Pillar 3
Disclosures Document

31 December 2022

Contents

1. Introduction

1.1 Background

The Capital Requirements Regulations (CRR) and Capital Requirements Directive (CRD) together are referred to as CRD IV. CRD IV provides for consistent capital adequacy standards for banks and building societies and an associated supervisory framework which is enforced in the UK by the Prudential Regulation Authority (PRA). The legislation sets out the rules that determine the amount of capital such institutions must hold in order to provide security for members and depositors.

The rules include:

Pillar 1 Minimum regulatory capital requirements under Basel III, relating to credit, market and operational risks. The Society meets the minimum capital requirements by applying the Standardised Approach to credit risk and the Basic Indicator Approach to operational risk.

Pillar 2 Internal assessment of additional capital requirements relating to specific risks faced by the organisation in addition to the Pillar 1 minimum regulatory capital requirement. The results of this additional capital assessment are subject to review by the PRA through the Supervisory Review and Evaluation Process (SREP).

Pillar 3 Disclosure requirements for firms to publish key information about their risk assessment process and resulting capital adequacy. The external disclosures are designed to promote market discipline and raise standards through greater transparency of a firm's risk management framework and risk exposures.

1.2 Scope of application

This document sets out the Pillar 3 disclosures as at the 31 December 2022 for the Melton Building Society (the 'Society') and two of its subsidiaries (together the 'Group') which are aggregated on a solo-consolidated basis.

The two subsidiaries, MBS Lending Limited and NEXA Finance Limited, are wholly owned and funded by the Society. There are no current or foreseen material, practical or legal impediments to the prompt transfer of capital resources between the Society and any of its subsidiary undertakings.

- MBS Lending Limited is a specialist mortgage lender.

- Nexa Finance Limited is an alternative lending business which arranges secured finance for commercial SME borrowers for residential property development, with funding provided on a peer-to-peer lending basis by the Society and other institutional investors. Nexa Finance Limited has a wholly owned subsidiary, Nexa Lending & Security Services Limited (a company limited by guarantee) which holds the securities for the benefit of investors.

The Group financial statements also include the results of a third subsidiary, MMBS Services Ltd, but it does not form part of the solo-consolidated group for regulatory capital purposes.

The results of this subsidiary are not material to the Group and therefore, for capital purposes, the results of the solo consolidation and the results of the Group are assumed to be the same. MMBS Services trades as an appointed representative of the Mortgage Advice Bureau.

1.3 Basis and frequency of disclosures

This document deals with the requirements for Pillar 3 (disclosures) and the information provided here is in accordance with the rules and guidance contained in CRD IV.

Unless stated otherwise all data is as at 31 December 2022.

This document will be updated at least annually and will be based on the Group's most recent audited financial statements.

1.4 Location and verification

The document has been reviewed by both the Risk Committee and the Audit and Compliance Committee before receiving final sign off from the Board.

1.5 External audit

The disclosures provided in this document have not been subjected to external audit except where they are equivalent to those prepared under accounting standards for inclusion in the Group's audited financial statements.

2. Summary of key metrics

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

Table 1: UK KM1 – Key metrics

		2022 £m	2021 £m
	Amount of ow funds (amounts)		
1	Common Equity Tier 1 (CET1) capital	38.9	35.1
2	Tier capital	38.9	35.1
3	Total capital	38.9	35.1
	Risk weighted exposure amounts		
4	Total risk-weighted exposure amounts	254.7	219.5
	Capital ratios (as a percentage of risk-weighted exposure amount)		
5	Common Equity Tier 1 ratio (%)	15.3%	16.0%
6	Tier 1 ratio (%)	15.3%	16.0%
7	Total capital ratio (%)	15.3%	16.0%
	Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amounts		
UK 7a	Additional CET1 SREP requirements (%)	1.78%	1.78%
UK 7b	Additional AT1 SREP requirements (%)	-	-
UK 7c	Additional T2 SREP requirements (%)	-	-
UK 7d	Total SREP own funds requirements (%)	9.78%	9.78%
	Combined buffer requirement (as a percentage of risk weighted exposure amount)		
8	Capital conservation buffer (%)	2.50%	2.50%
9	Institution specific countercyclical capital buffer (%)	1.00%	-
11	Combined buffer requirement (%)	3.50%	2.50%
UK 11a	Overall capital requirements (%)	13.28%	12.28%
12	CET 1 available after meeting the total SREP own funds requirements (%)	5.52%	6.22%
	Leverage ratio		
13	Leverage ratio total exposure measure	605.3[1]	633.7
14	Leverage ratio	6.4%	5.5%
	Liquidity coverage ratio		
15	Total high quality liquid assets (HQLA) (Weighted vale – average)	104.8	119.1
UK 16a	Cash outflows – Total weighted value	43.2	37.3
UK 16b	Cash inflows – Total weighted value	18.4	14.6
16	Total net cash outflows (adjusted value)	24.8	22.7
17	Liquidity coverage ratio (%)	423%	525%
	Net stable funding ratio		
18	Total available stable funding	659.3	567.1
19	Total required stable funding	449.7	378.9
20	NSFR ratio (%)	147%	150%

[1] Leverage ratio exposure excludes qualifying central bank exposures

3. Risk management approach

This section sets out the Group's approach to managing risk.

3.1 Risk statement

The Board has a responsibility for ensuring the ongoing safety and soundness of the business and ensuring it can carry out its obligations in relation to its key business objectives, therefore remaining fit for purpose. To facilitate this the Board has agreed four key objectives in relation to Risk Appetite:

Protect Financial Stability	Maintain Capital Adequacy	Protect Reputation	Provide Fair Customer Outcomes
The Group will look to minimise those impacts to its financial performance, that could threaten the Group's solvency; or its ability to perform its obligations to its customers and employees.	The Group must always maintain capital within the minimum regulatory requirement. It will actively seek to minimise risks that would threaten the level of capital below its regulatory minimum.	The Group must protect against risks that could damage its reputation expressed for example, through: regulatory censure or fines; operational errors; poor service provision; and poor employee engagement.	The Group must strive to provide fair outcomes for customers. This encompasses ensuring there is appropriate allocation of resources to support customers' needs; and facilitating and embedding a positive conduct and culture environment.

