Furness Building Society

Pillar 3 Disclosures

31 December 2023

Contents

Tables

1 Overview

1.1 Introduction

This document presents the consolidated Pillar 3 disclosures on capital and risk management of the regulated group ('the Group') at 31 December 2023.

References to 'the Group' within these Pillar 3 disclosures comprise Furness Building Society and its two wholly owned subsidiaries:-

- Furness Mortgage Services Limited (FMSL) - manages secondary mortgage portfolios and acquired five mortgages books from 2000 to 2004. FMSL's current mortgage portfolio is in 'run-off' and no longer issues mortgages.
- As at 31 December 2023 FMSL had £2.3m of mortgage balances outstanding.

Furness Financial Advisors Limited (FFA) - is no longer trading and is operationally dormant however as at 31 December 2023 still retains capital and intercompany balances with the Society.

1.2 Regulatory Framework for disclosure

The Group is regulated for prudential capital purposes under the Basel III framework which was implemented in the EU via the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD), together known as Capital Requirements Directive IV (CRD IV).

CRD IV consists of three main 'Pillars':-

Pillar 1	This covers the minimum capital requirements of Basel III. The calculation is a risk based approach. It focuses on credit, operational and market risk in determining the Group's Minimum Capital Requirement.
Pillar 2	This is the assessment of capital adequacy. The Internal Capital Adequacy Assessment Process (ICAAP) document produced by the Society and the Supervisory Review and Evaluation Process (SREP) undertaken by the Prudential Regulation Authority (PRA) both assess additional capital requirements which are either not captured by Pillar 1 or are not fully covered by Pillar 1 (e.g. interest rate risk in the banking book, pension obligation risk and other factors which are external to the Group). This is known as the Total Capital Requirement.
Pillar 3	Pillar 3 complements Pillars 1 and 2 and aims to encourage market discipline by setting out disclosure requirements which should allow market participants to assess key pieces of information on a firm's capital, risk exposures, risk management processes and remuneration. These requirements are set out in Part 8 of the CRR ('Part 8'). The Pillar 3 disclosures within this document have two key purposes: 1) To meet the regulatory disclosure requirements under the Disclosure (CRR) part of the PRA rulebook Instrument 2021, supplemented by any specific additional requirements of the PRA 2) To provide transparency and further useful information on the capital and risk profile of the Group.

1.3 Basis of preparation

The Group meets the criteria for being classified as a 'small and non-complex' institution per CRR II and incorporated into the PRA Rulebook under Article 433b and it is the Group's policy to comply with all requirements assigned to a 'small and non-complex' institution as per Article 433b of the PRA Rulebook.

The Group have prepared these Pillar 3 disclosures applying the derogation of a 'small and non-complex' institution.

These Pillar 3 disclosures are based on the Group's Annual Report & Accounts ('the Annual Report & Accounts) for the year ended 31 December 2023. All figures are stated as at 31 December 2023 with comparatives as at 31 December 2022 where applicable unless otherwise stated and are usually rounded to the nearest £0.1m.

The Annual Report & Accounts have been prepared in accordance with Financial Reporting Standard 102 (FRS102) and International Accounting Standard 39 (IAS 39). The Pillar 3 disclosures are prepared under CRD IV rules. The main differences between accounting and regulatory reported exposures and capital are set out in sections 3.2 of this document.

The Group have adopted the Standardised Approach ('SA') for credit risk and the Basic Indicator Approach ('BIA') for operational risk.

1.4 Frequency of disclosure

The disclosures are prepared on an annual basis and are issued in conjunction with the publication of the Annual Report & Accounts on the Society's website.

1.5 Verification

The Pillar 3 disclosures presented within this document are subject to the same level of internal verification as that applicable to the management report included in the institutions' financial statement disclosures.

Where appropriate the Pillar 3 disclosures are reconciled to and conform to the externally audited information in the Annual Report & Accounts.

The information is prepared and checked by line 1 with oversight and challenge by line 2.

The Pillar 3 disclosures document is reviewed by the Audit Committee for onward recommendation and approval by the Board alongside the Annual Report & Accounts.

1.6 Summary of Key Prudential Metrics

The below table provides an overview of the Group's prudential regulatory metrics.

Table 1: UK KM1 - Key Metrics

		2023 £m	2022 £m
	Available own funds (amounts)		
1	Common Equity Tier 1 (CET1) capital	83.5	81.6
2	Tier 1 capital	83.5	81.6
3	Total capital	84.1	82.1
	Risk-weighted exposure amounts		
4	Total risk-weighted exposure amount	475.4	432.0
	Capital ratios (as a percentage of risk-weighted exposure amount)		
5	Common Equity Tier 1 ratio	17.56%	18.90%
6	Tier 1 ratio	17.56%	18.90%
7	Total capital ratio	17.69%	19.01%
	Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)		
UK 7a	Additional CET1 SREP requirements (%)	1.01%	1.11%
UK 7b	Additional AT1 SREP requirements (%)	0.34%	0.37%
UK 7c	Additional T2 SREP requirements (%)	0.45%	0.49%
UK 7d	Total SREP own funds requirements (%)	9.79%	9.97%
	Combined buffer requirement (as a percentage of risk-weighted exposure amount)		
8	Capital conservation buffer (%)	2.50%	2.50%
9	Institution specific countercyclical capital buffer (%)	2.00%	1.00%
11	Combined buffer requirement (%)	4.50%	3.50%
UK 11a	Overall capital requirements (%)	14.29%	13.47%
12	CET1 available after meeting the total SREP own funds requirements (%)	7.77%	8.93%
	Leverage ratio		
13	Total exposure measure excluding claims on central banks	1,269.5	1,191.4
14	Leverage ratio excluding claims on central banks (%)	6.58%	6.85%
	Liquidity Coverage Ratio		
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	143.8	170.5
UK 16a	Cash outflows - Total weighted value	95.9	86.2
UK 16b	Cash inflows - Total weighted value	6.4	4.4
16	Total net cash outflows (adjusted value)	89.5	81.7
17	Liquidity coverage ratio (%)	160.71%	208.59%
	Net Stable Funding Ratio		
18	Total available stable funding	1,179.3	1,126.8
19	Total required stable funding	885.1	825.0
20	NSFR ratio (%)	133.24%	136.58%

Capital and Leverage Ratios

The Group's CET1 ratio at December 2023 is 17.60%, which is 130bp lower than December 2022 (18.90%). The main driver for this reduction is increased risk weighted assets. RWAs increased by £43.4m in 2023 driven by a £34m increase in mortgage assets over the year. The resulting decrease in capital ratio was partially offset by an increase in CET1 capital of £2.2m in the year. The Society made a profit in the year of £3.2m after tax, plus a loss on Other Comprehensive Income of £0.4m. The balance is due to the deduction of pension surplus under Article 41 (CRR) requirement.

As at December 2023 the Society holds a CET1 surplus to total SREP own funds requirements of 7.82%, which is 3.32% above specific buffer requirements of 4.50%.

As at 31 December 2023, the Group's Leverage Ratio was 6.59% which is above the current 3.25% regulatory minimum level.

Liquidity and Funding Ratios

The Group held liquidity and funding levels above minimum regulatory requirements of 100% for both the Liquidity Coverage Ratio (160.7%) and Net Stable Funding Ratio (133.2%) as at 31 December 2023. There was a decrease of £26.7m in total high quality liquid assets during 2023 due to investment in Treasury Term Deposits which do not qualify as HQLA under the PRA's regulatory guidelines.

2 Risk Management

2.1 Risk Statement

Furness Building Society's overall Risk Appetite is as follows:

Furness Building Society will only pursue a strategy that drives towards its vision, is consistent with the Society's values and does not exceed stated risk appetite and minimum required standards.

The Society faces a broad range of risks reflecting its responsibilities to its members and staff, whilst adhering to all appropriate regulations, rules and guidelines. The Society generally has a low appetite for risk and manages risk through its culture, policies and procedures in all business processes. The Board may consider operating in higher risk areas, only when it is satisfied that the level of risk is understood, can be monitored and reported against and can be effectively mitigated to a level within the Board's risk appetite. The Board would not expect risks to be taken which go against the Society's values, could result in adverse customer outcomes, significant operational losses and/or serious reputational damage to the Society.

