Pillar 3 Disclosures
2020-21

Contents

1. Introduction

The purpose of this document is to disclose key information regarding 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 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 and is publicly accessible via the Society's website.

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

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

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

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

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

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

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

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

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

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

1.2 Frequency, Basis and Location of Disclosure

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

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

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

In addition, the Society is subject to a formal external regulatory capital review, known as a Supervisory Review and Evaluation Process (SREP) which last took place in January 2020.

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 1 February 2021.

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

The Society's Financial Services Registration number is 206023.
If the reader of this disclosure document requires further explanation an application should be made in writing to the Society Secretary at The Chorley and District Building Society, Key House, Foxhole Road, Chorley, Lancashire PR7 1NZ.

2. Risk Management Objectives and Policies

The Society's Risk Management Framework, including Risk Appetite 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:

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 1 February 2021, the Board comprised three Executive and seven 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 four 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
- Gail Teasdale

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
- Joanna Hall
- Erfana Mahmood

The Chief Executive, Finance Director 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 a first line Management Committee, chaired by the Chief Executive. The Committee meets at least monthly and is responsible for monitoring the structure of the Society's assets and liabilities, controlling financial, liquidity and treasury risks and reviewing control procedures including limits, reporting lines and mandates. The Committee focuses on liquidity risk, interest rate risk, counterparty credit risk, funding risk, basis risk and refinancing risk. In addition, ALCO is responsible for developing and recommending new products and changes to existing products.

The Chief Executive (Chairman), Finance Director, Customer Services 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 is a first line Management Committee and 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.

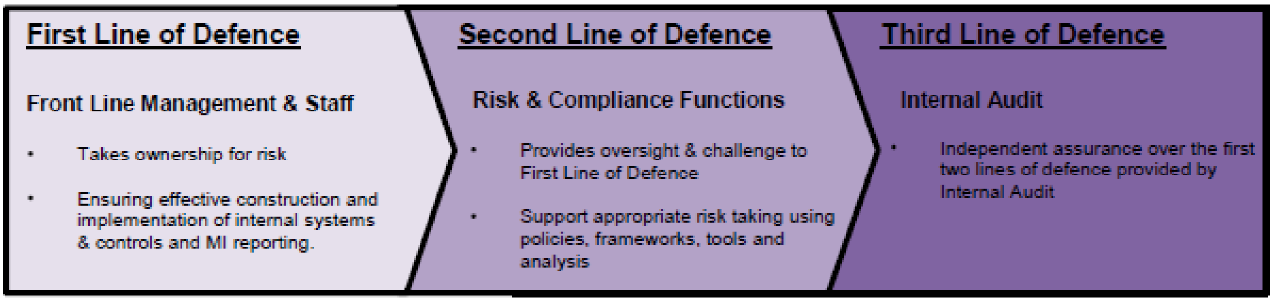
Risk & Compliance Committee
This Committee is a first line Management Committee and meets monthly to oversee the implementation of risk management policies, including the Risk Management Framework and the Risk Appetite Framework. In addition, the Committee is responsible for monitoring risk appetite 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.

The Society has a formal mechanism for identifying and addressing risks throughout the business. This framework is based upon The Three Lines of defence model as follows:



The Governance Framework adheres to a Three Lines of Defence model to ensure a clear delineation of responsibilities between control over day-to-day operations, risk oversight and independent assurance of the Society's activities.

All Three Lines of Defence are responsible for supporting and developing a culture of risk-awareness and for supporting each other to manage risk effectively for the Society.

In doing so, risk management responsibilities are understood at all levels, ownership and accountability are both clear, and control and oversight is maintained throughout the Society

First line of Defence – Front Line Management & Staff

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

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

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

Second Line of Defence – Risk & Compliance Functions

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

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

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

Key responsibilities for Second Line include:

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

Third Line of Defence – Internal Audit

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

The Society has continued to invest in all Three Lines of Defence, particularly in Second Line, in order to enhance the systems and controls around the Society's principal risks.

2.3. Risk Appetite

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

The Society's Overarching Risk Appetite Statement is:

Overarching Risk Appetite Statement
"In pursuit our strategic objectives as a mutual institution, we will not take risk positions that will individually, or holistically, threaten our ability to remain an independent Building Society providing long term value to our Members."

Implicit within this Overarching Risk Appetite Statement are the assumptions that the Society will not take decisions which might:

- Result in the Society conducting its activities in a manner that does not safeguard the Society's investing Member's balances;
- Result in the Society not meeting the capital levels that are required to meet the higher of the ICAAP or the regulatory Total Capital Requirements ("TCR") including both regulatory and internal buffers;
- 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 LCR, NSFR or OLAR cannot be met;
- Adversely impact funding capability;
- Endanger compliance with legislation, regulation, industry guidance or codes of conduct.