The Group has adopted an Enterprise Risk Management Framework (ERMF) which means that all risks across all business areas are considered and managed under one structured framework. The procedures within the ERMF are designed to ensure compliance with applicable rules and regulations, support decision-making, assist in having efficient operations and support the delivery of a successful strategy.

The ERMF is underpinned by a number of additional risk policies and frameworks which articulate policy and risk limits in more detail for specific risk categories and is one of the ways risk appetite is implemented and executed throughout business areas.

Principal risk documents include:

- Risk Appetite Policy;
- Lending Policy;
- Conduct & Culture Framework;
- Financial Risk Management Policy;
- Remuneration Policy; and
- SM&CR Framework.

These are reviewed on a regular basis with the key components amended and approved by either the Board or a Board Sub-committee.

The Group does not disclose key ratios and figures relating to its risk appetite as they are considered to be proprietary information as per CRR Article 432.

3.2 Declaration

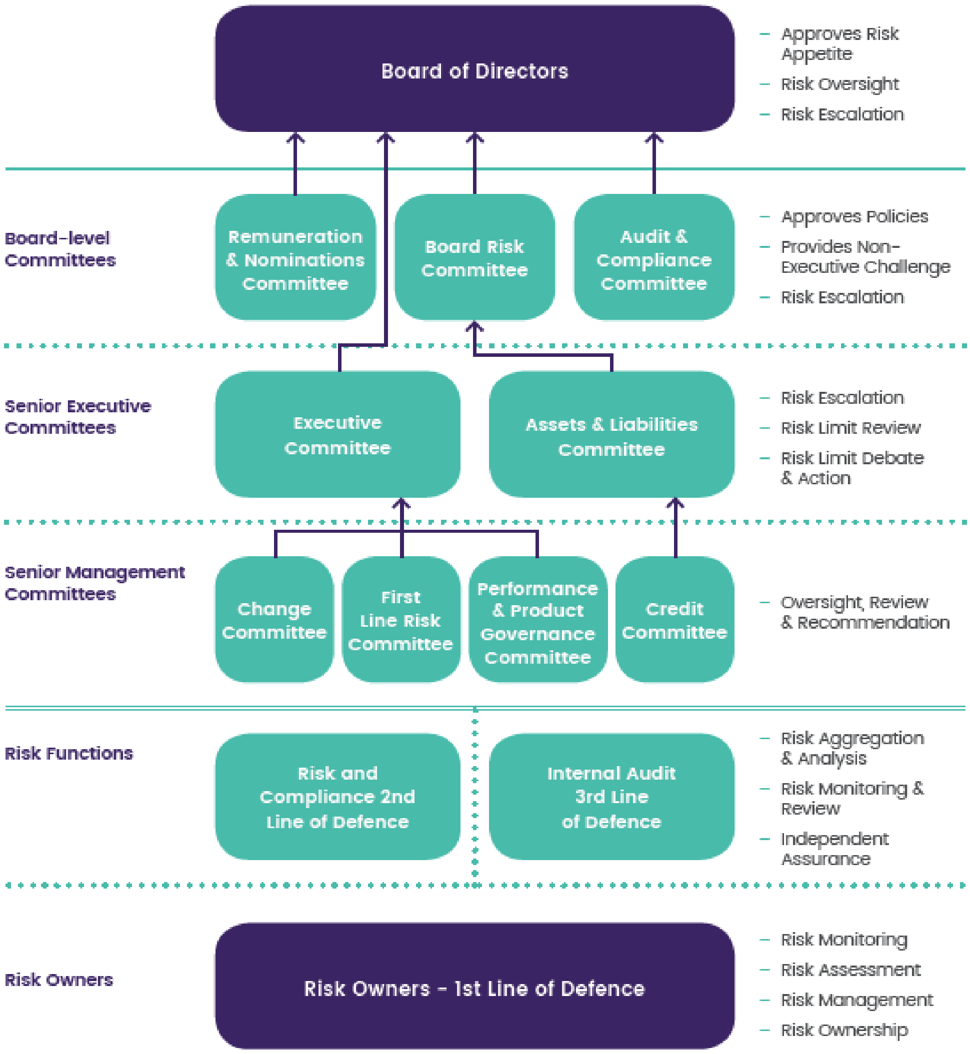
The Board, as the ultimate management body, is responsible for ensuring that the Society's risk management and internal control systems remain effective. As sub-committees of the Board, the Audit & Compliance Committee (ACC) undertakes an annual review of the effectiveness of the Group's system of internal controls and risk management and the Chair of the Risk Committee prepares an annual review of risk management. The reviews detail the current status of the internal controls and the risk management framework, including enhancements made in the year and key areas for further improvement.

The Audit & Compliance Committee gave assurance to the Board that there were no material breaches of risk management controls during the year.

The Board confirms, in accordance with Article 435(1)(e) of CRR, that the risk management systems and arrangements in place are adequate with regard to the Group's risk profile and strategy.

3.3 Risk governance structure

The Group has developed a proportionate Committee structure to manage risks across the business. An organigram outlining the Committee structure is shown below:



Other responsibilities

The Risk Governance Framework is supported by the Group's three lines of defence approach with risk responsibilities extending throughout all business areas and functions:

The Board sits above the three lines of defence and provides oversight to each line, setting the risk appetite for the Group and receiving reports from the Risk Committee, ACC, Remuneration and Nominations Committee, EXCO and ALCO to enable it to obtain an holistic view of the Group's risk management framework.

3.4 Risk Appetite, Risk policy statements and risk limits

The Board has approved a risk appetite for each risk category to which the Group is exposed and this forms part of the Group's Enterprise Risk Framework and Risk Appetite Policy.

Risk policy statements, which articulate policy and risk limits in more detail for specific risk categories, have been implemented to manage the risks faced by the Group within the defined risk appetite. The key policies include the Lending Policy and the Financial Risk Management Policy, which includes the Liquidity Policy. These contain detailed criteria and risk limits within which the business is managed. A Stress Testing Policy sets out the Group's stress testing framework, including the scope, nature and frequency of stress testing across the Group and the risk categories. The policies are reviewed by the Risk Committee, and amendments approved by the Board to ensure they remain relevant and appropriate.