The Board expects the risk framework to be fully embedded throughout the Society and the management team to be adequately trained and to consider risk appetite in the daily decision making and operational activities of all staff. The management team are expected to take responsibility for their own risks, put in place appropriate controls and monitor the effectiveness of these controls, with reporting to Board Risk Committee (BRC) and a summarised view being presented to the Board when they sit.

2.2 Declaration

In accordance with the requirements of CRR Article 435l, the Society's Board are satisfied that the risk arrangements in place at the Society are adequate with regard to the Society's profile and strategy.

2.3 Risk Management Framework

2.3.1 Overview

The Group is a retailer of financial instruments in the form of mortgages and savings. The Group also uses wholesale financial instruments to invest liquid assets, raise wholesale funding and to manage the interest rate risks arising from its operations.

The Board has overall responsibility for maintaining a system of internal control to ensure that an effective risk management and oversight process operates across the Society. The risk management framework is designed to identify, understand and monitor the risks within the business, including risks to which the Society may become exposed, and manages rather than eliminates risks to meet the Society's business objectives.

The Society uses the industry standard three lines of defence model for the management of risk:

- Line 1 – business Operations

Business Areas – The first opportunity to identify risks and put in place steps to mitigate them as necessary. Management is delegated responsibility to identify and evaluate the risks within their business areas and ensure controls are operating effectively over those risks, such that the Society meets the aim of its internal control system and operates within the risk appetite agreed by the Board. The delegated management responsibility extends to activities undertaken by outsourced and third party relationships

- Line 2 – Oversight functions

Risk Management Committees and related functions (e.g. Compliance and Risk) – These areas provide oversight and support the business in identifying and managing risk and generally co-ordinate the risk management activity across the whole business. These areas provide a level of assurance as to the adequacy and operation of the risk and control environment across the Group. Where the Society does not have internal expertise or resource capacity, the Society will engage with third parties to provide second line assurance as necessary.

- Line 3 – Independent Assurance

The Internal Audit function, which is outsourced, provide independent assurance which is reported to the Audit Committee. This is the 'backstop' line of defence and provides objective assurance that all risks have been identified and are being managed appropriately through the control framework in place, including the adequacy of the internal control system.

The Board has determined a clearly defined Statement of Risk Appetite, containing both quantitative and qualitative measures which are integrated into decision making processes.

The risk framework comprises a number of Committees, including the key committees of Board Risk and Audit. Through the Board Risk and Audit Committees, the Board receives comprehensive and timely reporting on the Society's identification, measurement and management of risk.

The Board's defined Statement of Risk Appetite is reviewed and adjusted at least annually and forms a key part of the corporate planning process. Adherence to the risk appetite is monitored by the Committees in the risk framework and reported to the Board each month against agreed measures.

The risk management framework is proportionate to the scale and complexity of the business and is commensurate with the degree of risk in the business to support decision making. It ensures the Society deploys a consistent approach to risk management in each of the principal risk areas.

2.3.2 Strategies and processes to manage risks for each category of risk

Business and Strategic Risk

Strategic risk is the risk resulting from our strategic decisions which have the potential to impact our members, the Corporate Plan and forecast results or performance over the planning period. A crystallisation of strategic risk could affect the overall strength of the Society or impact the business model. The Board regularly discusses strategic issues and challenges the Corporate Plan proposed by Executives. It ensures strong levels of capital and liquidity are maintained to provide resilience against external factors which may cause stresses to the business.

The Society's strategy is reviewed at least annually by the Board and Management to ensure it remains appropriate, deliverable and sustainable with external assistance sought when required to validate conclusions. The on-going management of strategic risk is supported by the business performance and risk reporting data provided to the Board and Risk Committees.

In 2024 the Society will continue to invest in technology, capability and product propositions and distribution to ensure we are in the best position to meet customer expectations and secure a sustainable future for the Society.

We expect that 2024 could be a challenging marketplace for both mortgages, retail savings and wholesale funding, due in part to fluctuations in interest rates, inflation and house prices. Added to strong competition and market demand for funding to repay TFSME in 2024/2025, this may put additional pressure on our ability to manage net interest margin. We're also ensuring we're prepared for the prospect of any further changes to the Bank of England base rate, whether upward or downward.

The current challenging economic environment and competitor pressures on both sides of the balance sheet continues to put pressure on the net interest margin and this has been addressed through our strategy development. Consideration has also been given to the potential ramifications of geopolitical uncertainty on our current and future obligations and the Society's prospects over the Corporate Plan period.

Credit Risk

Credit risk is the risk that borrowers or counterparties to whom the Society has lent money may default on their obligation to repay the Society. The Society holds security on customer mortgages in the form of property and land. A reduction in the House Prices Index (HPI) impacts the value of these and may increase the loss in the event of default. Furthermore, property and land also becomes harder to sell during an economic downturn and therefore increases the discount on the sale price of the property (forced sale discount), further increasing the Society's credit risk.

The Society manages the risk associated with mortgage borrowers by means of a prudent Lending policy that includes both a thorough assessment of the creditworthiness of the borrower and the value of the proposed security. Mortgages are monitored closely and on an ongoing basis, with timely action being taken for those mortgages that fall into arrears.

The Society continues to monitor the credit risk inherent in the mortgage book via robust property valuations. Fluctuations in the house price index impact potential credit losses. Higher costs of borrowing during 2023 has resulted in an average indexed reduction of 1.2% to October 2023 and is expected to fall further in 2024 before recovering.

*Land Registry Data - UK House Price Index, October 2023

The Credit Risk Committee meets regularly to consider the risks associated with this lending and reviews large and potential accounts in default. The Society has continued improving the analysis and management information to understand and manage its credit risk exposures effectively.

In the case of liquid asset investments, the credit risk associated with lending to financial institutions is addressed by the Society's Assets and Liabilities Committee (ALCO) which ensures that investments are restricted principally to cash held with the Bank of England, UK Government issued debt instruments, liquid regulatory compliant AAA rated debt securities and operational call accounts with large UK based clearing banks with investment-grade credit ratings.

The Society keeps abreast of developments affecting financial sector firms and takes appropriate action to safeguard the Society's investments.

The Society utilises manual underwriting procedures which enables individual risk assessment of complex cases.

The Society is exposed to Concentration Risk because its activities are highly concentrated in residential lending and/or associated products and services funded predominantly by retail deposits. These risk are monitored via the Retail Credit Risk Committee to ensure that lending is not more than is appropriate for the Group in relation to its Position/Size; Geographic, Funding, Large Exposures and Product Type.

Interest Rate Risk in the Banking Book (IRRBB)

IRRBB reflects the current or prospective risk to both the earnings and economic value of an institution arising from adverse movements in interest rates that affect interest rate sensitive instruments, including gap [repricing] risk, basis risk and option risk.

The Society is exposed to interest rate and basis risk arising within the banking book, which results from different interest rate features, re-pricing dates and maturities of assets (mortgages and treasury investments) and liabilities (retail savings, wholesale funding and subordinated debt).). In addition, Margin risk is the risk of erosion between the interest rates charged to our mortgage borrowers and the interest rates paid to our savings account holders.

The Society's ALCO monitors and manages this exposure. The following activities are affected by interest rate risk:

• fixed rate mortgage lending and fixed rate treasury investments

• fixed rate savings products and fixed rate wholesale treasury funding

• management of the investment of reserves and other net non-interest bearing liabilities.

To manage fixed rate risk, the Society uses a combination of natural hedging, matching on balance sheet assets and liabilities with similar maturity dates, and interest rate swaps, reviewed at least weekly by the Treasury function.

Basis risk is the risk of divergence between several bases, such as SONIA and the Bank of England Base Rate. The Society manages its basis rate risk exposure mainly by setting limits against the relative exposures and carefully monitoring the positions.

