Pillar 3 Disclosures
2018-19

Contents

1. Introduction

The purpose of this document is to disclose key information regarding the Chorley Building Society's (Society) approach to risk management for each type of risk it faces. It also describes the quality and quantity of capital resources and capital requirements that must be maintained at all times with the intention of protecting the interests of its Members and other stakeholders.

This document has been produced in accordance with the Financial Conduct Authority (FCA)'s rules and guidance, specifically Chapter 11 Disclosure (Pillar 3) of the FCA's handbook.

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

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

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

- **Pillar 1:**
  Minimum capital requirements required to meet credit, market and operational risks.

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

- **Pillar 2A**:
  This represents the additional capital requirements assessed by the Society and its regulatory supervisors based on the specific risks not covered by Pillar 1.

  Pillar 2B:
  This represents regulatory capital buffers which are maintained to cover potential capital requirements in certain stressed conditions.

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

- **Pillar 3:**
  This is the disclosure of key information in relation to the Society's approach to risk management, quality and quantity of capital resources and capital requirements.

1.2 Frequency, Basis and Location of Disclosure

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

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

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

In addition, the Society is subject to a formal external regulatory capital review, known as a Supervisory Review and Evaluation Process (SREP) which last took place in 2016.

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

Unless otherwise stated, all financial data contained within this document is correct as at 4 February 2019.

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

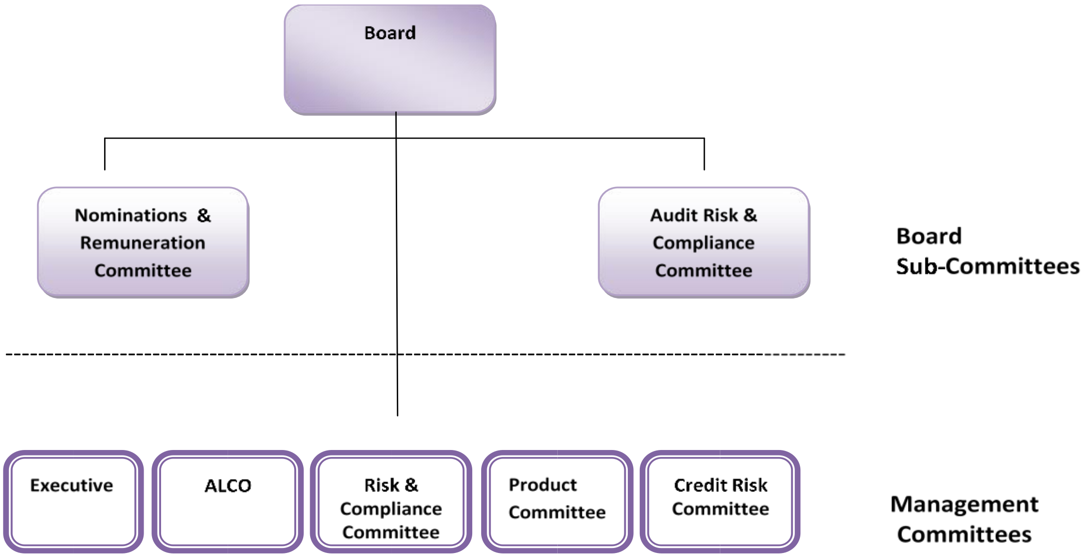
The Society's Financial Services Registration number is 206023.

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

2. Risk Management Objectives and Policies

The Board is ultimately accountable for determining the Society's Risk Management Framework and this is achieved through appropriately delegated authorities, sub-committees, policies, procedures and systems & controls.

The governance structure is as follows:



2.1. Governance Arrangements

Board of Directors (Board)
The Society recognises that it must be headed by an effective Board which is responsible for the long term success of the Society. The Board considers a strong system of governance essential to ensure the Society runs smoothly, aid effective decision making and support the achievement of the Society's strategy with the objective of safeguarding Members' interests.

As at 4 February 2019, the Board comprised three Executive and five Non-Executive Directors who provided the appropriate mix of skills and professional expertise required. The Board meets in at least ten months of the year with an additional day focused on strategy and leadership.