3.5 Risk identification, monitoring and reporting

The Group operates formal processes to identify, monitor and report on risks to which it is exposed:

- Risk identification: The Group regularly reviews and monitors all of the key risks to which it is exposed. The risks that are identified are recorded, managed and monitored within the Group's Governance Risk and Compliance system (GRC). First Line Risk Owners carry out regular reviews, assessing: the current probability of occurrence; the current magnitude of impact; any changes to the risk or risk environment; any new or evolving risks; and assessment of the associated controls. Second Line own and manage the GRC, ensuring that reviews are scheduled in line with its Enterprise Risk Management Framework (ERMF) and overseeing and reporting on changes as appropriate;

- Risk monitoring: First Line Risk Owners manage and monitor their risks on a day-to-day basis including managing the business in accordance with the Group's Risk Appetite. There are 4 key sub-executive committees which help provide oversight of the management of risk in the First Line, these are: Performance and Product Governance (PPG), Change Committee, First Line Risk Committee (FLRC) and Credit Committee. The Executive Committee and the Assets and Liabilities Committee have the final oversight responsibility in their respective areas of expertise. In addition, the Incident Management Framework sets out the process for reporting and managing incidents, with impact identification and a clear escalation path. This process is managed by the Second Line within the GRC system; and

- Risk reporting: First Line Risk Owners produce regular reporting for both Executive and sub-Executive Committees on a regular basis covering Operational, Conduct, Prudential, Strategic and Credit Risk. The Chief Risk Officer (CRO) produces an independent overview of risks, including reporting on the Group's Risk Appetite metrics, details of emerging risks and movement in the Group's top risks. The Risk Committee reviews the CRO's report at each meeting. The Board also receives key risk information through the monthly Board Report.

3.6 Internal control framework

Internal controls are implemented to mitigate risks identified within each process to an acceptable level and are operated by staff and management within the first line of defence. All key controls are documented in the Risk Register.

The Risk, Compliance & Internal Audit functions undertake risk based work programmes in accordance with a Combined Assurance Plan approved by ACC. This usually includes the independent assessment of the effectiveness of key internal controls. The results of the work performed are reported to the Risk Committee and ACC.

3.7 Alignment of Risk Appetite with Strategy

Risk Appetite is a core part of the Group's ERMF. It clearly defines the amount and type of risks the Group is willing to take to meet its strategic and financial objectives.

It is created in conjunction with the Group Strategy and ensures that the business has clear guidelines and boundaries in relation to its risk-taking and business activities. It does this by:

- Providing a clear framework within which the strategy is executed and the business operates;

- Providing clear thresholds that are there to both prevent excessive risk-taking and to support the Group's strategy by preventing strategic drift; and

- Protecting the Group against external economic impacts.

When setting Risk Appetite in relation to the Group's Strategy the Board has four key objectives:

i) Protect its Financial Stability - The Group will look to minimise those impacts to its financial performance that could threaten the Group's solvency or its ability to perform its obligations to its customers and employees;

ii) Maintain Capital Adequacy - The Group must always maintain capital within the minimum regulatory requirement. It will actively seek to minimise risks that would threaten the level of capital below its regulatory minimum;

iii) Protect its Reputation - The Group must protect against risks that could damage its reputation expressed, for example, through regulatory censure or fines, operational errors, poor service provision and poor employee engagement; and

iv) Provide Fair Customer Outcomes - The Group must strive to provide fair outcomes for customers. This encompasses ensuring there is appropriate allocation of resources to support customers' needs, and facilitating and embedding a positive conduct and culture environment.

3.8 Embeddedness of the Enterprise Risk Management Framework

The Risk Committee periodically, but at least annually, considers the embeddedness of the Risk Management Framework across the Group. This assessment includes consideration of reports from the first, second and third lines of defence.

The Group's internal audit function (the third line) specifically reviews elements of the Group's risk management framework and its embeddedness over a three year planning cycle. The results of these reviews, initially reported to ACC, also inform the Risk Committee assessment.

3.9 Management information

The Group continuously assesses and seeks to improve management information to assist the Committees and the Board in discharging their terms of reference and improving risk management.

As noted above, the EXCO and the ALCO monitor risk metrics relating to their respective areas of responsibility. The Risk function monitors risk indicators, trends, external information and emerging risks, and the Chief Risk Officer presents an independent analysis of risk within the Group to the Risk Committee. The Risk Committee reviews this risk analysis at each meeting. The Board also monitors strategic risk information through the monthly Board Report.

4. Risk management policies and objectives

The Melton Building Society Group is primarily a retailer of financial products, mostly in the form of mortgages and savings. Surplus funds are invested in liquid assets with a range of counterparties.

The principal risks that the Group is exposed to are:

- Credit risk;
- Climate change;
- Operational risk (including financial crime);
- Conduct risk;
- Business risk;
- Liquidity risk;
- Interest rate risk (including basis risk); and
- Pension obligation risk.

Details of these risks are set out below. The Group is exposed to market risk through interest rate risk and pension obligation risk as described below. The Group does not operate a trading book and all assets and liabilities are denominated in Sterling.

4.1 Credit risk

4.1.1 Mortgage credit risk

Mortgage credit risk is the risk of loss if a borrower fails to make timely repayment of a loan or other credit commitment.

The Board has designed the Risk Appetite to avoid losses by targeting the origination of a balanced portfolio of assets that match the expertise and experience of its underwriters. The Group is on the PRA's Limited Approach (as set out in Supervisory Statement 20/15) for Mortgage Lending. The Group has no appetite for shared equity lending, high Loan-To-Value (LTV) lending without external insurance, lifetime mortgages, lending to social landlords or non-sterling mortgages.

ALCO and Credit Committee are responsible for monitoring credit risk associated with mortgage assets with oversight provided by the Risk Committee. Monitoring is undertaken through the review of the portfolio by lending category, mortgage arrears, forbearance, provisions analysis, mortgage concentration analysis, lending limit monitoring and stress testing. The Risk Committee receives reports relating to key decisions made at ALCO, an independent Risks Across the Board report from the Chief Risk Officer and access to all ALCO papers.