The Society's interest rate related risk appetite is measured against:

• The economic impact of a variety of linear and non-linear interest rate scenarios over the life of the balance sheet

• The impact on annualised Net Interest Income (NII) of a 100bps interest rate shock on a static balance sheet over a 36m period and a 250bps shock over a 12m period.

In response to the strength of the interest rate risk management, the Society was granted regulatory permission in 2023 to move to the 'Treasury Extended Approach'. This allows the Society to start capital reserves hedging and adjust certain administered rate limits (among other items).

Liquidity and Funding Risk

Liquidity risk is the risk of the Society failing to meet its financial obligations as they fall due, resulting in the inability to support normal business functions and activity. There is also a risk of breaching regulatory requirements.

The nature of the Society's business involves 'maturity transformation' whereby the Society borrows for relatively short terms and lends on mortgages for much longer periods. This mismatch creates liquidity risk whereby the Society could be unable to meet its financial obligations as they fall due.

Funding risk is the inability to access funding markets or to do so at excessive cost. In order to minimise funding risk the Society ensures there is no over reliance on a single source of funds.

In 2023, the Society made early repayments to the Bank of England as part of the Term Funding Scheme (TFSME) and will continue to pay off further funding over 2024. This will largely be funded by retail deposits, supported by the use of an improved digital distribution channel and the tactical use of a deposit aggregator.

The purpose of the Society's Internal Liquidity Adequacy Assessment Process (ILAAP) is to ensure that these commitments can be met in a timely manner under both normal and stressed conditions and that the Group maintains the confidence of its existing and potential investors and suppliers.

On a day-to-day basis the Group's liquidity position is managed by the Treasury function which is responsible for the liquid asset portfolio and contingency arrangements. Liquidity and funding risk is monitored by the ALCO which meets on a frequent basis and receives a variety of management information reports which enable it to monitor the amount and composition of the liquid asset portfolio and ensure Group compliance with the regulations covering liquidity as well as the Board Statement of Risk Appetite of the Group.

The Society's Treasury Financial Risk Management Policy (TFRMP) has been developed to ensure that the Group is able to meet known, and also a reasonable level of possible unforeseen, financial obligations as they fall due under both normal conditions and defined stress scenarios. This is achieved by a combination of:

- undertaking an annual review of Liquidity and Funding via the ILAAP
- maintaining an appropriate level of high quality liquid assets (Liquidity Buffer)
- having access to additional sources of funds through the wholesale market as well as from retail customers
- access to Bank of England liquidity insurance facilities
- regular stress testing to ensure the Society can meet its liquidity adequacy requirements under a number of defined stress scenarios
- maintaining and testing a Liquidity Contingency Plan and Recovery Plan

Sufficient liquidity is maintained at a level aimed at ensuring management, regulatory and member confidence in the solvency of the Group. A significant proportion of the Society's liquid assets are held in a Bank of England reserve account, UK Bank call accounts and short term deposits, to provide instant access to funds if and when required. In addition the Society holds a portfolio of treasury investments where there is an active secondary market enabling liquidation if required under a stress scenario. The Society is also well-positioned to draw down from the BoE's Discount Window Facility (DWF) after considerable collateral placements in 2023.

Capital Risk

Capital risk refers to the potential for a scenario to occur that reduces the Society's capital to an unsustainable level or below the minimum regulatory requirements. The Society regularly tests various scenarios to ensure it retains sufficient capital to manage foreseeable and possible events.

The Society's Internal Capital Adequacy Assessment Process (ICAAP) is the Society's evaluation of its capital position and requirements and sets out the approaches to manage capital risk across the planning horizon including the evaluation and monitoring of risk appetite limits.

The Society maintains a sufficient level of regulatory capital in order to absorb losses, deliver the Corporate Plan and support the Society's risk profile in both normal and stressed conditions.

The Board has approved a set of risk appetite measures and operating limits to manage and monitor capital levels on an ongoing basis, including:

• maintaining a conservative capital surplus over and above minimum regulatory Pillar 1 and Pillar 2 requirements as well as regulatory buffers over the corporate planning period

• monitoring profit and mortgage asset growth to ensure the Society's growth remains sustainable.

• monitoring Early Warning Indicators on a monthly basis for both CET1 and Leverage Ratios, ensuring a sufficient surplus to regulatory requirements.

Operational Risk

Operational risk is the risk of loss arising from inadequate or failed internal processes or systems, human error or external events, and can arise across the whole business, with higher likelihood in periods of transformational change or other large projects.

The Society has a robust risk management framework with policies and committees providing appropriate review and challenge, there are systems and controls in place to mitigate operational risks, the impact on operational resilience and the potential loss from incidents including data, fraud and cyber events. With this framework in place, the risk of loss as a result of staff not adhering to procedures/processes due to error/mistake, lack of training or unclear documents (Process Risk) is reduced. The Society is has the required systems, controls and processes to ensure that any mistakes are identified and corrected to prevent a significant loss.

Throughout 2023 awareness of Process Risk continued to increase as external concerns were highlighted in specific areas like Self build customers as a result of the challenging economic environment, ongoing contact is being made with customers to remind them of their obligations should they change the build and if any additional support is needed.

The Society has a Management Risk Committee which is chaired by the Chief Risk Officer and comprises of representatives of the Society's Leadership Team and several members of the Risk and Compliance function. This Committee provides oversight to all the Society's operational risks. Ultimately, the Board is responsible for deciding on whether it accepts the residual risk that exists after the application of these controls.

The Society has made great progress in 2023 in 3rd party and outsourcing management to assess and understand the impact on its' operational resilience, with further work identified across different operational risk sub categories to bring risk management in line with good or best practice in 2024. An ongoing calendar of Disaster Recovery (DR) tests and simulations is planned to support the operational resilience of the firm through 2024.

The Society is developing an enhanced digital proposition in 2024 to improve the overall product offering and customer service levels. This will result in changes to the operational risk profile - key personnel and committees are already in action to understand the changes in processes, people and infrastructure that impact the Society's risks profile and implement new or updated controls to ensure that operations are resilient.

Conduct Risk

Conduct risk is the risk of developing systems, behaviours and attitudes within the business which may cause customer detriment and do not deliver fair customer outcomes. A poor culture could also cause a risk of creating an environment in which staff behaviour is not open and honest which can result in reputational loss.

The ongoing challenging economic environment has heightened conduct risks through challenging trading and operating conditions and increased customer vulnerability. We have addressed these risks by continuing to focus on our treatment of customers ensuring fair outcomes are achieved (including those in financial difficulty), increasing governance with more regular management meetings and MI, improving our operational resilience and increasing our fraud prevention monitoring.

Our commitment to fair customer treatment is demonstrated through our Conduct Risk Policy, adherence to Consumer Duty Requirements and monitored through our Conduct Risk management information which is regularly reviewed by the Executive and Management Risk Committees. The Society also adheres to the requirements stated within the Mortgage Charter which the society voluntarily sign up to.

Although the Society seeks to control its own conduct risk, it also carries a potential liability to the Financial Services Compensation Scheme (FSCS) the size of the liability depends upon the failure of other members of the FSCS.

Pension Liability Risk

At the end of the year, the scheme had moved to a surplus position of £1.57m (2022: £1.2m surplus). We continue to fund and support the pension plan as necessary.

The Society monitors possible future pension risk as part of the ICAAP process and ensures sufficient capital even in a stressed scenario.

Climate change Risk

In line with much of the financial services industry we are aware of the potential long-term and structural risks that accompany the risks of climate change.

The Society introduced the Climate Risk Framework in 2021 which is used to govern the Society's exposures to climate risk and establishes the process for understanding, managing and disclosing climate induced risks.

In 2022 we improved the data relating to Flooding, on both our mortgaged properties and the Society's own estate, through assessing Representative Concentration Pathway (RCP) scenarios. This data is useful to analyse properties, which the Society has accepted that have some flood risk, but may increase in severity in future and put these outside of risk appetite.

In 2023 the Society launched its Climate change and Environmental, Social and Governance Strategy with an associated governing committee to ensure we adopt environmentally sustainable practices in order to mitigate any negative environmental impacts.

