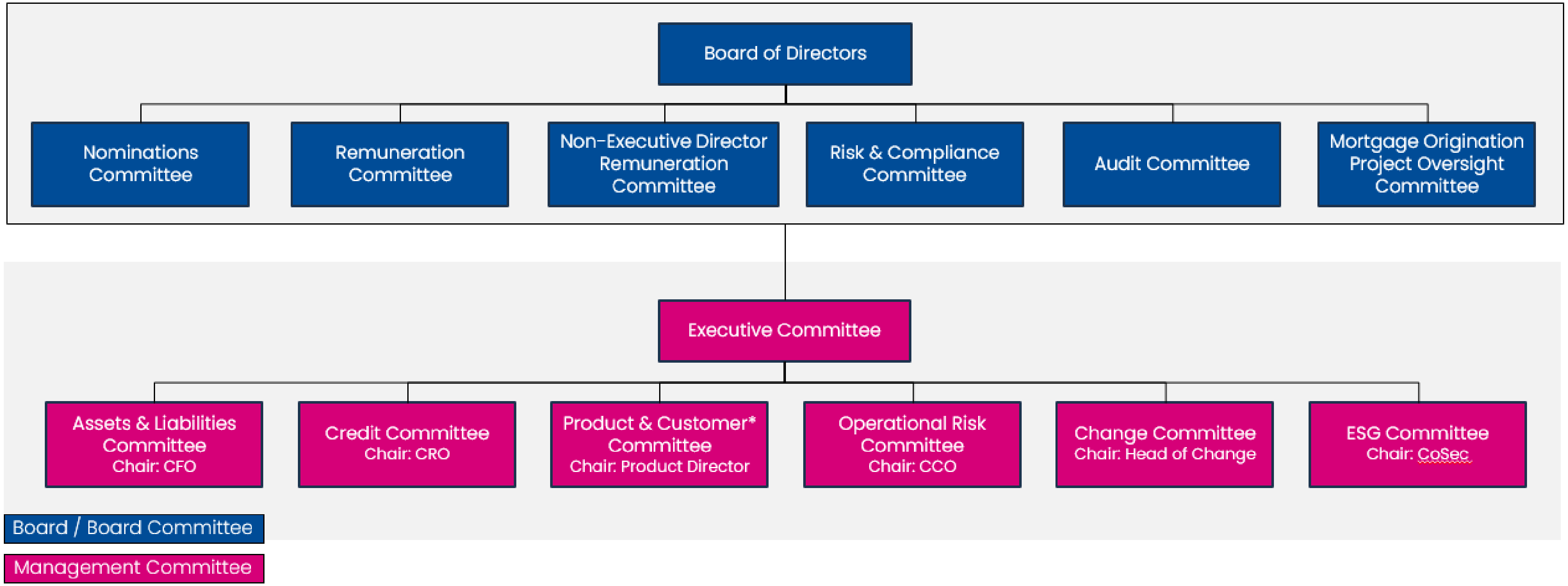
The Society's risk appetite is aligned to these principal risks and is expressed in qualitative terms with measures supported by limits and triggers. These measures have been consistently applied over the last 12 months. All measures are subject to at least annual review and challenge to ensure that 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 & Compliance Committee on all matters risk related.

The Board delegates its risk oversight responsibilities to the Board Risk & Compliance Committee, which reviews risk limits, reporting lines, mandates and other control procedures. The Board and Executive Committees of the Society at 31 March 2025 that are responsible for the management and / or oversight of risk are shown below.



To ensure the Board Risk & Compliance Committee has the ability to oversee and challenge the Society's risk management approach, risk metrics and the sub-risks identified in section 3.1 above are allocated to a Management Committee.

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

The principal function of each Management Committee at 31 March 2025 is shown in the table below.

Committee	Function
Executive Committee	Implements and delivers the Board-approved strategy and corporate plan in accordance with the Society's purpose, vision, objectives, initiatives and values, and oversees the day-to-day operations of the Society.
Assets and Liabilities Committee	Manages assets and liabilities in accordance with the Society's prudential risk appetites and treasury limit structure.
Credit Committee	Manages the operation of the Society's lending strategy and policies ensuring that proper consideration is given to credit risk control and the regulatory requirements of lending, including responsible lending requirements.
Product & Customer Committee	Oversee the Society's funding portfolio, focusing on: • performance, including sales volumes, channel analysis, retention and liquidity position. • pricing, taking into account both margin impacts and the value and fairness provided to customers; • proposition, considering key drivers such as competitor analysis and market data and feedback from the Proposition Design Meeting to determine and approve any required changes. • The Committee has a responsibility to ensure that any crystallised or identified conduct or prudential risks are escalated to the appropriate Committee. Oversee the Society's mortgage portfolio, focusing on: • performance, including sales volumes, pipeline progress and retention; • pricing, taking into account both margin impacts and the value and fairness provided to customers; • proposition, considering key drivers such as competitor analysis and market data and feedback from the Proposition Design Meeting to determine and approve any required changes. Oversee the Society's customer experience framework ensuring we proactively act to deliver good outcomes for customers.
Operational Risk Committee	Manages and oversees the identification, impact and mitigation of operational risks to ensure that the Society continues to have robust controls, processes and systems in place.