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

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

2.3.1 Risk Measures and Reporting

Departmental risks are identified as a result of day-to-day business activities and subsequent mitigating controls are implemented and assessed. These risks are recorded on risk registers and reported to the 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 which are considered as high risk 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, Financial Risk Management Policy (FRMP) and the Risk Appetite Framework. Limits and triggers are recorded and reported in the Key Risk Indicator Report which is reviewed and summarised for the Board monthly.

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 also 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.

Both these policies are reviewed annually by the Mortgage Credit Risk Committee and recommended to the Board for approval.

Furthermore, the Society maintains a Mortgage Loss Impairment 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. In the ICAAP, arrears balances are firstly reduced by any specific mortgage impairment provisions however, adjustments are not recognised for any forbearance measures that may be in place.

The economic impact, arising from COVID-19, including levels of unemployment, has been felt by the Society through the level of payment deferrals that have been granted to mortgage Members during the year. Whilst no mortgage losses have materialised to date, it is anticipated that arrears and potential losses will be experienced in 2021/22. The Society's Mortgage Impairment Policy and Corporate Plan have allowed for further impairment charges.

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 Asset & Liabilities Committee (ALCO) and recommended to the Board for approval.

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

The Society has mortgage assets encumbered with the Bank of England in order to participate in the Bank's Term Funding Scheme with additional incentives for Small and Medium Enterprises (TFSME).

At 1 February 2021, £34.4m (2020: £0.0m) of mortgage assets held by the Society were pledged to the Bank of England as collateral. The loans remain fully owned and managed by the Society, but are reported as encumbered assets.

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

Note that this information is required to be disclosed as median values over quarterly positions during the 12 months preceding 1 February 2021 and as a result may differ from other information provided in this disclosure.

Encumbered and unencumbered assets - £000s

	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Loans and advances (mortgages)	36,345,488		193,268,588	
Other assets	-		50,486,880	
Total Assets	**36,345,488**		**256,492,126**	

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

This is the risk that the value of income arising from the Society's assets and/or costs from liabilities may change adversely as a result of changes in interest rates.

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

- Commodity risk - the risk that commodity prices (e.g. corn, copper, crude oil) and/or implied volatility will change
- Equity risk - the risk that stock prices and/or the implied volatility will change
- Currency risk - the risk that foreign exchange rates and/or the implied volatility will change
- Interest rate risk - the risk that interest rates and/or the implied volatility will change
- The Society is not exposed to commodity, stock exchange, foreign exchange or interest rate risk arising from tradeable instruments. However, it is exposed to interest rate risk in the non-trading banking book.

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 in place between two rates. Furthermore, the policy allows for the use of financial derivative instruments where appropriate.

Interest Rate Risk is also referred to as Interest Rate Risk in the Banking Book and a more detailed explanation of this is included in section 5.

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 the following:

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

of computer systems. The Society holds cyber insurance to mitigate any potential financial loss or disruption.

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

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

- Financial Crime
- Cyber Security (including Cyber Incident Response Plan)
- Information Security
- Recruitment & Selection
- Remuneration
- Training & Competency
- Operational Resilience (including Business Continuity and Disaster Recover Plans)

These policies detail processes, systems and controls which are designed in a manner that aim to minimise disruption to our Members, minimise damage to our reputation and minimise any detrimental impact on the Society's financial performance.

These policies are reviewed annually by the Risk & Compliance Committee and recommended for approval by the Board either via Audit, Risk & Compliance Committee or Nominations & Remuneration Committee.

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.

Operational risk arising as a result of COVID-19 is highlighted through the changes in operational processes which were required in order to facilitate a significant increase in home-working arrangements and the increase in remote working brings new cyber challenges. In addition, new processes were necessary to implement measures for the health and safety of our employees whilst working on site. These changes resulted in additional controls being implemented, including second-line and third-line assurance work.

2.4.6. Regulatory & Legal 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

The Society manages conduct risk by maintaining a Conduct Risk Framework. This describes the Board's risk appetite for conduct risk and details the responsibilities for ensuring that the Society conducts its dealings with customers 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 is reviewed annually by the Risk & Compliance committee and recommended to the Audit, Risk & Compliance committee and Board for approval.

Operational conduct risk is the risk that actual or potential customer detriment arises from the way in which the Society conducts its business. In addressing conduct risk the Society has developed a Conduct Risk Dashboard to facilitate monitoring and review of conduct risks.

2.4.8. Strategic Risk – COVID-19, Brexit and Climate Change Risk

COVID-19 has had and continues to have, a significant impact on the UK and global economy. With falling levels of GDP and rising unemployment in the UK, which is likely to increase further as Government schemes come to an end in 2021. Remote working arrangements have led to a greater use of technology and an increase in the potential associated cyber risks. COVID-19 has led to an increase in online transactions from consumers, including our Members. As the pandemic continues, it is uncertain whether this change in customer behavior is permanent and the Society is continuing with its programme of digital development to ensure its Members can choose how they would like to interact with the Society in the future.