The principal functions of the Board are:

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

There is a formal, rigorous and transparent procedure for the appointment of new Directors to the Board. The Nominations & Remuneration Committee leads the process for Board appointments and makes recommendations to the Board although the Board makes the final decision.

Board Sub-Committees

Audit, Risk & Compliance Committee
This Committee comprises entirely Non-Executive Directors and meets at least five times a year to consider all aspects of audit, risk and compliance. It is responsible for oversight of financial reporting, internal controls, internal audit, external audit and risk management. It reviews the fairness of disclosures and recommends acceptance of the Annual Report and Accounts to the Board. It monitors the performance, independence, objectivity, competence and effectiveness of the internal and external Auditors and is responsible for recommending appointment, re-appointment or removal of the internal and external Auditors. The Committee reviews the Risk Management Framework and supporting policies.

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

- Kevin Bernbaum Chairman
- David Bagley
- Andrew Horsley

The Chief Executive, Finance Director and Customer Services Director attend representing the Executive, together with the Head of Risk and Head of Compliance. Representatives of the Society's internal Auditors and external Auditors attend each meeting of the Committee by invitation. At least once a year, the Committee meets with the Society's external and internal Auditors without any employee present. The Head of Risk and Head of Compliance have a reporting line directly to the Chair of the Committee.

The Board is satisfied that the composition of the Committee provides recent and relevant financial experience.

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

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

- Andrew Horsley Chairman
- Erfana Mahmood

The Chief Executive and Head of HR, Training & Facilities attend each meeting of the Committee although neither is involved in consideration of any matters relating to their own remuneration and are absented from any such discussion.

Management Committees

Assets & Liabilities Committee (ALCO)
This Committee is chaired by the Chief Executive and during the year, this Committee comprised Non-Executive Directors, Executive Directors and the Head of Risk. As at the year end, the Committee comprised two Executive Directors and members of the Senior Management team. The Committee meets monthly and is responsible for monitoring the structure of the Society's assets and liabilities, controlling financial, liquidity and treasury risks and reviewing control procedures including limits, reporting lines and mandates. The Committee focuses on liquidity risk, interest rate risk, counterparty credit risk, funding risk, basis risk and refinancing risk.

The following Non-Executive Directors were members of this Committee during the year:

- David Bagley
- Kevin Bernbaum

The Chief Executive (Chairman), Finance Director, Head of Risk and Head of Finance are members and attend each meeting of the Committee. The Board is satisfied that the composition of the Committee provides recent and relevant experience.

Mortgage Credit Risk Committee
This Committee meets as frequently as is required to fulfil its duties but meets at least three times a year. It manages mortgage credit risk matters including ensuring that the Society operates within the agreed parameters set out in the Lending Policy.