The Society will continue to review and develop the Climate Framework where necessary to identify further risks and mitigating strategies. We are currently working on –

• Developing our analysis and criteria for employment sectors at risk

• Understanding what our carbon footprint is at present, in order to agree how we can improve and by when/at what cost.

• Supporting members to reduce their carbon footprint and improve their Energy Performance Certificate rating through the introduction of Green Further Advances.

As part of the Society's standard underwriting process, we carefully consider the information we receive regarding the flood risk of properties. We also closely monitor any minimum standards for properties that are let (e.g. minimum Energy Performance Certificates) as part of our reviews for Buy-To-Let and Holiday Let properties. We'll continue to closely monitor any emerging trends in information as well as the regulatory requirements relating to property.

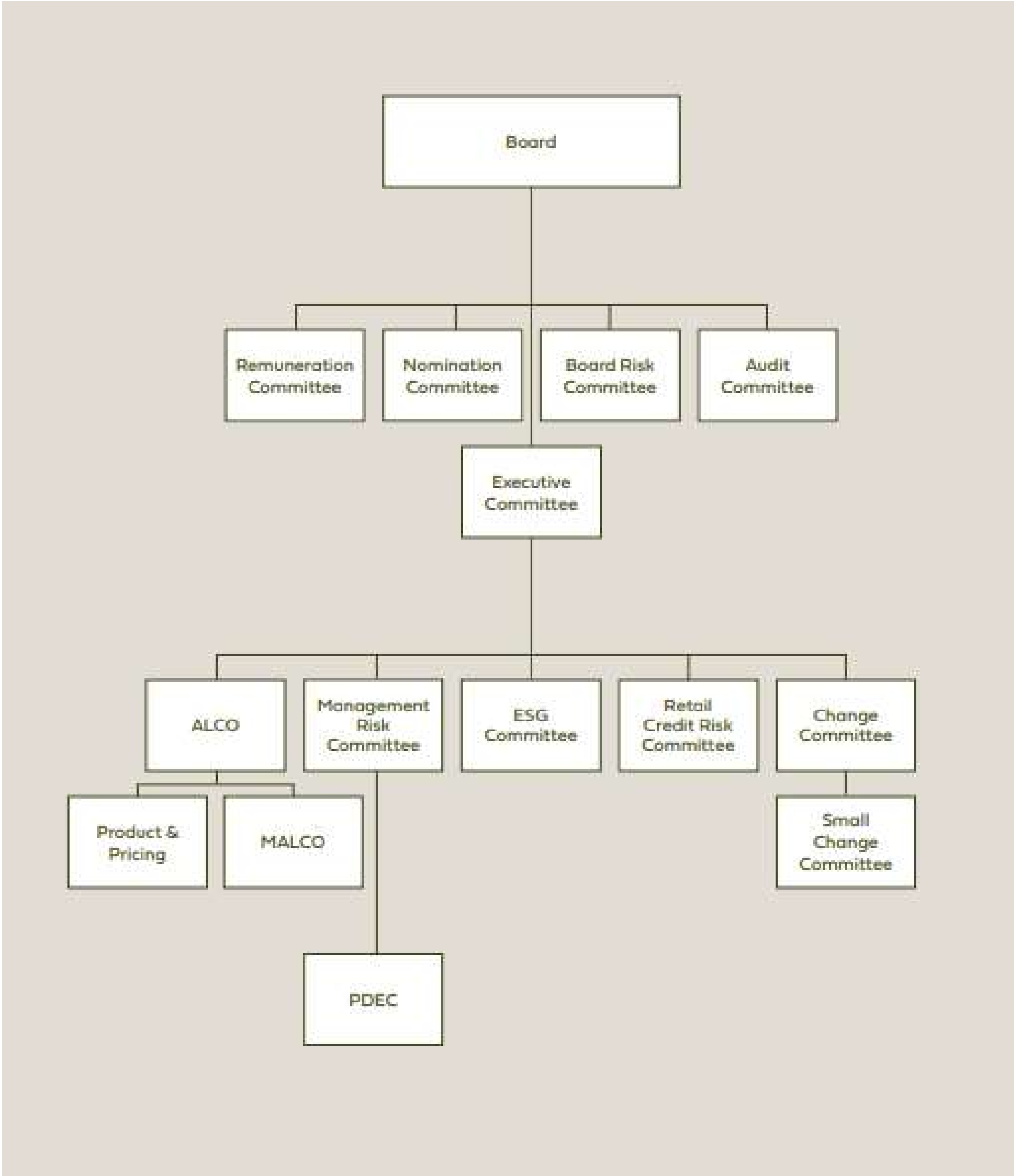
The Society also undertakes climate related stress testing as part of the ICAAP to assess the impact from selected transitional and physical risks to the Society's lending portfolio. The 2023 analysis highlighted that there were no significant material capital add-ons required from the scenarios in question.

2.4 Main Board and Committee Structure

2.4.1 Board of Directors

The Society's Board of Directors comprises two Executive Directors and six Non-Executive Directors.

The Board governance and committee framework is as shown below:



From a risk management perspective there are two Board appointed committees which report directly to the Board; the Board Risk Committee and Audit Committee.

In addition the Group's Assets and Liabilities Committee (ALCO) chaired by the Chief Executive Officer, the Management Risk Committee and Retail Credit Risk Committee, both Chaired by the Chief Risk and Compliance Officer, provide reports to the Board Risk Committee with all three comprised of Executives and members of the Senior Management team.

2.4.2 Audit Committee

Composition: Three Non-Executive Directors

The Audit Committee comprises only Non-Executive Directors in order to maintain independence which is crucial in assessing the work of Management and the assurance provided by the Internal and External Audit functions. The Committee invites Executive Directors together with representatives from the Internal and External Auditor to attend the meetings and also regularly meets with the Internal and External Auditor and the Society's Chief Risk and Compliance Officers independently.

Main Functions: The key roles and responsibilities delegated to the Committee by the Board are to:

- monitor the integrity of the Society's external financial reporting, including reviewing the appropriateness of significant financial reporting judgements
- providing advice to the Board on whether the Annual Report & Accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for members to assess the Society's position and performance, business model and strategy
- review the effectiveness of the Society's internal controls and risk management systems
- ensure that there are satisfactory whistleblowing arrangements to enable employees to raise any concerns about possible improprieties and that there are effective arrangements for investigation of any such concerns
- monitor and review the activities and performance of both Internal and External Auditors and the Society's Compliance function.

The Audit Committee meets on a quarterly basis, with additional meetings held as required to approve the Annual Report & Accounts.

2.4.3 Board Risk Committee

Composition: Non-Executive Directors, Finance Director and Chief Risk and Compliance Officer

Main Functions: The Committee's main roles are:

- advise the Board on risk appetite, which is the amount of risk the Society is willing to take in pursuit of its strategic objectives
- regularly assess the principal risks facing the Society
- monitor and review the effectiveness of the risk framework to ensure that key risks are identified and appropriately managed
- ensure the Risk function is adequately resourced to perform effectively
- provide technical reviews of key policies and critical documents.

2.4.4 Nomination Committee

Composition: Non-Executive Directors, Chief Executive Officer and Head of HR

Main Functions: The Committee's main roles are:

- review and recommend the structure, size and composition of Board
- advise Board on succession planning for senior roles
- review leadership requirements of the organisation and oversee recruitment and selection process of Board appointments including identification of suitable candidates
- recommend to Board on the appointments and removal of roles with SMF responsibilities
- oversee performance appraisal of Executives and evaluate Directors' performance evaluation process

2.4.5 Remuneration Committee

Composition: Three Non-Executive Directors

Main Functions: The Committee's main roles are:

- Determining the terms, consideration and remuneration of our Char and Executive Directors
- Approving the terms, conditions and remuneration of Board appointed roles and the Senior Management Team on the recommendation of the Chief Executive
- Approving the terms, conditions and remuneration of the Chief Executive on the recommendation of the Chair

2.4.6 Assets and Liabilities Committee (ALCO)

Composition: Chief Executive Officer (Chair), Finance Director (Deputy Chair), Chief Risk and Compliance Officer, Head of Prudential Risk, Group Treasurer (Secretary), Chief Commercial Officer, Head of Mortgage Strategy, Head of Finance, Head of Savings Strategy.