Brexit Risk
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. This could exacerbate the effect on the economy and the housing market as well as the ability for borrower's to pay their mortgages. The impact of this has been considered in the stress tests performed and documented in the ICAAP.

Climate Change Risk
The Society recognises the risks and challenges posed by climate change. While the financial risks from climate change may only crystallise in full over longer time horizons, they are becoming apparent now. The Society particularly recognises two risks: physical and transitional.

Physical risks relate to specific weather events such as flooding, or longer-term events such as rising sea levels. A key element of this risk is to property, both the Society's own properties and properties held as security for lending.

Transition risks can arise from the process of adjustment towards a low-carbon economy. This could lead to a changing regulatory expectation in terms of the way the Society is expected to run its own business, including who it uses as suppliers. It may also impact property held as security, for example the energy efficiency expectations of mortgaged properties.

The Society is increasingly mindful of these risks when making business decisions, including mortgage underwriting ones. The Head of Risk has responsibility for monitoring climate change risk at an operational level, with oversight provided by the Audit, Risk & Compliance Committee.

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 Key Risk Indicator 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 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 1 February 2021 as calculated in accordance with CRD V are as follows:

Capital Resources	**01-Feb-21 £000s**	**03-Feb-20 £000s**
Tier 1 Capital:		
Accumulated profits held as general reserves	20,836	20,261
Deductions from Tier 1 Capital:		
Intangible assets	(288)	(261)
Total Tier 1 Capital	**20,548**	**20,000**
Tier 2 Capital:		
Collective provisions for impaired loans	216	142
Capital Resources	**20,764**	**20,142**

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

The Society's key capital ratios as at 1 February 2021 are as follows:

Capital Ratios	01-Feb-21 £000s	03-Feb-20 £000s
Risk Weighted Assets	99,488	89,515
Capital Ratios:		
Common Equity Tier 1 (CET1) Ratio	20.7 %	22.3%
Leverage Ratio	6.8 %	7.4%
Pillar 1 Ratio	8.0%	8.0%
Pillar 2A Ratio	-	1.7%

The Society's Pillar 2A Ratio was set at 0% in April 2020.

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 £000s**	**RWAs £000s**	**Pillar 1 Capital £000s**
Loans and Advances to Customers (Mortgages)			
Residential performing loans	237,635	83,713	6,697
Non-residential performing loans	392	392	31
Past due items	1,772	1,772	142
Total Loans and Advances to Customers	**239,799**	**85,877**	**6,870**
Liquidity			
Central government	51,982	-	-
Credit institutions	5,830	1,166	93
Total Liquidity	**57,812**	**1,166**	**93**
Fixed and Other Assets	**2,196**	**2,196**	**176**
Mortgage Commitments	**4,270**	**1,515**	**121**
Total Credit Risk Exposures	**304,077**	**90,754**	**7,260**
Operational Risk Capital Required		**8,734**	**699**
Pillar 1 Capital Resources Required		**99,488**	**7,959**

Reconciliation of Total Exposures to Total Assets as per the Society's Annual Report	**£000s**
Total Credit Risk Exposures (above)	304,077
Add back: Intangible Assets	288
Add back: Effective interest rate adjustment	416
Deduct: Collective Impairment Provision	(216)
Deduct: Mortgage Commitments	(4,270)
Total Assets as per Annual Report	**300,295**

4.1. Capital Buffers

Capital Conservation Buffer (CCoB)

In addition to the minimum capital requirements comprising Pillar 1 and 2B 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 March 2020, the Financial Policy Committee (FPC) announced that the CCyB for the UK would be set to 0% as part of the response to the impact of COVID-19. This was previously expected to rise to 2% in December 2020. The earliest an announcement on a change in CCyB will be made is March 2021 and with a 12 month notice period given, the earliest the rate can change is March 2022, at which time the rate could be increased to up to 2.5%. To prevent the Society experiencing a capital shock when the CCyB eventually increases and to also ensure sufficient capital is held in relation to future economic uncertainty, the latest Board approved ICAAP included a CCyB of 2.5% when assessing capital requirements.