Change Committee	Manages and monitors the delivery of change, ensuring that utilisation of all resources (capacity, capability and budget) is maximised to the greatest possible effect, and that changes are satisfactorily executed and embedded to maximise benefit realisation.
ESG Committee	Delivers the Climate and Community elements of the Society's Strategy; measures, manages and improves the Society's impact, consistent with its B Corp status; and make recommendations to the Board that promote the long-term sustainable success of the Society.

Risk Appetite

The Society's Board approved overall risk appetite statement is as follows:

"We have a low appetite for residual risks but are willing to accept higher inherent risks if these can be adequately mitigated. To ensure we will be there for generations to come, we will take sufficient, prudent risks in core areas to ensure a financially sustainable business We will avoid excessive, concentrated or unmanaged risks that could affect our ability to survive in a severe stress scenario."

Additionally, the Board agrees a risk appetite statement against each key risk. The statement details the level and types of risk the Board is prepared to accept in order to deliver the Society's Strategy and Corporate Plan. All risk appetite statements are supported by Key Risk Indicators that provide varying degrees of warning that enable proactive measures to be taken to ensure appetites are not breached. Each Key Risk Indicator measures the likelihood of an event and its impact compared to the Society's risk appetite.

Individual Risk appetites metrics, limits and early warning indicators are set out in the Society's ERMF.

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. In its role as having the ultimate responsibility for understanding and controlling the nature and degree of risk that is being taken on by the Society through its business operations, 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.

All employees of the Society have a role to play in risk management. The Society has adopted 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:

First Line of Defence

Risk Management

All Employees inc. Accountable & Responsible Risk Owners

- Awareness and understanding of the Society's approach to risk management;
- Identification, assessment, management and continued monitoring and reporting of risk activity;
- Management of risk in accordance with appetite set by the Board;
- Maintaining a robust control environment supported by risk-based assurance;
- Reporting of Risk Events;
- Awareness of emerging risks;
- Escalation of risks to the relevant business area and / or Committee;
- Defining, operating and adhering to policy and process.

Second Line of Defence

Internal Oversight and Independent Assurance

GRC Team

- Monitoring compliance with the ERMF;
- Providing oversight and challenge to the measurement and mitigation of risk;
- Conducting independent risk-based assurance testing in line with the agreed Control Assurance Framework and Combined Assurance Plan;
- Reporting to Board Risk & Compliance Committee on the effectiveness of the first line risk management framework and risk appetite status
- Reporting to Board Risk & Compliance Committee on the results of the Combined Assurance Plan

Board Risk & Compliance Committee

- Challenge and maintain oversight of the risk management framework and risk appetite status

Board

- Setting and monitoring risk appetite in conjunction with strategy

Third Line of Defence

Independent External Assurance

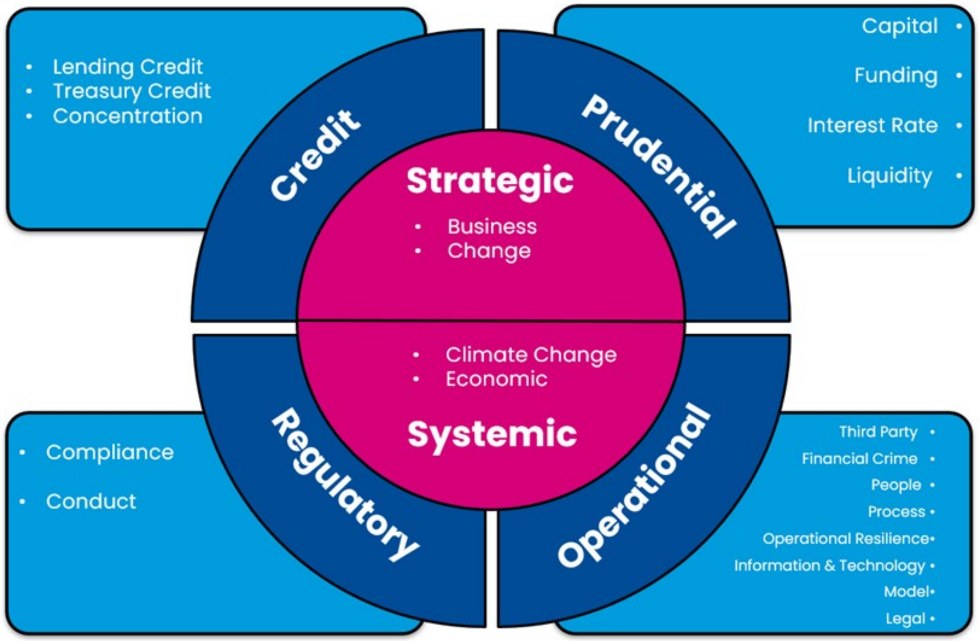
Internal Audit

- Perform individual audits of the effectiveness of first line risk management and second line oversight, support and challenge;
- Take a risk-based approach to the program of audit work
- Provide independent assurance regarding the design, implementation and effectiveness of the Society's risk management framework;
- Report to the Board Audit Committee.