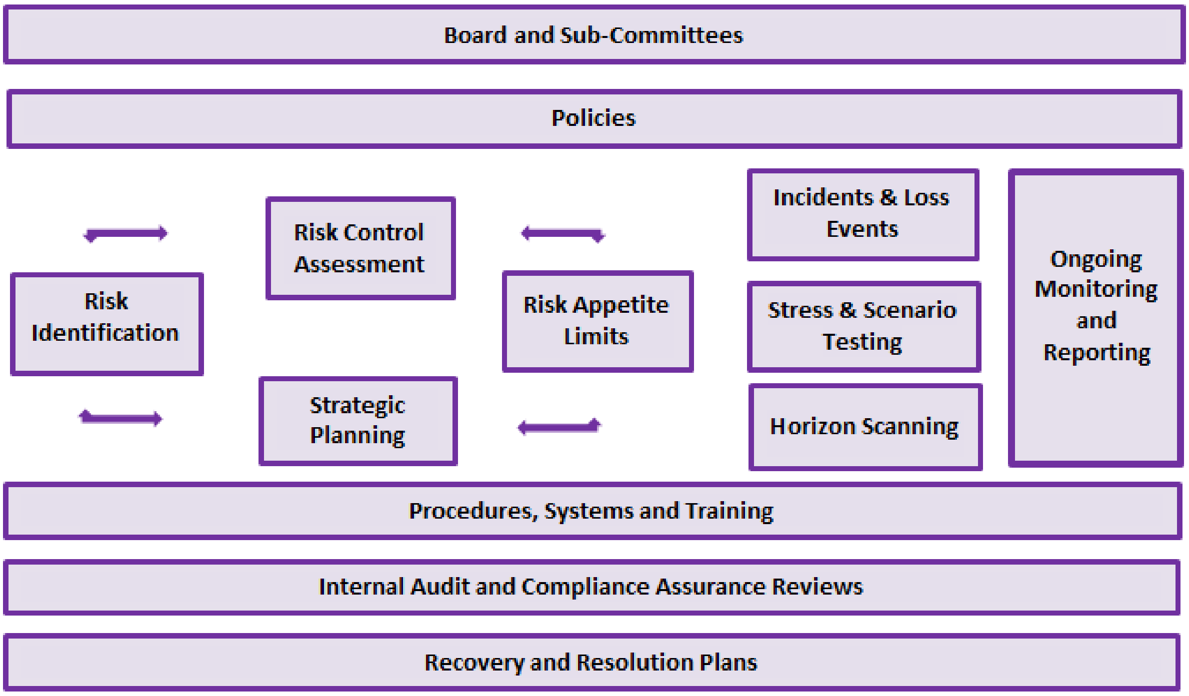
Product Committee
This Committee meets monthly and more frequently when required. It is responsible for developing and recommending new products and changes to existing products.

Risk & Compliance Committee
This Committee meets monthly to oversee the implementation of risk management policies, including the Risk Management Framework Policy and the Risk Appetite Policy. In addition, the Committee is responsible for monitoring risk appetite limits and early warning escalation triggers. Furthermore, the Committee is responsible for monitoring the annual compliance plan, updating policies and procedures required to meet legal, compliance and regulatory requirements and to assist the Audit, Risk & Compliance Committee in fulfilling its oversight responsibility for the Society's Risk Management Framework.

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

2.2. Risk Management Framework

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



In managing risk, the Society operates a "Three Lines of Defence" model summarised as follows:

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

The second line of defence lies within the Risk and Compliance functions, where policies are tested and challenged. In addition, risk appetites, limits and triggers are reviewed and assessed. Key responsibilities for the second line include the creation and maintenance of the Risk Management Framework and Risk Appetite and balancing the challenge and support of the first line of defence. Furthermore, the Risk function is responsible for reviewing and challenging the risks assessed by each business department, including the systems and controls in place to mitigate those risks. The Board and Sub-Committees receive regular risk reports and compliance assurance reports.

The third line of defence is provided through independent assurance activities mainly from internal audit. On an annual basis and thereafter on a rolling three-year basis, the Society's internal Auditors undertake a programme of risk-based audits. The plan covers aspects of both first and second lines of defence. Each audit examines the Society's control environment, tests that controls are robust, and that they work effectively in accordance with the Society's policies and procedures, and wider laws and regulations. Additionally, the audits will review the Society's relevant records and reports for accuracy and reliability. The Audit, Risk & Compliance Committee approve the annual internal audit plan and receive regular updates on the progress made against the plan and the results of each audit visit.

2.3. Risk Appetite

The Society's Risk Appetite Statement is:

"We will not knowingly take risk positions that threaten our ability to remain an independent Building Society that is able to continue to provide long term value to our members. In addition, we will conduct our activities in a manner that safeguards the Society's investing members' balances whilst maintaining at all times capital required to meet the higher of the Internal Capital Adequacy Assessment Process (ICAAP) or the regulatory Total Capital Requirements (TCR) including both regulatory and internal buffers"

Implicit within this risk appetite statement are the assumptions that the Society will not take decisions which might:

* Result in a year end financial loss being reported, which would weaken the capital position;
* Damage the business model or threaten market position;
* Affect adversely reputation or reduce confidence in the Society amongst key stakeholders such as members, staff, the community in which we operate, business partners, suppliers, the media and the appropriate regulator;
* Reduce liquidity to a level where the Liquidity Coverage Ratio (LCR) or Net Stable Funding Ratio (NSFR) cannot be met;
* Adversely impact funding capability;
* Endanger compliance with legislation, regulations, industry guidance or codes of conduct.