Main Functions: The Committee is an executive decision making committee whose decisions and recommendations are reported to the Board on a monthly basis. The principal objective of the Committee is:

- to ensure that the Society's overall objectives with regard to liquidity, funding and interest rate risk are appropriately managed, controlled and aligned with Corporate Plan objectives and risk appetites
- to review the Society's treasury activity and the current and proposed strategy and limits for liquidity, wholesale funding and hedging activities
- to ensure that the Group complies with Society and Regulatory limits
- to implement and control Board approved liquidity risk appetite and pricing policy across all business lines.

The Committee receives a variety of reports to enable it to discharge the above mentioned responsibilities and meets at a minimum of 9 times a year and more frequently when necessary.

2.4.7 Management Risk Committee

Composition: Chief Risk and Compliance Officer (Chair), Chief Commercial Officer, Operations & Change Director, Director of Operational Resilience & Strategic Change, Head of Compliance, Head of HR, Chief Information Officer, Finance Director, Operational Risk Manager, Conduct Risk Manager and Planning & Control Lead.

Main Functions: The Committee is a management committee that provides oversight over the Society's Operational, Conduct and Strategic Risk profile:

- to receive, review and challenge Operational and Conduct Risk MI to ensure that the risks are managed within the Board's Risk Appetite and the Society's risk limits
- to review and consider any proposed changes to the Society's controls and recommend any material changes to the Executive Committee
- to review the Operational Risk and Conduct Risk policies (and any supporting policies) and recommend any changes to the Board Risk Committee.

The Committee receives a variety of reports to enable it to discharge the above mentioned responsibilities and meets at a minimum six times a year and more frequently when necessary.

2.4.8 Retail Credit Risk Committee

Composition: Chief Risk and Compliance Officer (Chair), Director of Operations & MLRO, Chief Commercial Officer, Credit Risk Manager, Head of Finance, Group Treasurer, Head of Mortgage Strategy and Underwriting Manager.

Main Functions: The Committee is a management committee that provides oversight over the Society's Credit Risk profile:

- to receive and challenge credit risk MI to ensure that the credit risks are managed within the
- Board's Risk Appetite and the Society's risk limits
- to monitor the performance of the Society's underwriting controls and the management of arrears
- to review the Credit Risk Policy and any proposed changes to the key underwriting controls and/or new products and where appropriate recommend these to the Board Risk Committee and/or Board for approval.

The Committee receives a variety of reports to enable it to discharge the above mentioned responsibilities and meets at a minimum on a monthly basis and more frequently when necessary.

3 Capital Resources

3.1 Overview of RWAs and Minimum Pillar 1 Capital Requirements

Table 2: UK OV1 – Overview of risk weighted exposure amounts

		Risk weighted exposure amounts (RWEAs) Dec-23 £m	Risk weighted exposure amounts (RWEAs) Dec-22 £m	Total own funds requirements Dec-23 £m
1	**Credit risk (excluding CCR)**	**437.51**	**400.40**	**35.00**
2	Of which the standardised approach	437.51	400.40	35.00
3	Of which the foundation IRB (FIRB) approach	-	-	-
4	Of which slotting approach	-	-	-
UK 4a	Of which equities under the simple risk weighted approach	-	-	-
5	Of which the advanced IRB (AIRB) approach	-	-	-
6	**Counterparty credit risk - CCR**	**0.11**	**2.06**	**0.01**
7	Of which the standardised approach		2.06	
8	Of which internal model method (IMM)	-	-	-
UK 8a	Of which exposures to a CCP	0.11	-	0.01
UK 8b	Of which credit valuation adjustment - CVA	-	-	-
9	Of which other CCR	-	-	-
15	Settlement risk	-	-	-
UK 22a	**Large exposures**	**-**	**-**	**-**
23	**Operational risk**	**37.75**	**29.53**	3.02
UK 23a	Of which basic indicator approach	37.75	29.53	3.02
UK 23b	Of which standardised approach	-	-	-
UK 23c	Of which advanced measurement approach	-	-	-
24	Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)	0.00	0.00	0.00
29	**Total**	**475.37**	**431.99**	**38.03**

3.2 Reconciliation of Regulatory Capital to the Annual Report

Table 3: Year-end balance sheet assets reconciled to regulatory exposures

Reconciliation of Regulatory Capital	Dec 23 (£m)	Dec 22 (£m)
General Reserves	84.9	82.6
Available for Sale Reserve	0.3	(0.2)
Total Reserves in Statement of Financial Position	**85.2**	**82.4**
Intangible Assets	(0.5)	(0.8)
Subordinated Debt	-	-
Defined Benefit Pension Assets	(1.2)	-
Collective Impairment Provisions	0.6	0.5
Regulatory Capital	**84.1**	**82.1**

4 Capital Requirements

4.1 Approach to assessment of adequacy of capital

Under Pillar 1 the Group has followed the Standardised Approach permitted by CRD IV when calculating the minimum capital requirement for Credit Risk and the Basic Indicator Approach in relation to Operational Risk. This approach involves applying a regulator-defined risk based percentage requirement calculation to produce the Group's minimum Pillar 1 credit and operational risk capital requirements.

As required under Pillar 2, the Society's Board also performs a further assessment of the risks that the Group is exposed to and calculates the additional amount of capital that it considers necessary to cover these risks over and above Pillar 1 minimum requirements.

This is covered in the Society's annual ICAAP, which ensures that its capital resources are sufficient to support its business plan in both normal and stressed economic conditions. The ICAAP serves two key purposes:

- an annual assessment of the Group's firm specific Pillar 2A risks plus a Pillar 2B forecast stress test scenario, based on its current and future risk profile as per the business plan
- an assessment of the Group's ability to meet its current Total Capital requirements, provided by the Prudential Regulatory Authority (PRA), on a forecast basis.

Based on the ICAAP assessment, the Board closely monitors and controls the Society's regulatory capital levels to ensure all Pillar 1, 2 and buffer requirements set by the PRA are met. It is important that the Group maintains sufficient capital to support its ongoing activities and this requirement is an integral part of the Group's corporate planning process.

The credit risk related capital requirement for various types of mortgage lending and treasury related investments has a major influence on the Group's appetite for such exposures with limits being established and monitored on a regular basis for each type of credit exposure.

The Group undertakes regular stress testing of each major credit risk component with the results of this testing influencing business decisions on an ongoing basis.

4.2 Pillar 1 Capital Requirement - Credit Risk

The Group applies the 'Standardised Approach' to credit risk under CRD IV. The Pillar 1 credit risk capital requirement under this approach is calculated using the formula below:

- Exposure value x applicable risk weight (driven by asset type, counterparty, LTV and performing/past due status) x 8%.

The Group's minimum Pillar 1 credit risk capital requirement as at 31 December 2023 is £38.03m.

Table 4: UK CR4 – Standardised approach – Credit risk exposure and CRM effects December 2023

Standardised exposures in the below table are stated on two different bases (pre-CCF and CRM and post-CCF and CRM). RWA density is RWA as a percentage of exposures post CCF and CRM.