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 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 documents to identify capital and liquidity risks with stress testing forming an intrinsic part of these processes. These tests are approved by the Board prior to 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 as part of 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 portfolio, 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 an amount equal to 3% of the available capital resources with the early warning indicator thresholds being set accordingly.

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 undertook a capital-based assessment in April 2024 and subsequent to the year-end, the PRA requested an update on the actions taken following on from the findings of the capital-based assessment and a review of the overall risks faced by the Society.

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.

During the year, the Society introduced a stress testing approach to ensure that the Society's important business services can continue in the event of a severe but plausible business interruption and that those services can remain within the agreed impact tolerances. The scenario testing is designed to highlight where vulnerabilities exist to guide investment choices to enhance the operational resilience of the Society. To satisfy regulatory expectations, scenario testing also includes dependencies outside of the Society where the important business services rely on services provided by third-parties.

3.4 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.

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

In accordance with the requirements of point (e) of Article 435(1) CRR, the Society's Board, as the ultimate management body, is satisfied that the risk arrangements in place at the Society are adequate with regard to the Society's size, complexity and strategy.

4. Capital Resources

The Society's capital resources are calculated under Pillar 1 of the CRD. The scope of these resources at 31 March 2025 relate to the activities of the Society only. The Society had no subsidiary undertakings at 31 March 2025.

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 that have been reported in the Annual Report and Accounts..

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 2025, the Society's capital comprised:

Table 1: Regulatory Capital	Note	Capital Resources 31 March 2025
Common Equity Tier 1 Capital (CET1)		£m
General Reserves		33.27
Available for Sale Reserve		-
Less: Regulatory adjustments		
Intangible Assets	1	(1.15)
Prudent Valuation Adjustment	2	(0.02)
Total Tier 1 Capital		**32.10**
Tier 2 Capital		
Collective Impairment Provisions		0.67
Total Tier 2 Capital		**0.67**
Total Capital		32.77
Total risk weighted assets		216.90

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.

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 2025 £m
Equity attributable to members per the Statement of Financial Position	33.27
Adjustments for items not eligible for inclusion in CET1 Capital	
Intangible Assets	(1.15)
Prudent valuation adjustment	(0.02)
Total adjustments to Common Equity Tier 1 Capital	**32.10**
Adjustments to Tier 2 capital	
Collective impairment Provisions	0.67
Total adjustments to Tier 2 Capital	**0.67**
Regulatory Capital	32.77

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. The capital requirements derived from the 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 2025 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 assets held as security against 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 2025 the UK CCyB was set at 2.0% of risk-weighted assets. The Society specific countercyclical buffer at 31 March 2025 based on weighted average credit exposures was 1.56% (31 March 2024: 1.68%).

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 derived from banking activities over the previous three years and provides 15% of the average net income as the minimum capital requirement for operational risk.

5.2 Pillar 2A capital

Pillar 2A 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 2025 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 annually. 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 five 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, incorporating 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 2025.

Table 3	% of RWA	£m
RWAs		216.9
Capital requirements		
Total capital requirement per SREP requirement (including Pillar 1)	8.00%	17.35
Capital Conservation Buffer	2.50%	5.42
Countercyclical Buffer	1.56%	3.38
Total		26.15

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 2025 £m	31 March 2024 £m	31 March 2025 £m
1	Credit risk (excluding CCR)	189.78	173.35	15.18
2	Of which the standardised approach	189.78	173.35	15.18
6	Counterparty credit risk - CCR	2.84	4.13	0.23
7	Of which the standardised approach	0.91	1.92	0.07
UK 8b	Of which credit valuation adjustment - CVA	0.39	0.50	0.03
9	Of which other CCR	1.54	1.70	0.12
23	Operational risk	24.28	22.55	1.94
UK 23a	Of which basic indicator approach	24.28	22.55	1.94
29	**Total**	**216.90**	**200.03**	**17.35**

Notes:

1) The table above only presents those rows that are applicable to the Society.

5.7 Capital reporting

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

6. Remuneration policies and practices

6.1 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 disclosed 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 for the year ending 31 March 2025.

6.2 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 Michael Bhopal 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 Michael Bhopal receive access to a healthcare cash plan and have access to an online portal offering a range of retail discounts. James Paterson and Michael Bhopal receive private healthcare cover.

6.3 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 for the year ending 31 March 2025 did 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.

6.4 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.

6.5 Contracts of employment

James Paterson and Michael Bhopal have service contracts dated 1 May 2022 and 1 February 2025 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 Michael Bhopal 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 2025

Aggregate information on remuneration for the year ended 31 March 2025 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	5	5
2		Total fixed remuneration	198	555	647	260
3		Of which: cash-based	198	555	647	260
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]		198	555	647	260

Notes:

1) Certain rows of this table have been omitted 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.

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

Under Article 433b 4(a) of the CRR as contained in the PRA Rulebook and as the Society is not a listed institution, the Society is permitted to derogate from the requirements to disclose the information in accordance with article 450. Accordingly, table UK REM 5 has been omitted.