Furthermore, the Board reviews its risk appetite on an annual basis in line with the Society's Corporate Plan and ICAAP, supported by stress and scenario testing results to help ensure that the Society retains an appropriate quantity and quality of capital resources and capital requirements at all times, with the intention of protecting the interests of its Members and other stakeholders. The Society's risk appetite is documented in the Risk Appetite Policy which is reviewed, at least annually, by the Risk & Compliance Committee and the Audit Risk & Compliance Committee and approved by the Board.

2.3.1 Risk Measures and Reporting

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

The methodology for assessing risk scores is based on the impact and likelihood of the risk materialising and this is documented in the Risk Management Framework. Risks with a residual score of > 16, are considered as high risk and are escalated and reported to the Board monthly. A detailed review of the risk registers is undertaken by the Risk & Compliance Committee and the Audit Risk & Compliance Committee.

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

2.4. Principal Business Risks

2.4.1. Credit Risk

This is the risk that borrowers or counterparties to whom the Society has lent money may be unable to meet their obligations as and when they fall due.

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

The Society maintains an Arrears, Payment Shortfalls, and Repossessions Policy. This clearly stipulates the processes and parameters for managing borrowers with credit problems, including when and how the Society considers forbearance measures. The Society monitors borrowers on an on-going basis, with appropriate and timely action taken on those mortgages which fall into arrears. The policy is reviewed annually by the Mortgage Credit Risk Committee and is recommended to the Board for approval.

Furthermore, the Society maintains a Mortgage Loss Provisioning Policy. This clearly defines the criteria for making appropriate provisions for potential mortgage impairments. The policy is reviewed by the Mortgage Credit Risk Committee and recommended to the Audit, Risk & Compliance Committee for approval.

Treasury Counterparties
The Society manages credit risk arising from deposits made with treasury counterparties by maintaining a Board approved Financial Risk Management Policy (FRMP). This includes clearly defined criteria and processes for placing deposits with counterparties. By way of example, the criteria restrict the Society to placing deposits with UK institutions only, and counterparties with high quality credit ratings. In addition, the Society operates with maximum exposure limits for individual counterparty exposures.

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

2.4.2. Liquidity Risk

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

Maintaining an adequate amount and composition of liquidity is essential to cover cash flow imbalances, fluctuations in funding, maintain public confidence in the solvency of the Society and to enable it to meet its financial and regulatory obligations. Stress tests are carried out regularly to confirm that the Society can withstand normal and abnormal cash outflows.

The FRMP and ILAAP are reviewed annually by the Assets & Liabilities Committee and are recommended to the Board for approval.

2.4.3. Market Risk

Market risk is the risk of losses resulting from adverse changes in values of positions arising from movements in market prices across commodity, credit, equity, foreign exchange and interest rate factors. Further detail on these various factors is provided below:

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

Other than being exposed to interest rate risk, the Society does not have an exposure to market risk.

2.4.4. Interest Rate Risk

This is the risk that the value of, or income from, assets and liabilities change adversely, as a consequence of movements in interest rates. The Society manages interest rate risk arising from the differing interest rate characteristics and maturity profile of its mortgage and savings products, by maintaining a Board approved FRMP. This policy defines the Society's risk appetite for interest rate risk and includes clear limits and triggers for off-setting assets and liabilities. In addition, the policy includes limits and triggers for Basis Risk. Basis Risk arises when interest rates with the same maturity profile may behave in an unequal way since there is no legal or contractual relationship between the two rates, for example, Bank Base Rate and London Inter-bank Offered Rate (LIBOR). Furthermore, the policy allows for the use of financial derivative instruments where appropriate.

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

2.4.5. Operational Risk

This is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. For the Society this definition includes legal risk and reputational risk. The Society manages operational risk by maintaining a Board approved Operational Resilience Policy. This policy sets out the framework for the identification, protection and detection measures and respond and recovery activities for each operational risk. The policy is reviewed annually by the Risk & Compliance Committee and recommended to the Audit, Risk & Compliance Committee for approval.