The Group has documented its general principles for mortgage lending and the detailed systems and controls for mitigating credit risk within its Lending Policy. These systems and controls include:

- The setting and regular monitoring of applicable lending limits, including product, borrower and loan related limits, to avoid concentrations of exposures in higher risk lending categories;

- The setting of full underwriting criteria for each product category, designed to ensure the adequacy of security, the creditworthiness of borrowers and the affordability of mortgage repayments;

- The manual assessment of all new mortgage applications by staff who are experienced in residential property finance and are accredited through a formal training and competence scheme. Mortgage applications are approved by staff with specific underwriting mandates;

- The use of appropriately qualified and experienced external property surveyors, solicitors and accountants to assist the assessment of mortgage applications as necessary;

- The prevention of mortgage fraud through thorough mortgage application assessment and use of external fraud prevention systems;

- The pricing of all new mortgage products using a model that incorporates an expected Probability of Default (PD) and Loss Given Default (LGD) to ensure that the margin received appropriately reflects the risks involved;

- The use of mortgage indemnity guarantee policies to insure the Group against the risk of lending at higher LTV ratios; and

- The use of insurance warranties to provide specialist cover in self-build and renovation lending.

All new mortgages are secured by a first charge over property in England & Wales.

The Group has a separate Arrears Policy covering the systems and controls relating to the processes for dealing with arrears and forbearance. The Group recognises that the personal and financial circumstances of our borrowers can be affected by deteriorating economic conditions and unplanned events. When this happens, we apply a formal policy directed towards forbearance and fair treatment of customers. The Group uses a number of forbearance measures to assist those borrowers including agreeing a temporary payment concession or a temporary transfer to interest only payments in order to reduce the borrowers' financial pressures. We expect borrowers to resume normal payments once they are able.

Any changes in policy are submitted to the ALCO for consideration before recommendation to the Risk Committee for approval.

4.1.2 Treasury credit risk

Treasury credit risk is the risk of loss if a treasury counterparty fails to make timely repayment of a loan or other credit commitment.

The Board has set the credit risk appetite for liquid assets by defining within the Financial Risk Management Policy the permissible instruments that can be used, the minimum counterparty credit ratings required and maximum counterparty and sector exposure limits. Any changes in policy are submitted to the ALCO for consideration before recommendation to the Risk Committee for approval.

Permissible counterparties include supranational bodies, the UK government, UK banks and building societies. The limits for all rated counterparty exposures are linked to Fitch credit ratings in addition to management's own assessment. Unrated building societies are assessed by ALCO.

The Finance department monitors counterparty exposures against the limits on a daily basis with a report to ALCO on a monthly basis. New counterparties or changes to existing counterparty limits are approved by ALCO and ratified by Risk Committee following due diligence by management.

4.1.3 Concentration risk

Concentration risk is the risk of loss due to either a large individual or connected exposure, or significant exposures to groups of counterparties who could be affected by common factors, including geographical location.

The Board has set limits for the geographical concentration of mortgage assets within all UK regions and the maximum value of large exposures to single or connected mortgage borrowers and treasury counterparties.

4.2 Climate change

The Group considers climate risk to be a key risk with a widespread impact that cuts across all existing principal risks, including: Operational, Credit, and Business.

The primary physical financial risk from climate change is the impact to property valuations from exposure to climate change risks including:

- Flood Risk;
- Subsidence Risk; and
- Coastal Erosion Risk

The Group also considers transitionary risks that it might be exposed to as a result of increased climate change risk.

The Group's risk appetite, policies, systems and controls relating to the management of climate change risk are set out in the Climate Change Policy which is approved by the Board and reviewed at least annually to ensure it remains appropriate and adequate.

4.3 Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, people, financial crime, the Group's IT systems, information security or from other external events.

The Board has set a risk appetite for the key sub-categories of operational risk and policies and procedures are maintained for all key internal processes. The EXCO is the senior committee responsible for monitoring operational risk with oversight provided by the Risk Committee. EXCO has delegated to the First Line Risk Committee responsibility for reviewing management information and assessing whether any further action needs to be taken. The First Line Risk Committee also considers the results of reviews undertaken by the Risk and Compliance team and Internal Audit function. Key decisions taken at First Line Risk Committee are reported to EXCO.

The Group calculates its operational risk capital requirement using the Basic Indicator Approach (BIA). This is calculated as 15% of the Society's net income averaged over the previous three years.

4.4 Conduct risk

Conduct risk is the risk of detrimental outcomes to customers derived from staff interaction throughout the product lifecycle.

The Group's aim in relation to all conduct matters is to ensure that good consumer outcomes arise from all customer interaction and to achieve customer satisfaction at all times. Where this does not occur the Group will endeavour to rectify the outcome as appropriate.

The Conduct and Culture Framework sets out the high-level values that staff are expected to demonstrate in all their dealings with consumers. In addition, the Group has detailed 'conduct' metrics to alert it to potential consumer detriment, ensuring that appropriate and timely action can be taken.

As with operational risk, the EXCO is the senior committee that oversees conduct risk, ensuring there are adequate controls implemented and that these are effective in managing conduct risk and delivering good customer outcomes. Key decisions taken at EXCO are reported to the Group's Risk Committee.

4.5 Business risk

Business risk is the risk of loss or reduction in profitability due to failure to achieve business objectives.

The Group's Strategic Plan, approved by the Board, sets out the key objectives and how key risks to achieving those objectives will be managed. The Group manages this risk by ensuring that a diverse range of products and services are in place, the setting of detailed financial and capital plans and the monitoring of actual performance against these plans by the Board. The Board and its Committees mitigate business risk through:

- Approval by the Board of the Strategic Plan;
- Approval by the Board of the annual budget, including detailed assumptions on business volumes, asset composition, margins, other income and expenditure. Key sensitivities to achievement of the plan are also included and monitored on an on-going basis;
- Risk identification, monitoring and reporting in line with the Board approved Risk Management Framework;
- Regular review by the Board of key performance indicators, key risk indicators and economic data relating to all elements of the strategic plan;
- Approval by the Board of all new business initiatives following an appropriate assessment of the risks involved;

- The new product development process owned by the Performance and Product Governance (PPG) Committee which has a reporting line in to ALCO;

- Monitoring of external markets and competitors by PPG; and

- Review and approval of all key policies and changes to existing policies as necessary by the Board or its committees.