Exposure classes	Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWAs and RWAs density	
	On-balance-sheet exposures	Off-balance-sheet exposures	On-balance-sheet exposures	Off-balance-sheet amount	RWAs	RWAs density
	£'000	£'000	£'000	£'000	£'000	%
Central governments or central banks	97,071	-	97,071	-	-	-
Regional government or local authorities	-	-	-	-	-	-
Public sector entities	-	-	-	-	-	-
Multilateral development banks	23,374	-	23,374	-	-	-
International organisations	-	-	-	-	-	-
Institutions	61,154	-	61,154	-	19,143	31.30%
Corporates	6,090	-	6,090	-	492	8.08%
Retail	10,469	5,763	10,469	2,882	9,960	74.60%
Secured by mortgages on immovable property	1,058,793	71,786	1,058,793	35,893	384,403	35.12%
Exposures in default	3,388	-	3,388	-	3,318	97.93%
Exposures associated with particularly high risk	-	-	-	-	-	-
Covered bonds	26,963	-	26,963	-	2,696	10.00%
Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
Collective investment undertakings	-	-	-	-	-	-
Equity	-	-	-	-	-	-
Other items	24,428	-	24,428	-	17,612	72.10%
TOTAL	**1,311,730**	**77,549**	**1,311,730**	**38,775**	**437,624**	**32.40%**

Table 5: UK CR4 – Standardised approach – Credit risk exposure and CRM effects December 2022

Exposure classes	Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWAs and RWAs density	
	On-balance-sheet exposures	Off-balance-sheet exposures	On-balance-sheet exposures	Off-balance-sheet amount	RWAs	RWAs density
	£'000	£'000	£'000	£'000	£'000	%
Central governments or central banks	139,836	-	139,836	-	-	-
Regional government or local authorities	-	-	-	-	-	-
Public sector entities	-	-	-	-	-	-
Multilateral development banks	18,394	-	18,394	-	-	-
International organisations	-	-	-	-	-	-
Institutions	10,313	-	10,313	-	2,063	20.00%
Corporates	6,205	-	6,205	-	494	7.95%
Retail	4,940	1,004	4,940	502	3,606	66.27%
Secured by mortgages on immovable property	1,033,805	82,151	1,033,805	41,633	377,644	35.12%
Exposures in default	949	-	949	-	950	100.05%
Exposures associated with particularly high risk	-	-	-	-	-	-
Covered bonds	14,096	-	14,096	-	1,410	10.00%
Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
Collective investment undertakings	-	-	-	-	-	-
Equity	-	-	-	-	-	-
Other items	26,269	-	26,269	-	16,297	62.04%
TOTAL	**1,254,807**	**83,155**	**1,254,807**	**42,135**	**402,462**	**31.03%**

Below is a breakdown of credit risk exposures under the standardised approach by asset class and risk weight.

Table 6: UK CR5 – Standardised approach – exposure by assets class 2023

	Exposure classes	Risk weight															Total	Of which unrated
		0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Others		
1	Central governments or central banks	97,071	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**97,071**	97,071
2	Regional government or local authorities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	-
3	Public sector entities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	-
4	Multilateral development banks	23,374	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**23,374**	-
5	International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	-
6	Institutions		-	-	-	38,112	-	23,042	-	-	-	-	-	-	-	-	**61,154**	-
7	Corporates	-	5,712	-	-	-	-	-	-	-	378	-	-	-	-	-	**6,090**	6,090
8	Retail exposures	-	-	-	-	-	-	5,763	-	10,469	-	-	-	-	-	-	**16,232**	16,232
9	Exposures secured by mortgages on immovable property	-	-	-	-	-	1,056,794	71,786	-	-	1,999	-	-	-	-	-	**1,130,579**	1,130,579
10	Exposures in default	-	-	-	-	-	-	-	-	-	3,342	46	-	-	-	-	**3,388**	3,388
11	Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	-
12	Covered bonds	-	-	-	26,963	-	-	-	-	-	-	-	-	-	-	-	**26,963**	26,963
13	Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	-
14	Units or shares in collective investment undertakings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	-
15	Equity exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	-
16	Other items	720	-	-	-	-	-	12,192	-	-	11,516	-	-	-	-	-	**24,428**	24,428
17	TOTAL	121,165	5,712	-	26,963	38,112	1,056,794	112,783	-	10,469	17,235	46	-	-	-	-	1,389,279	1,304,751

Table 7: UK CR5 - Standardised approach – exposure by assets class 2022

	Exposure classes	Risk weight															Total	Of which unrated
		0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Others		
1	Central governments or central banks	139,836	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**139,836**	139,836
2	Regional government or local authorities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	-
3	Public sector entities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	-
4	Multilateral development banks	18,394	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**18,394**	-
5	International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	-
6	Institutions		-	-	-	10,313	-	-	-	-	-	-	-	-	-	-	**10,313**	-
7	Corporates	-	5,828	-	-	-	-	-	-	-	377	-	-	-	-	-	**6,205**	6,205
8	Retail exposures	-	-	-	-	-	-	-	-	5,789	-	-	-	-	-	-	**5,789**	5,789
9	Exposures secured by mortgages on immovable property	-	-	-	-	-	1,113,342	-	-	-	2,429	-	-	-	-	-	**1,115,771**	1,115,771
10	Exposures in default	-	-	-	-	-	-	-	-	-	948	1	-	-	-	-	**949**	949
11	Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	-
12	Covered bonds	-	-	-	14,096	-	-	-	-	-	-	-	-	-	-	-	**14,096**	14,096
13	Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	-
14	Units or shares in collective investment undertakings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	-
15	Equity exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	-
16	Other items	1,048	-	-	-	-	-	19,274	-	-	5,472	-	475	-	-	-	**26,269**	26,269
17	TOTAL	159,278	5,828	-	14,096	10,313	1,113,342	19,274	-	5,789	9,226	1	475	-	-	-	1,337,622	1,308,915

5 Remuneration

5.1 Information relating to the body that oversees remuneration

5.1.1 Composition and mandate of oversight body

The Society has an established Remuneration Committee to assist in fulfilling its independence, oversight and governance responsibilities in connection with the setting and monitoring of terms, conditions and levels of remuneration of Directors, Executives and Senior Management. The full Terms of Reference for the Committee are available on the Society's website and include the following:

- To promote effective risk management practices and decisions which protect the long term interests of the Society, its members and other stakeholders.
- To ensure that the Society offers employment packages that will attract, retain and motivate employees of the right calibre in the posts within the Committee's remit. The Committee will maintain a balance against the overarching need to be affordable in the context of the performance of the business.
- To ensure that the remuneration of Executive Directors include a performance related element that aligns their interests with those of the Society members and that their service contracts contain provisions that ensure poor performance is not rewarded.
- Maintain oversight of the Remuneration Policy Statement and practices generally within the Society, and make recommendations to the Board as appropriate.
- To exercise independent judgement and discretion when authorising remuneration outcomes, taking account of Society and individual performance, and wider circumstances.

The Remuneration Committee is made up of four Non-Executive Directors, including the Chair of the Risk Committee. The Chief Executive and Chief Risk and Compliance Officer also attend except when the Chair concludes that the matter under discussion is sensitive. The meeting is chaired by an appointed Non-Executive Director and generally meets five times each year

5.1.2 External consultancy

The Society commissioned Hays Executive to carry out their evaluation of current and new roles in the Executive/Senior Management population which repositioned a small number of remuneration packages to be more aligned to the external market findings.

The Society's Remuneration Policy, 'The Policy', was further enhanced to clarify the Executive Annual and Deferred bonus rules relating to payment dates and to remove any ambiguous terminology. This work was carried out by an independent legal advisory firm. The Remuneration Committee endorsed the recommended changes and all relevant bonus members received correspondence clarifying the changes.

5.1.3 Material risk takers (MRTs)

The Remuneration Committee seeks assurance from the Chief Risk and Compliance Officer that the list of MRT's are those staff who carry out professional activities which have a material impact on the Society's risk profile. It has been determined that in addition to the 6 Non-Executive Directors and 2 Executive Directors in post during all or part of 2022, 8 other Executives and Management are designated as being MRT's and are subject to the Remuneration Code. These individuals perform a professional activity, within a material business function, that has a significant impact on the relevant function's risk profile.

5.2 Information relating to the design and structure of the remuneration system for identified staff

5.2.1 Overview of the key features and objectives of remuneration policy

The Society's Remuneration Policy, 'The Policy', aims to align the remuneration of all employees (including Executive Directors) with the business strategy, objectives and long term interests of the Society, and the effective management of risks to discourage excessive risk taking.

'The Policy' is designed to provide attractive and fair packages which will appeal to, motivate and retain high performing individuals. At all times the Board has to balance the interests of our members, by spending money effectively, versus the need to develop the Society by attracting and retaining the talent it needs.