Operational risk registers are maintained by Senior Management for each department and are subject to regular review and assessment by the Risk & Compliance Committee. In addition, the mitigating controls are equally subject to regular review and assessment. Furthermore, operational risks are reported to the Risk & Compliance Committee on a monthly basis (previously quarterly until June 2018).

In addition, the Society faces operational risk in the form of cyber risk. This is the risk of financial loss, disruption or damage arising from failure of the information technology systems. The Society holds cyber insurance to mitigate any potential financial loss or disruption. Furthermore, the Society manages cyber risk by maintaining a Cyber Security Policy and a Cyber Incident Response Plan. These documents detail the activities, responsibilities and chain of command capabilities that the Society employs upon the detection or alert relating to a cyber incident. The Cyber Security Policy and a Cyber Incident Response Plan is reviewed annually by the Audit, Risk & Compliance Committee and recommended to the Board for approval.

2.4.6. Regulatory Risk

This is the risk that changing laws, the volume and complexity of regulatory requirements and the risk of non-compliance with increased regulatory requirements may impact the Society's ability to compete and grow. The Society has an internal Compliance function to identify and monitor regulatory changes to allow management to respond in an appropriate manner. This risk is regularly reviewed by the Board.

2.4.7. Conduct Risk

This is the risk that actual or potential Member detriment arises, or may arise, from the way the Society conducts its business. The Board has primary responsibility for ensuring that the way the Society conducts dealings with its Members is fair and in their interests. This culture is embedded throughout the business and the Society considers all matters that impact upon the fair treatment of our Members.

The Society manages conduct risk by maintaining a Conduct Risk Framework Policy. This policy describes the Board's risk appetite for conduct risk and details the responsibilities for ensuring that the Society conducts its dealings with Members in a fair and transparent manner that is in their best interests. By way of example, matters are considered in relation to product design, terms and conditions, complaints, fees and charges and ensuring that staff are trained and suitably qualified. The Conduct Risk Framework Policy is reviewed annually by the Risk & Compliance Committee and recommended to the Audit, Risk & Compliance Committee for approval.

2.4.8. Strategic Risk – Brexit Risk

This is the risk that a significant amount of uncertainty remains regarding the future relationship between the United Kingdom and Europe. As a UK organisation, the Society has no direct exposure to the EU. However, the wider economic implications may have an impact on the Society. The Society has carried out stress tests to assess the impact of possible wider economic implications, for example, falling house prices and rising unemployment levels, the detail of which are described in the Society's latest Board approved Internal Capital Adequacy Assessment Process (ICAAP) dated November 2018. The Society maintains adequate levels of liquidity and capital and is therefore able to withstand the stresses it has undertaken. Our Board remains vigilant and continues to watch for any adverse signs as the UK navigates its way through the Brexit negotiations.

2.4.9. Concentration Risk

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

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

3. Capital Resources

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

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

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

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

The Society's capital resources as at 4 February 2019 as calculated in accordance with CRD IV are as follows:

Capital Resources	04-Feb-19	05-Feb-18
	£000s	£000s
Tier 1 Capital: Accumulated profits held as general reserves	19,452	18,577
Deductions from Tier 1 Capital: Intangible assets	(241)	(217)
Total Tier 1 Capital	19,211	18,360
Tier 2 Capital: Collective provisions for impaired loans	156	106
Capital Resources	**19,367**	**18,466**

The regulator does allow Tier 2 capital to be reported as Tier 1 under certain circumstances and set limits in relation to this. As the Society does not report and Tier 2 capital as Tier 1, it is not impacted by these limits.