At a management level, EXCO and ALCO each monitor specific areas of business risk. Oversight of business risk is provided by the Risk Committee which receives an independent view of risks across the board from the Chief Risk Officer and has access to all ALCO and EXCO papers.

4.6 Liquidity risk

Liquidity risk is the risk that the Group does not have sufficient financial resources to meet its liabilities as they fall due or can secure them only at an excessive cost.

The Group's risk appetite, policies, systems and controls relating to the management of liquidity risk are set out in the Financial Risk Management Policy which is approved by the Risk Committee and reviewed at least annually to ensure it remains appropriate and adequate.

The key aspects of the control framework to mitigate liquidity risk are as follows:

- The Internal Liquidity Adequacy Assessment Process (ILAAP) determines the quality and quantity of liquid assets that the Group is required to hold to achieve its policy objectives as set out above. The ILAAP incorporates severe stress testing linked to the Board's formal assessment of the liquidity risks to which the Group is exposed. The ILAAP is reviewed by the Risk Committee and approved by the Board on an annual basis as a minimum;

- The holding of a high-quality Liquid Assets Buffer, the size of which is determined by the ILAAP. In accordance with the PRA ILAA Rulebook, and in order to meet the Group's policy, the Group holds a Liquid Assets Buffer of high quality, unencumbered liquid assets. Assets meeting the requirements of the Liquid Asset Buffer include deposits with the Bank of England, UK Government Treasury Bills and Gilts, and supranational debt securities;

- The setting and regular monitoring of applicable liquidity limits, including those covering the amount, instrument type and maturity of liquidity held;

- The monitoring of both short-term and long-term liquidity ratios, including the Liquidity Coverage Ratio and Net Stable Funding Ratio, to ensure that these are maintained above minimum levels;

- Segregated treasury front and back offices. The front office is responsible for ensuring, on a day to day basis, adherence to the liquidity limits set by the Board. The Group's liquidity position against all key liquidity limits is calculated and monitored on a daily basis by the treasury back office;

- Monthly liquidity stress testing, to ensure that the level of the Liquid Assets Buffer and total liquidity held are sufficient to meet liabilities under severe but plausible stressed conditions; and

- A Liquidity Contingency Plan, which is integrated within the Group's Recovery Plan, is maintained that sets out the governance processes and the options available to the Group if it experienced a liquidity stress event. The Recovery Plan includes a menu of possible actions depending on the severity of the liquidity event.

Adherence to policy limits is managed by the Group's Finance department and monitored each month by ALCO, with additional oversight provided by the Risk Committee. Such information includes:

- Financial Risk Management Policy limits (including liquidity and funding limits);

- Liquid Asset Buffer levels and composition;

- Liquidity stress testing, including survival days analysis;

- Cash flow forecasts (12 months);

- Forthcoming liquid asset maturities; and

- Forthcoming wholesale borrowing maturities

ALCO reports into the Risk Committee which receives reports relating to key decisions made at ALCO and an independent view of each risk category from the Chief Risk Officer. The Risk Committee also has access to all ALCO papers.

4.7 Interest rate risk

Interest rate risk is the risk of reductions in net interest margin arising from unfavourable movements in interest rates due to:

- Mismatches between the dates on which interest receivable on assets and interest payable on liabilities are reset to market rates (Re-pricing date mismatch risk); and

- The re-pricing of assets and liabilities according to different interest bases (Basis risk).

The Group's risk appetite, policies, systems and controls relating to the management of interest rate risk are set out in the Financial Risk Management Policy which is approved by the Risk Committee and reviewed at least annually to ensure it remains appropriate and adequate.

Adherence to policy limits is managed by the Group's Finance department and monitored each month by ALCO, with additional oversight provided by the Risk Committee.

Re-pricing date mismatch risk

Interest rate risk in the banking book (IRRBB) arises from mismatches of the re-pricing or maturity of assets and liabilities as interest rates change, with the main cause being the imperfect matching of fixed rate mortgages and savings products. While the Group aims to match fixed rate assets with liabilities, it is not always possible to achieve exact matches due to the need to estimate initial customer demand for mortgage and savings products and the early repayment of mortgages. Interest rate swaps are utilised to reduce mismatches where economic to do so but remain susceptible to early repayment of fixed rate products by customers.

In order to manage interest rate risk an interest rate gap report is prepared showing how assets and liabilities re-price or mature over time and any mismatches. On a monthly basis the ALCO monitors the interest rate gap report and assesses the impact of a shift in interest rates as a percentage of capital in order that action can be taken to minimise the risk. Various interest rate shift stress tests are modelled to ensure that capital allocated against this risk remains appropriate across a range of scenarios.

The Board has set the risk appetite for exposure to this risk as follows: the overall impact of a 2% shift in rates on the economic value of the Group must not be greater than 3% of total capital resources.

In addition to the risk appetite, the Board has set individual and cumulative gap limits for each time period analysed.

Basis risk

The Group's exposure to basis risk arises from assets and liabilities being linked to different interest rate types including:

- Bank of England base rate – base rate linked mortgages, reserve account deposits with the Bank of England and TFSME funding;
- SONIA - fixed rate mortgages and savings that are the subject of a SONIA based interest rate swap and SONIA based floating rate treasury instruments;
- Fixed rates – fixed rate treasury investments, mortgages and savings products; and
- Managed (or administered) rates – managed (or administered) rate mortgages and savings products.

The Board has set limits for the maximum permitted net exposure to each interest rate basis and the maximum overall exposure to different interest rate bases.

A basis risk analysis is prepared on a monthly basis and includes stress testing relating to both increasing and decreasing interest rate scenarios. This is reviewed by the ALCO to ensure that all limits are adhered to. New products and treasury activities are assessed by the ALCO taking into account their impact on the Group's basis risk exposure.

4.8 Pension obligation risk

Pension obligation risk is the risk to earnings and capital due to the Group, as the principal employer and funder of last resort, having to make significant contributions to the defined benefit section of the Group's pension scheme.

The Group's defined benefit scheme was closed to future accrual with effect from 30 September 2008. However, pension obligation risk may arise due to a number of factors including:

- A fall in the market value of investments held reducing the fair value of scheme assets;

- A fall in the discount rate increasing the present value of scheme liabilities; and

- An increase in life expectancy and so increasing the present value of scheme liabilities.