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 6.8 % (2020: 7.4%) 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 £000s	RWAs £000s	Pillar 1 Capital £000s
Fully secured on residential property	237,635	83,713	6,697
Fully secured on non-residential property (Secured on Real Estate)	392	392	31
Past due and fully secured on residential property	1,565	1,565	125
Past due and fully secured on non-residential property	207	207	17
Total	**239,799**	**85,877**	**6,870**

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	2,747
Repayable in more than 3 months but not more than 1 year	6,513
Repayable in more than 1 year but not more than 5 years	39,490
Repayable in more than 5 years	191,278
Less: Provisions for specific impairment losses	(229)
Total	**239,799**
Add: Effective interest rate adjustment	416
Less: Provisions for collective impairment losses	(216)
Sub Total: as per Annual Report	**239,999**

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

Region	Fully secured on Residential Property		Fully secured on Non-Residential Property			
	Performing £000s	Past Due £000s	Performing £000s	Past Due £000s	Total £000s	%
North West	69,339	1,289	366	0	70,994	29.61 %
Outer South East	24,562	-	-	-	24,562	10.24 %
Outer Metropolitan	21,694	-	-	-	21,694	9.05 %
South West	20,760	-	-	-	20,760	8.66 %
Greater London	18,566	-	-	-	18,566	7.74 %
West Midlands	17,206	101	-	-	17,307	7.22 %
Yorkshire and Humberside	16,553	-	-	-	16,553	6.90 %
East Midlands	13,296	-	-	-	13,296	5.54 %
Scotland	11,054	-	-	-	11,054	4.61 %
North	10,115	-	26	207	10,348	4.32 %
Wales	8,272	175	-	-	8,447	3.52 %
East Anglia	6,218	-	-	-	6,218	2.50 %
Total	**237,635**	**1,565**	**392**	**207**	**239,799**	**100%**

4.3.1. Credit Risk Adjustments – Impairment Provisions

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

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

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

COVID-19

In determining provisions for impairment losses, the Society has also considered the ongoing impact of COVID-19. During the period over 300 of the Society's borrowing Members agreed to take a mortgage payment deferral on mortgage balances of more than £53.8m. As at 1 February 2021 there were 29 payment deferrals remaining in force totalling £4.7m of mortgage balances. In order to appropriately provide for all mortgages which have deferred payments, a monthly assessment is performed using the financial information the Society holds in relation to each individual mortgage, as well as the borrower's individual circumstances and any information the borrower has provided the Society throughout the deferral process. Each mortgage that has taken a payment deferral is categorised as low, medium, or high risk. The higher the risk category the higher the probability of default that is used when calculating the collective provision for each individual mortgage. Where the information obtained in relation to a mortgage is deemed to represent objective evidence of impairment, the mortgage is assessed for a specific impairment provision. As at 1 February 2021, of the 287 mortgage which had taken a payment deferral and were still live 202 were categorised as low risk, 28 as medium risk and 26 as high risk. The remaining 31 cases were deemed to display objective evidence of impairment and were assessed for a specific impairment provision.

The Society's approach to provisioning for payment deferral cases and the prudent assumptions that are incorporated into the calculation of both collective and specific impairment provisions has resulted in total provision balances of £455,044 as at 1 February 2021. The Society believes that this level of impairment provisions is sufficient to cover the level of estimated incurred losses as at 1 February 2021 that can be reasonably expected to crystallise.

In addition, the Society has also developed a process for assessing the potential impact of mortgage payment deferrals on potential impairment of loans. An assessment is made using the financial information the Society holds in relation to each individual mortgage, as well as the customer's individual circumstances and each mortgage that has taken a payment deferral is categorised as low, medium, or high risk. The higher the risk category the higher the probability of default that is used when calculating the collective provision for each individual mortgage. Where the information obtained in relation to a mortgage is deemed to represent objective evidence of impairment, the mortgage is assessed for a specific impairment provision.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 Property £000s		
	Specific	**Collective**	**Total**
Brought forward	89	142	231
Utilised during the year	(1)	-	(1)
Charge for the year	141	74	215
Carried forward	**229**	**216**	**445**

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	51,982	89.9 %	-	-
Credit institutions by residual maturity: < 3 months	A+	5,830	10.1 %	1,166	93
Total		**57,812**	**100%**	**1,166**	**93**

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	309
Accrued Interest	6
Repayable on demand	57,247
Repayable in not more than 3 months	-
Repayable in more than 3 months but not more than 1 year	250
Total	**57,812**

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. 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 3.58% of capital, in line with regulatory guidance, in relation to the Society's sensitivity to a 2% interest rate shock on an Economic Value basis and 2.5% of capital in relation to the impact on earnings over a rolling 12 month period.

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

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 three 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 Material Risk Takers (MRT) 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 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 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.

2021	Number during the year	Fixed Remuneration £000's	Variable Remuneration £000's**	Total £000's
Non-Executive Directors	7*	136	-	136
Executive Directors	3	398	47	445
Material Risk Takers	10	587	17	604
Total	**20**	**1,121**	**64**	**1,185**
Total %		**95%**	**5%**	**100%**

***** Gail Teasdale, Non-Executive Director, was co-opted to the Board in October 2020
******Variable remuneration reflects the annual bonus paid by the Society

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

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.