The Society's key capital ratios as at 4 February 2019 are as follows:

Capital Ratios	04-Feb-19	05-Feb-18
	£000s	£000s
Risk Weighted Assets	84,347	82,981
Capital Ratios: Common Equity Tier 1 (CET1) Ratio	22.8%	22.1%
Leverage Ratio	8.0%	7.7%
Pillar 1 Ratio	8.0%	8.0%
Pillar 2A Ratio	1.7%	1.7%

4. Capital Adequacy

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

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

(1) "Make an assessment of the firm-wide impact of the risks identified in accordance with that rule, to which end a firm must aggregate the risks across its various business lines and units, taking appropriate account of any correlation between risks; and

(2) ***Take into account the stress tests that the firm is required to carry out under the general stress test and scenario analysis rule in 12.1 and any stress tests that the firm is required to carry out under the CRR"***

(PRA Rulebook, ICAAP 3.5)

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

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

The Standardised Approach for credit risk is calculated by applying different risk weightings to each of the Society's asset classes according to the inherent risk posed, subject to a further 8%. Therefore, arriving at the minimum capital requirement for credit risk.

The Basic Indicator Approach for operational risk is calculated by applying 15% to the Society's average net interest income values over the previous three years, therefore arriving at the minimum requirement for operational risk.

The Society's minimum capital resources requirement under Pillar 1 is as follows:

Pillar 1 Capital Resources Requirement	Assets	RWAs	Pillar 1 Capital
	£000s	£000s	£000s
Loans and Advances to Customers (Mortgages)			
Residential performing loans	189,479	67,144	5,372
Non-residential performing loans	664	664	53
Past due items	1,568	1,568	125
Total Loans and Advances to Customers	**191,711**	**69,376**	**5,550**
Liquidity			
Central government	29,880	-	-
Credit institutions	14,062	2,812	225
Total Liquidity	**43,942**	**2,812**	**225**
Fixed and Other Assets	**2,185**	**2,185**	**175**
Mortgage Commitments	**3,485**	**1,230**	**98**
Total Credit Risk Exposures	**241,323**	**75,603**	**6,048**
Operational Risk Capital Required		**8,744**	**700**
Pillar 1 Capital Resources Required		**84,347**	**6,748**

Reconciliation of Total Exposures to Total Assets as per the Society's Annual Report £000s	
Total Credit Risk Exposures (above)	241,323
Add back: Intangible Assets	241
Add back: Effective interest rate adjustment	211
Deduct: Collective Impairment Provision	(156)
Deduct: Mortgage Commitments	(3,485)
Total Assets as per Annual Report	**238,134**

4.1. Capital Buffers

Capital Conservation Buffer (CCoB)

In addition to the minimum capital requirements comprising Pillar 1 and 2R capital, the Society must hold a Capital Conservation Buffer (CCoB). This was introduced in CRD IV to ensure that there is a build-up of capital outside periods of stress that can be drawn down when losses are incurred to avoid breaches of minimum capital requirements. The CCoB must be met with Common Equity Tier 1 capital and is currently 2.5% of risk weighted assets.

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

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

Each Basel Committee member jurisdiction will identify an authority with the responsibility to make decisions on the size of the CCyB, which will vary between 0% and 2.5% of risk weighted assets, depending on their judgement as to the extent of the build-up of system-wide risk.

In November 2017, the Financial Policy Committee (FPC) announced that the CCyB for the UK would be set to 1% (previously 0.5%) in November 2018. This allows financial institutions time to build up the buffer.

4.2. Leverage

The external regulatory framework under which we operate continues to evolve, with changes covering the introduction of the Leverage Ratio, a non-risk-based measure of capital strength, which takes Tier 1 capital as a percentage of assets, including off-balance sheet assets such as mortgage commitments.

The leverage ratio is a measure of capital strength assessing qualifying Tier 1 capital against on and off-balance sheet assets. The leverage ratio as at the year end was 8.0% (2018: 7.7%) and although the 3.25% minimum regulatory limit, prescribed to firms with retail deposits in excess of £50 billion does not apply to the Society, it is in excess of this limit.