Various actions have been taken since September 2008 to reduce the risk to the Group, including: purchases of insurance policy assets in December 2008, November 2020 and December 2022 that match a significant proportion of the scheme liabilities; and the investment of scheme assets in corporate bonds and a long-dated index-linked government gilt fund to reduce market risk and inflation risk.

The trustees of the scheme use the services of external professional pension advisers regarding investment decisions, liability management and the on-going reduction of risk within the scheme.

An accounting valuation of the scheme was undertaken at 31 December 2022 by an independent actuary in accordance with International Accounting Standard 19. At 31 December 2022 the defined benefit pension scheme showed a post-tax surplus of £2.7m. Despite the surplus, the Board continues to regularly monitor the funding level of the scheme.

5. Capital Resources

As at the 31 December 2022 the Group had total regulatory capital of £38.9m (2021: £35.1m). This is compromised of Common Equity Tier 1 (CET1) capital only and consists of the Group's reserves.

Table 2: UK CC1 – Composition of regulatory own funds

		2022 £m	2021 £m
	Common Equity Tier 1 (CET1) capital: instruments and reserves		
2	Retained earnings	42.5	40.7
3	Accumulated other comprehensive income (and other reserves)	(0.5)	(0.3)
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**42.0**	**40.4**
	Common Equity Tier 1 (CET1) capital: regulatory adjustments		
7	Additional value adjustments	-	-
8	Intangible assets (net of related tax liability)	(0.4)	(0.5)
15	Defined-benefit pension fund assets	(2.7)	(4.8)
UK – 25a	Losses for the current financial year (negative amount)	-	-
27a	Other regulatory adjustments to CET1 capital	-	-
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	(3.1)	(5.3)
29	**Common Equity Tier 1 (CET1) capital**	**38.9**	**35.1**
45	**Tier 1 capital**	**38.9**	**35.1**
59	**Total capital**	**38.9**	**35.1**

6. Capital adequacy

6.1 Assessment process

The Group has adopted the Standardised Approach to credit risk and the Basic Indicator Approach to operational risk to calculate the minimum Pillar 1 capital requirement. Pillar 1 also includes market risk but this is not relevant for a building society that does not run a trading book.

In addition to the risks covered under Pillar 1, all other material risks to which the Group is exposed were assessed as part of the Internal Capital Adequacy Assessment Process (ICAAP). Financial and capital forecasts were prepared covering a five year period incorporating all current and planned strategic initiatives, products and services, enabling the Board to assess the levels of capital required to support both current and future activities.

The ICAAP is undertaken at least annually and more frequently should the Group's strategic plans, forecasts or risk profile change. The results of the ICAAP indicate the minimum capital required to be maintained by the Group to support current and future activities. The results are documented, reviewed by the Risk Committee and approved by the Board, and are assessed by the PRA as part of their supervisory review of the Group.

The ICAAP is integrated into normal business activities. The impact on capital requirements of new, and changes to existing, business processes, products and services are assessed. Strategic decisions are made following an assessment of their impact on capital, ensuring adequate capital is maintained at all times and that it is efficiently utilised.

Capital adequacy is monitored against the minimum capital requirements by ALCO, with oversight by the Risk Committee.

6.2 Pillar 1 capital requirement

The Group has adopted the Standardised Approach to credit risk to calculate its minimum capital requirement. Under the Standardised Approach the level of capital required against a given level of exposure to credit risk is calculated as:

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

Mortgage asset risk weightings take into account LTV ratios, security type and arrears and impairment provision levels. Wholesale liquid asset risk weightings are dependent on counterparty credit rating and deposit duration.

The Group has adopted the Basic Indicator Approach to operational risk to calculate its minimum capital requirement. Under the Basic Indicator Approach the level of capital required is calculated as 15% of the Group's average net income over the previous 3 years.

The Risk Weighted Exposure Amounts (RWEAs) and Pillar 1 exposure amounts for the Group are as below.

Table 3: UK OV1 – Overview of risk weighted exposure amounts

		Risk weighted exposure amounts (RWEAs) 2022 £m	Risk weighted exposure amounts (RWEAs) 2021 £m	Total own funds requirement 2022 £m
1	**Credit risk (excluding CCR)**	**236.7**	**204.2**	**18.9**
2	Of which the standardised approach	236.7	204.2	18.9
3	Of which the foundation IRB (FIRB) approach		-	-
4	Of which the 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**	**1.0**	**0.8**	**0.1**
7	Of which the standardised approach	1.0	0.8	0.1
8	Of which internal model method (IMM)	-	-	-
UK 8a	Of which exposures to a CCP	-	-	-
UK 8b	Of which credit valuation adjustment - CVA	0.8	0.6	-
9	Of which other CCR	-	-	-
15	**Settlement risk**	**-**	**-**	**-**
16	**Securitisation exposures in the non-trading book**	**-**	**-**	**-**
20	**Position, foreign exchange and commodities risks (Market risk)**	**-**	**-**	**-**
UK 22a	**Large exposures**	**-**	**-**	**-**
23	**Operational risk**	**17.0**	**14.5**	**1.4**
UK 23a	Of which basic indicator approach	**17.0**	**14.5**	**1.4**
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)	-	-	-
29	**Total**	**254.7**	**219.5**	**20.4**

A reconciliation of the Risk Weighted Exposure Amounts to credit exposures and the Group Annual Report and Accounts can be found in appendices 1 and 2.

7. Remuneration disclosures

7.1 Information relating to bodies that oversee remuneration

7.1.1 Remuneration oversight body

The Board has established a Remuneration and Nominations Committee ('the Committee') that comprises three Non-executive Directors, including the Chair of the Board and is supported by a non-member HR Advisor to the Board.

The Committee is chaired by Judith Mortimer Sykes, a Non-executive Director and the Society's Senior Independent Director and met on 4 occasions during 2022.