The Society is not a large financial institution and as such we aim to make our approach to remuneration simple to apply and administer whilst ensuring alignment to the risk profile and governance framework.

Key components of our leadership remuneration structure includes a high proportion of fixed pay providing a secure form of income to our colleagues. To provide the ability to influence earnings potential through performance excellence, there is also an element of variable pay of up to 40% of basic salary of which 50% is deferred for 3 years – for Executive colleagues only. This element of the remuneration structure also encourages decisions to be taken for the longer term benefit of the Society whilst protecting the interests of our valued members. Other leadership bonus structures pay up to 20% annual only.

The Society's remuneration practices take into account the following principles:

- Risk Management: all packages and incentive programmes are critically reviewed to ensure that they do not expose the Society to risk and that they are consistent with our risk tolerances. 'The Policy' contains deferment and claw-back clauses to take account of future risks.
- Supporting the Society's strategy, values and long term interests: variable pay schemes are designed with reference to the Society's values whilst recognising sustainable business volumes.
- Governance: all remuneration policies and specific remuneration schemes are reviewed on an annual basis by the Remuneration Committee with involvement of the Chief Risk and Compliance Officer (CRCO).
- Affordability: the Society recognises its primary interest is in promoting the interests of its members. Remuneration is controlled in such a way that the capital base of the Society is not put at risk.
- The Society closed its Final Salary Pension Scheme, 'The Scheme' in 2000. Benefits paid from 'The Scheme' are controlled through an independent board of pension trustees in accordance with its rules. The Society operates a Defined Contribution Scheme and pension benefits are standard across all staff.
- The remuneration framework is structured so that all staff are paid a competitive market salary and that all variable pay schemes are additional, proportionate and based on the performance of both the individual and the Society.
- The Society does not pay less than the rate of the National Living Wage Foundation Scheme.

The decision-making process used for determining the Remuneration Policy is the responsibility of the Remuneration Committee with the involvement of the CRCO. The Committees' membership includes the Chair of the Risk Committee who applies their independent oversight of the appropriateness of our remuneration structures in line with the Society's risk appetite. This approach ensures that we operate reward schemes which do not offer any financial incentives for individual or business underperformance; for acting in the detriment of the customer or Society's interests and for any breach of quality standards or service delivery.

5.2.2 Information on the criteria used for performance measurement and ex ante and ex post risk adjustment

In line with the Remuneration Policy, the Remuneration Committee ensures that bonus rules have been followed through the involvement of the CRCO. The CRCO validates all evidence prior to the Remuneration Committee approving any bonus or incentive payment.

The evaluation of Executive Directors performance is weighted towards the achievement of the Corporate Plan KPI targets. Executive Service Contracts contain provisions which ensure poor performance is not rewarded. Material Risk Takers participate in our performance management process in the same manner and are also subject to separate certification as 'fit' and 'proper' on an annual basis.

Each Executive Director is responsible for overseeing the delivery of objectives of the employees within their area to ensure consistency. The Remuneration Committee is responsible for noting the objectives of the Chief Executive Officer (CEO) once agreed with the Chairman of the Board.

The Society is entitled to implement performance adjustment, as defined in the Remuneration Policy or in any appropriate manner where the Bonus Recipient has:

- participated in or was responsible for conduct which resulted in significant losses or regulatory consequences for the Society or relevant business unit; or there is reasonable evidence of fraud, serious dishonesty or other wrongdoing on the part of the Bonus Recipient which would have resulted in the bonus not being paid had the Society known about it at the time the relevant award was declared; or
- failed to meet appropriate standards of fitness and propriety;

Or where the Society has:

- suffered a material failure of risk management; or
- been required to restate its accounts to a material extent.

Any decision regarding performance adjustment shall be taken by the Remuneration Committee in its absolute discretion having considered all available evidence. The Remuneration Committee reserve the right to request further evidence as required.

Performance adjustment may include, but is not limited to:

- The Society reducing the amount of any deferred bonus which the Bonus Recipient is entitled to.
- The Society requiring the Bonus Recipient to repay to the Society on demand, on a gross basis, any bonus payments received, at any time during the 3 year period after such awards have been paid.
- The Society requiring the Bonus Recipient to forfeit the whole of any bonus awarded but not yet paid.

5.2.3 Information on how the institution ensures that staff in internal control functions are remunerated independently of the businesses they oversee

Colleagues in control functions are part of the same performance management process as all other colleagues. Due care and attention is made to ensure that the methodology to determine any fixed or variable pay does not compromise their objectivity. As such, the CEO sets and reviews delivery of their objectives with input and involvement from the Chair of the Risk and Audit Committees'.

The Chair of the Risk Committee is also an active member of the Society's Remuneration Committee and any recommendations for variable or fixed pay are independently assessed by this Committee.

External independent benchmarking takes place on an annual basis. The findings and recommendations are considered by the Remuneration Committee on the recommendation of the CEO.

5.2.4 Policies and criteria applied for the award of guaranteed variable remuneration and severance payments

The Society does not operate guaranteed variable remuneration and therefore, has no criteria with respect to this.

The purpose of the Redundancy Policy is to take into account any circumstances where changes in the market, technology, and organisational requirements necessitate the need for reductions in staffing levels leading to subsequent redundancies. This Policy has been developed as a broad framework to try to ensure that any necessary reduction in staff numbers takes place in a systematic, consistent and fair manner.

The Redundancy Policy was developed and approved by the Board in 2018. The formula is based on employees who have over 12 months' service with the business (enhanced from the statutory entry point of 24 months' service). Additionally, the Policy ensures that we offer in excess of statutory redundancy payments to ensure we are able to financially support our colleagues in these unfortunate circumstances. The Society reserves the right to revise the Redundancy Policy taking into account internal and external market influences.

5.3 Description of the ways in which current and future risks are taken into account in the remuneration processes

The Society's risk register contains details of the key risks which have been developed through both the Management Risk Committee and the Board Risk Committee. These risks are reviewed on a regular basis.

The Chair of the Risk Committee and the CRCO attends the Remuneration Committee meetings. They provide an independent assessment of all variable remuneration structures and levels of financial reward.

The Society's Remuneration Policy includes a Performance Adjustment clause which provides the right to withhold, withdraw or defer any bonus payment. There is set criteria which explains when the business will consider exercising Performance Adjustment. This criteria is presented in 5.2.2 above.

5.4 The ratios between fixed and variable remuneration set in accordance with Article 94(1) of CRD

The ratios for variable remuneration range from 0 – 40% of which 50% is deferred for 3 years. This means the maximum of variable remuneration equates to 29% of total remuneration.

5.5 Description of the ways in which the institution seeks to link performance during a performance measurement period with levels of remuneration

5.5.1 Overview of main performance criteria and metrics for the institution, business lines and individuals

The performance process is consistently applied across all levels of staff and are based on three key measures:

- Behaviours in line with business expectations and culture;
- Competency assessment against the role requirements;
- Delivery of personal and business objectives.

All measures carry equal weighting and are subject to calibration by the CEO and the Executive team. The CEO's own performance rating is agreed with the Society's Chairman. The Remuneration Committee is responsible for deciding the terms, conditions and remuneration of the Executive Directors.

The agreement of the overall performance rating can range from 1 – 5 (5 being for 'Exceptional Performance'. Any rating below a '3 – Meet Expectations' does not attract any percentage increase to fixed pay nor does it meet the eligibility criteria for any variable pay award.

There is a maximum variable pay percentage and bonus pay-out is based on the delivery of the Corporate Plan KPI's. For 2022 these related to delivery of Strategic Projects; Financials; Risk & Control environment; Colleague and Members feedback and Product Development. Each measure is open to robust scrutiny by the Remuneration Committee and independent review by the CRCO.

The CEO undertakes performance reviews with each member of the Executive team, discussing their performance with the input from the Non-Executive Directors. The performance ratings are agreed with the Executive member based on behaviours, competencies and the delivery of personal and business objectives. The performance ratings and supporting evidence are presented to the Remuneration Committee for oversight.

The Chairman carries out a performance review with the CEO.