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

4.3. Credit Risk Exposures to Mortgages

A summary of credit risk in mortgages is as follows:

Loans and Advances to Customers (Mortgages)	Assets	RWAs	Pillar 1 Capital
	£000s	£000s	£000s
Fully secured on residential property	189,479	67,144	5,372
Fully secured on non-residential property (Secured on Real Estate)	664	664	53
Past due and fully secured on residential property	1,512	1,512	120
Past due and fully secured on non-residential property	56	56	5
Total	**191,711**	**69,376**	**5,550**

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

Analysis of residual maturity of mortgages:	£000s
Repayable on demand	-
Repayable in not more than 3 months	1,438
Repayable in more than 3 months but not more than 1 year	4,117
Repayable in more than 1 year but not more than	27,269
Repayable in more than 5 years	159,105
Less: Provisions for specific impairment losses	(218)
Total	**191,711**
Less: Effective interest rate adjustment	211
Less: Provisions for collective impairment losses	(156)
Sub Total: as per Annual Report	**191,766**

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

	Fully secured on Residential Property		Fully secured on Non-Residential Property			
	Performing	Past Due	Performing	Past Due	Total	
Region	£000s	£000s	£000s	£000s	£000s	%
North West	58,980	1,376	434	56	60,846	31.73%
Outer South East	25,016	-	-	-	25,016	13.05%
West Midlands	15,348	100	-	-	15,448	8.06%
Yorkshire and Humberside	12,564	-	-	-	12,564	6.55%
Greater London	13,449	-	-	-	13,449	7.02%
South West	12,828	-	-	-	12,828	6.69%
East Midlands	10,882	-	-	-	10,882	5.68%
Outer Metropolitan Area	11,442	-	-	-	11,442	5.97%
Wales	9,573	36	-	-	9,609	5.01%
North	8,580	-	230	-	8,810	4.60%
Scotland	7,497	-	-	-	7,497	3.91%
East Anglia	3,320	-	-	-	3,320	1.73%
Total	**189,479**	**1,512**	**664**	**56**	**191,711**	**100%**

4.3.1. Credit Risk Adjustments – Impairment Provisions

Individual assessments are made of all loans and advances against properties which are in possession, or in arrears by two months or more, or are subject to forbearance measures or other significant cases of concern. Individual impairment allowances are made against those loans and advances where there is objective evidence of impairment.

If there is objective evidence of impairment a specific provision is made to cover anticipated losses. This is calculated as the difference between the current achievable market value of the security, calculated by applying an industry recognised national house price index to original valuations on advance, and the outstanding loan balance, after making appropriate allowance for costs of repossession and sale.

In addition, where there is no objective evidence, a collective provision is made on a portfolio basis to reflect the probability that other loans may also be impaired at the balance sheet date with the result that the amount advanced may not be recovered in full. Such provisions are calculated based on estimated loss factors using historical experience of default. The rates are regularly reviewed in the light of actual experience.

For the purposes of capital allocation, the regulators class arrears as established arrears if they exist for 90 days or more.

The Society takes a more prudent approach to provisioning when establishing impairments by classing arrears which are two months or more as impaired.

Provisions for Impairment Losses	Loans Fully Secured on Residential		
	Specific	Collective	Total
Brought forward	292	106	398
Utilised during the year	(1)	-	(1)
Charge for the year	(73)	50	(23)
Carried forward	**218**	**156**	**374**

4.4 Credit Risk Exposures to Treasury Counterparties

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

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

Liquid Assets	Credit Rating	Total £000s	% of Total	RWAs	Pillar 1 Capital
Central government	AA	29,880	68.0%	-	-
Credit institutions by residual maturity: < 3 months	A+	8,044	18.3%	1,609	129
	BBB+	2,006	4.6%	401	32
	Unrated	4,012	9.1%	802	64
Total		**43,942**	**100%**	**2,812**	**225**

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

The Society is exposed 100% to UK counterparties.

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

Loans and Advances to Credit Institutions	£000s
Cash in hand	212
Accrued Interest	48
Repayable on demand	34,182
Repayable in not more than 3 months	9,250
Repayable in more than 3 months but not more	250
Total	**43,942**

5. Interest Rate Risk in the Banking Book Assessment (IRRBB)

Interest Rate Risk in the Banking Book (IRRBB) is the impact on capital and net interest income arising from timing differences due to mismatches between the dates on which interest is receivable on assets and payable on liabilities when they are reset to market rates.