The Group Remuneration Policy has a number of key principles:

- Attract and retain directors and senior managers with the right skills and competencies by offering a fair and competitive total reward benchmarked against the external market;
- Recognise the importance of total reward including benefits and flexible working in attracting, engaging and retaining a diverse and talented workforce;
- Recognise the business benefits of promoting diversity and inclusion;
- Reward colleagues based on both the Group and individual performance with a focus on demonstrating the right behaviours in carrying out their performance;
- Ensure good and effective risk management and promote the highest standards of professional conduct; and
- Take into account the Group's strategic and business plans ensuring that the objectives and long term interests, including maintaining a strong capital base, are not compromised.

The scope of the remuneration policy also covers all subsidiary companies of the Group.

7.1.2 External Consultancy

No external consultants have been commissioned. The HR Advisor to the Board, who is an employee of the Society, provides advice and expertise on matters of remuneration.

7.1.3 Remuneration code staff

The Board has determined that for the year ended 31 December 2022:

- 6 (2021: 6) non-executive directors; and
- 21 (2021: 7) members of senior management

are designated as being subject to the Remuneration Code and are considered to be the material risk takers within the Group. The Board considers that these directors and staff, referred to as Remuneration Code Staff, are those whose professional activities have a material impact on the Group's risk profile.

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

7.2.1 Overview of the key features and objectives of remuneration policy

The key purpose is to ensure that the Group Remuneration Policy supports the achievement of the business strategy by rewarding the right behaviours and outcomes consistent with risk appetite and the long-term interests of its members.

Executive Directors' and senior managements' remuneration reflects the individuals' specific responsibilities, experience and performance. It comprises a number of elements, including basic salary, pension, incentive plan and other taxable benefits as details below:

Component	Level	Basis
Basic salary	Set annually following review by the Remuneration and Nominations Committee.	Based on job-specific responsibilities using financial services market benchmarking for similar roles.
Pension	Contribution of 10% of base salary (before salary sacrifice) in line with contributions for all colleagues or paid as a cash allowance as an alternative.	Executive directors are invited to join the Group's defined contribution scheme.
Annual bonus	An annual bonus will only be awarded if the minimum threshold criteria are achieved linked to delivery of the Group's strategic objectives. On-target performance will result in a bonus award of 20% of base salary with the ability to earn up to a maximum of 30% for over-performance. 50% of any bonus awarded in the year is deferred for three years.	Variable pay is linked to the delivery of the Group's strategic objectives with both financial and non-financial targets alongside individual performance to safeguard against poor conduct or risk-taking outside the Group's agreed risk appetite. The Board Risk Committee has a power of veto over any variable remuneration payments. They may be reduced or withdrawn if there is an item of material importance or relevance that significant influences the Society's regulatory status, financial performance or financial statements.
Other benefits	The Group provides other taxable benefits including a car allowance and healthcare provision.	Set at a level considered appropriate for each Executive Director by the Committee in line with market practice.

The Chair and Non-Executive Directors (NEDs) each receive an annual fee for their services. It reflects the time commitment and responsibilities of their roles and is in line with those paid by other Societies of a similar size and structure. Fees are structured such that NEDs with additional responsibly of chairing a board committee or being a director of a subsidiary board are paid an additional fee. They do not receive any salary, performance incentives or pension.

NEDs are reimbursed for reasonable expenses incurred during the course of their work on Group business.

The Society's Rules limit NED remuneration to 2.5 x the annual salary of the lowest paid full-time clerical employee.

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

Careful consideration is given to ensure the targets are relevant, balanced (financial and non-financial) and include measures which safeguard against poor conduct or risk taking. Performance measures are linked to the current Strategic Plan set out by the Board.

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

The reward of the Chief Risk Officer is reviewed and approved by the Remuneration and Nominations Committee on behalf of the Board.

7.2.4 Policies and criteria applied for the reward of guaranteed variable remuneration and severance payments

There is no guaranteed variable remuneration and therefore the Society has no policies and criteria in respect to this.

There is no entitlement to payments under the Executive Incentive Plan on termination of contract and the guiding principle for all leavers is to pay no more than is necessary in line with contractual notice periods and any other relevant legal obligations.

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

The structure and design of variable pay plans incorporates safeguards which support and promote effective risk management. In addition to the governance responsibility of the Remuneration and Nominations Committee, the Risk Committee also has a specific role to highlight any potential negative risk indicators which may need to be considered before bonus or incentives are awarded.

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

The ratios for annual variable remuneration range from 0-30% which ensures that no colleagues earn more than one third of the total annual remuneration in variable remuneration.

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

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

The approach to remuneration is to ensure it supports the business strategy by rewarding individual and organisation performance consistent with the risk appetite of the Society and the long term interests of members.

All colleagues have the opportunity to earn an annual bonus being eligible for either the Society's Annual Bonus Scheme or the Executive Incentive Plan in the case of Executive Committee members. Both the Bonus Scheme and the Incentive Plan are discretionary and are designed to incentivise and recognise the contribution of colleagues to the achievement of business targets for the relevant period. For Executive Committee members, under the Executive Incentive Plan, the measures and weightings were as follows:

- Profitability – Annual Profit Before Tax (30%)
- Asset Size – Annual Mortgage Growth (20%)
- Strategic Enablers – Board Approved Projects (25%)
- Customer & People – NPS, upheld complaints (FOS), employee engagement, staff turnover and survey participation (25%)

The weighting of the measures is designed to balance financial and key non-financial performance indicators.

For all other colleagues under the Staff Bonus Scheme, the measures were as follows:

- Profitability – Annual Profit Before Tax
- Asset Size – Annual Mortgage Growth
- Customer – NPS and upheld complaints (FOS)

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

At an individual level, objectives are set at the start of the year and performance is assessed at year end based on achievement against objectives and behaviours demonstrated in line with the values, behaviours and standards expected of the organisation.

Provided the performance of the business is in line with the targets agreed, bonuses would be paid as a % of base salary in line with the individual performance rating. For Executive Committee members, a performance rating of "3-Doing Well" would trigger a 20% of base salary bonus with the opportunity for an enhanced bonus for "Exceptional" individual performance (a rating of 5) capped at a maximum of 30% of base salary. Whatever percentage bonus is awarded, 50% of this is deferred for 3 years.

For other colleagues, the same principle and performance rating framework applies, with a performance rating of "3-Doing Well" giving a 7% bonus. There is an enhanced bonus for a small number of senior managers (below Executive Committee) who are eligible for a 11% bonus for an equivalent level of performance.