The CRCO provides written assurance to the Remuneration Committee that supporting evidence relating to bonus/incentive payments are correct and variable pay meets the bonus rules, risk management framework and regulation.

5.5.2 Overview of how amounts of individual variable remuneration are linked to institution-wide and individual performance

Our approach measures and rewards Executive and Senior Management performance by means of a balance scorecard framework which links the variable pay structure to the delivery of the Corporate Plan objectives. The Remuneration Committee approve the variable pay percentage attributed to the delivery of each objective once the business plan has been approved by the Board. Each objective is measured through the assessment of individual, functional and overall business performance. An individual performance rating is allocated during the end of year performance review. The CEO determines the performance rating of the Executive and the Executive determines the performance rating for their functional Senior Management. In the event an unsatisfactory performance rating is allocated, the team member will not be eligible to an increase to their fixed pay or any amount of individual variable remuneration.

5.5.3 Criteria used to determine the balance between different types of instruments awarded including shares, equivalent ownership interest, options and other instruments

As a mutual, the Society uses cash as its only award instrument.

5.5.4 Information of the measures the institution will implement to adjust variable remuneration in the event that performance metrics are weak, including the institution's criteria for determining "weak" performance metrics

The Society's performance management process includes regular one to one meetings with staff members with two formal performance review meetings which take place at mid-year and year-end. Individual performance is assessed using 5 different behavioural competencies and the requirements of the role they perform. During the end of performance review process, each member of staff receives an overall performance rating based on their previous 12 months performance.

Prior to the distribution of performance ratings a moderation workshop takes place with the Executive team. During this meeting the Executive team constructively challenge high and low staff performance ratings where applicable. This is to ensure consistency of the performance management process.

All increases to fixed pay are based on individual performance ratings are subject to formal review by HR and the Executive Committee. Increases to fixed pay for the Executive team follows the same application of the performance management process. The CEO allocates individual performance ratings to the Executive team based on the previous 12 months' performance and the Chairman allocates the performance rating of the CEO.

Awards for variable pay is subject to scrutiny by the Remuneration Committee and the CRCO once the evaluation of supporting evidence has taken place:

- Confirmation that the Bonus Recipient has maintained the minimum eligibility criteria required for payment of the bonus for the duration of the Financial Year and in respect of the deferred bonus for the duration of the deferred term;
- Confirmation of the Bonus Recipient's participation in the Scheme for the duration of the relevant Financial Year;
- Confirmation of the amount due to each Bonus Recipient;
- Confirmation that there has been no misconduct on the part of the Bonus Recipient, during the Financial Year or the deferred term, that would result in the withdrawal of either the annual bonus or the deferred bonus;

The entry point to any fixed or variable pay is in line with our criteria for satisfactory performance, ie, rating '3' – 'Meets Expectations'. Staff members who do not meet this criteria are not eligible for any variable pay or increases to fixed pay.

The Remuneration Committee provide a rigorous and carefully controlled approach to assessing individual performance ratings for Executive members

5.6 Description of the ways in which the institution seeks to adjust remuneration to take account of long-term performance

5.6.1 Overview of the institution's policy on deferral, pay-out instrument, retention periods and vesting of variable remuneration including where it is different among staff or categories of staff

Our Remuneration Policy and Senior Leadership reward structure includes an element for variable pay deferral. The variable pay element of the remuneration structure ranges from 0 – 40% of which 50% is deferred for 3 years. There is also a 'Performance Adjustment' instrument in our bonus and incentive scheme rules which allows the reduction, withdrawal or payback of bonuses dependent on set criteria.

Table 8: UK REM1 – Remuneration awarded for the financial year ended December 2023

			a	b	c	d
			MB Supervisory function	MB Management function	Other senior management	Other identified staff
1	Fixed remuneration	Number of identified staff	6	2	6	3
2		Total fixed remuneration	228,866	462,735	825,970	291,779
3		Of which: cash-based	228,866	459,560	820,873	291,779
UK-4a		Of which: shares or equivalent ownership interests	-	-	-	-
5		Of which: share-linked instruments or equivalent non-cash instruments	-	-	-	-
UK-5x		Of which: other instruments	-	-	-	-
7		Of which: other forms	-	3,175	5,097	-
9	Variable remuneration	Number of identified staff	-	2	6	3
10		Total variable remuneration	-	145,639	234,847	29,938
11		Of which: cash-based	-	145,639	234,847	29,938
12		Of which: deferred	-	72,819	117,423	-
UK-13a		Of which: shares or equivalent ownership interests	-	-	-	-
UK-14a		Of which: deferred	-	-	-	-
UK-13b		Of which: share-linked instruments or equivalent non-cash instruments	-	-	-	-
UK-14b		Of which: deferred	-	-	-	-
UK-14x		Of which: other instruments	-	-	-	-
UK-14y		Of which: deferred	-	-	-	-
15		Of which: other forms	-	-	-	-
16		Of which: deferred	-	-	-	-
17	Total remuneration (2 + 10)		228,866	608,373	1,060,817	321,716

Table 9: UK REM2 - Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff)

There were no guaranteed variable remuneration awards or severance payments made during 2023 financial year.

Table 10: UK REM3 – Deferred remuneration

		a	b	c	d	e	f	UK - g	UK - h
	Deferred and retained remuneration	Total amount of deferred remuneration awarded for previous performance periods	Of which due to vest in the financial year	Of which vesting in subsequent financial years	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years	Total amount of adjustment during the financial year due to ex post implicit adjustments (i.e. changes of value of deferred remuneration due to the changes of prices of instruments)	Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year	Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods
1	MB Supervisory function	-	-	-	-	-	-	-	-
2	Cash-based	-	-	-	-	-	-	-	-
3	Shares or equivalent ownership interests	-	-	-	-	-	-	-	-
4	Share-linked instruments or equivalent non-cash instruments	-	-	-	-	-	-	-	-
5	Other instruments	-	-	-	-	-	-	-	-
6	Other forms	-	-	-	-	-	-	-	-
7	MB Management function	153,622	-	153,622	-	-	-	-	-
8	Cash-based	153,622	-	153,622	-	-	-	-	-
9	Shares or equivalent ownership interests	-	-	-	-	-	-	-	-
10	Share-linked instruments or equivalent non-cash instruments	-	-	-	-	-	-	-	-
11	Other instruments	-	-	-	-	-	-	-	-
12	Other forms	-	-	-	-	-	-	-	-
13	Other senior management	280,090	-	280,090	-	-	-	-	-
14	Cash-based	280,090	-	280,090	-	-	-	-	-
15	Shares or equivalent ownership interests	-	-	-	-	-	-	-	-
16	Share-linked instruments or equivalent non-cash instruments	-	-	-	-	-	-	-	-
17	Other instruments	-	-	-	-	-	-	-	-
18	Other forms	-	-	-	-	-	-	-	-
19	Other identified staff	-	-	-	-	-	-	-	-
20	Cash-based	-	-	-	-	-	-	-	-
21	Shares or equivalent ownership interests	-	-	-	-	-	-	-	-
22	Share-linked instruments or equivalent non-cash instruments	-	-	-	-	-	-	-	-
23	Other instruments	-	-	-	-	-	-	-	-
24	Other forms	-	-	-	-	-	-	-	-
25	Total amount	433,712	-	433,712	-	-	-	-	-

Table 11: UK REM5 – Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff)

		Management body remuneration			Business areas						
		MB Supervisory function	MB Management function	Total MB	Investment banking	Retail banking	Asset management	Corporate functions	Independent internal control functions	All other	Total
1	Total number of identified staff										**17**
2	Of which: members of the MB	6	2	8							
3	Of which: other senior management					6					
4	Of which: other identified staff					3					
5	Total remuneration of identified staff										
6	Of which: variable remuneration	-	145,639	145,639		264,784					
7	Of which: fixed remuneration	228,866	462,735	691,601		1,117,749					

6. Contacts

In the event of queries concerning the contents of this document, please contact one of the following:

Rob Williams	Head of Finance	Rob.Williams@furness-bs.co.uk
Laura Hamp	Finance Director	Laura.Hamp@furness-bs.co.uk