The Society is exposed to interest rate risk, arising from changes in the prices and interest rates of its financial instruments. The Society does not take speculative views on future interest rate movements when investing surplus funds nor does it hold a trading book. Interest rate risk is present within the interest basis (basis risk) of assets and liabilities. Basis risk is the risk that assets and liabilities re-price in relation to a different reference rate e.g. re-pricing against bank rate or LIBOR. The Society's assets and liability interest characteristics include administered rates, fixed rates, bank base rate linked and non-interest bearing.

The Society operates a risk appetite of 5% of capital, in line with regulatory guidance, in relation to the Society's sensitivity to a 2% interest rate shock on a Net Present Value (NPV) basis and 5% of capital in relation to the impact on earnings on an accruals basis.

The Society monitors this risk on an on-going basis and produces monthly reports highlighting the effects of an interest rate shock of 2%.

6. Remuneration

The Nominations & Remuneration Committee is a Board Sub-Committee that forms part of the Society's Corporate Governance Framework. The Committee operates within the Terms of Reference agreed by the Board which are reviewed annually. The Committee comprises two Non-Executive Directors. The Chief Executive attends by invitation but takes no part in the discussion regarding his own remuneration. The Head of Risk provides an Independent Report on Remuneration to the Nominations & Remuneration Committee and Board regarding pay awards. The Committee reviews Non-Executive Directors', Executive Directors' and MRT's remuneration annually, taking into consideration data from comparable organisations and from the market within which the Society operates.

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

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

The Policy for Remuneration

Non-Executive Directors’ Remuneration

The Society’s remuneration policy is to reward Directors through fees according to the time commitment and their expertise, experience and overall contribution to the successful performance of the Society.

The remuneration of all Non-Executive Directors is approved by the Committee on an annual basis. The element of Non-Executive Directors’ remuneration and how each element is determined is described in the table below.

Element	Approach
Basic fee	Reviewed annually taking into consideration fees from comparable financial services organisations and from the market within which the Society operates.
Additional fees	Payable for additional responsibilities such as Chairman, Vice-Chairman and Sub-Committee Chairman.
Other items	Payable as an additional market forces factor for Non-Executive Directors living outside a 100-mile radius of the Society.

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

Executive Directors’ and Material Risk Takers’ Remuneration

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

Material Risk Takers comprise the Head of Finance, Head of Products and Marketing, Head of Business Development, Head of IT, Head of Risk, Head of HR & Training, Facilities & Health & Safety, Head of Compliance, Head of Lending, Head of Retail Savings and Mortgage Advisor/Underwriter Manager.

The remuneration of all Executive Directors is approved by the Committee on an annual basis. The elements of Executive Directors’ remuneration and how each element is determined are described in the table below.

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

Contractual Terms

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

The Finance Director and Customer Services Director are employed on a contract of employment that may be terminated by either party giving six months' notice.

Directors' Remuneration

Summary of all Material Risk Takers' Remuneration

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

2019	Number during the year	Fixed Remuneration £000's	Variable Remuneration £000's*	Total £000's
Non-Executive Directors	5	113	-	113
Executive Directors	4	404	37	441
Material Risk Takers	10	503	9	512
Total	**19**	**1,020**	**46**	**1,066**
Total %		**96%**	**4%**	**100%**

*Variable remuneration reflects the annual bonus paid by the Society

During the year the number of MRTs increased due to an increase in management Committee membership. No deferred, sign-on, or severance payments were made to Material Risk Takers in the period.

7. Conclusion

The primary business objective of the Society is to promote savings and home ownership particularly within the Northwest of England through an attractive range of products and services, combined with the provision of a high standard of customer service whilst maintaining a competitive position within the business areas in which it operates.

The Board of Directors can confirm that the Society's current capital position, in its opinion, is sufficient to meet the minimum capital resources requirement and that sufficient capital will continue to meet minimum requirements for its planned future strategy. In addition, risk management arrangements adequately assess, control and monitor principal risks facing the Society and are proportionate in light of the characteristics, size, scale and complexity of the Society.