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

Variable remuneration is only offered through cash reflecting our mutual business model and absence of any listed market instruments.

7.5.4 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 measures and targets of the Executive Incentive Plan and the Staff Bonus Scheme are reviewed and approved annually by the Remuneration and Nominations Committee to ensure they are appropriate and meaningful for the strategy and philosophy of the Society. The Board Risk Committee has a power of veto over any variable remuneration payments. They may be reduced or withdrawn if there is an item of material importance or relevance to have a significant influence on the regulatory status, financial performance or financial statements of the Society.

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

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

The rules of the Executive Incentive Plan include the principle of deferral such that 50% of the annual incentive award for members of the Executive Committee is deferred for 3 years. This ensures that performance can be assessed on a multi-year perspective in line with the 3 year strategic planning cycle adopted by the Society. There is no provision to pay the deferred element of any award in the event of termination of contract by either party before the 3 year period elapses.

7.6.2 Information of the institution's criteria for ex post adjustments (malus during deferral and clawback after vesting)

The deferred element of the plan helps ensure that should failings or misconduct become apparent, awards can be reduced or withheld. These include, but are not limited to, failures in risk management, reportable breaches in regulation, poor conduct or where the firm has been notified of potential regulatory sanction.

It should be noted that the rules and design of the Incentive Plan are aligned, wherever possible and practical, to the remuneration principles laid out in the dual regulated firm guidance under SYSC19. Given the asset size of the Society, not all the principles need apply under the proportionality ruling. The Society has incorporated deferral and malus during the deferral period as best practice. However, it is not considered necessary or practical, to incorporate terms that enable the Society to seek to clawback payments that have already been made. In the event that this was required because of the seriousness of the failings, the regulator would have the power to recover those monies directly.

Table 4: UK REM1 – Remuneration awarded for the financial year

			a	b	c	d
			MB Supervisory function	MB Management function	Other senior management	Other identified staff
1	Fixed remuneration	Number of identified staff	7	2	6	13
2		**Total fixed remuneration**	**211,970**	**462,808**	**771,092**	**667,375**
3		Of which: cash-based	211,970	462,808	771,092	667,375
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	-	-	-	-
9	Variable remuneration	Number of identified staff	-	2	6	11
10		**Total variable remuneration**	**-**	**120,600**	**180,378**	**75,695**
11		Of which: cash-based	-	120,600	180,378	75,695
12		Of which: deferred	-	60,300	83,391	-
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)**		**211,970**	**583,408**	**951,470**	**743,070**

Table 5: UK REM2 – Special payments to Material Risk Taker staff

		a	b	c	d
		MB Supervisory function	MB Management function	Other senior management	Other identified staff
	Guaranteed variable remuneration awards				
1	Guaranteed variable remuneration awards - Number of identified staff	-	-	-	-
2	Guaranteed variable remuneration awards -Total amount	-	-	-	-
3	Of which guaranteed variable remuneration awards paid during the financial year, that are not taken into account in the bonus cap	-	-	-	-
	Severance payments awarded in previous periods, that have been paid out during the financial year				
4	Severance payments awarded in previous periods, that have been paid out during the financial year - Number of identified staff	-	-	-	-
5	Severance payments awarded in previous periods, that have been paid out during the financial year - Total amount	-	-	-	-
	Severance payments awarded during the financial year				
6	Severance payments awarded during the financial year - Number of identified staff	-	-	-	-
7	Severance payments awarded during the financial year - Total amount	-	-	-	-
8	Of which paid during the financial year	-	-	-	-
9	Of which deferred	-	-	-	-
10	Of which severance payments paid during the financial year, that are not taken into account in the bonus cap	-	-	-	-
11	Of which highest payment that has been awarded to a single person	-	-	-	-

Table 6: 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**	**48**	**-**	**48**	**-**	**-**	**-**	**-**	**-**
8	Cash-based	48	-	48	-	-	-	-	-
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**	**80**	**-**	**80**	**-**	**-**	**-**	**-**	**-**
14	Cash-based	80	-	80	-	-	-	-	-
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**	**128**	**-**	**128**	**-**	**-**	**-**	**-**	**-**

Table 7: UK REM4 – Remuneration of 1 million EUR or more per year

		a
	EUR	Identified staff that are high earners as set out in Article 450(i) CRR
1	1 000 000 to below 1 500 000	-
2	1 500 000 to below 2 000 000	-
3	2 000 000 to below 2 500 000	-
4	2 500 000 to below 3 000 000	-
5	3 000 000 to below 3 500 000	-
6	3 500 000 to below 4 000 000	-
7	4 000 000 to below 4 500 000	-
8	4 500 000 to below 5 000 000	-
9	5 000 000 to below 6 000 000	-
10	6 000 000 to below 7 000 000	-
11	7 000 000 to below 8 000 000	-

Table 8: UK REM5 – Information on remuneration of staff whose professional activities have a material impact on institution's risk profile

		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**										**28**
2	Of which: members of the MB	7	2	9							
3	Of which: other senior management				-	1	-	4	1	-	
4	Of which: other identified staff				-	2	-	8	3	-	
5	**Total remuneration of identified staff**	**211,970**	**583,213**	**795,183**	**-**	**276,207**	**-**	**1,116,391**	**301,942**	**-**	
6	Of which: variable remuneration	-	120,600	120,600	-	30,978	-	182,186	42,909	-	
7	Of which: fixed remuneration	211,970	462,613	674,583	-	245,228	-	934,205	259,034	-	

8. Attestation

I confirm that to the best of my knowledge, the Pillar 3 disclosures for the year ended 31 December 2022 complies with the Disclosure (CRR) part of the PRA Rulebook and has been prepared in accordance with the Society's Pillar 3 disclosure policy.

Andy Lumby
Chief Financial Officer

Contact

In the event that a user of this disclosures document requires further information application should be made in writing to:

The Society Secretary
Melton Building Society
Mutual House
Leicester Road
Melton Mowbray
Leicestershire
LE13 0DB

Appendix 1 – Reconciliation of accounting balance sheet assets to regulatory credit risk exposure

Table 9 – 2022 Year-end balance sheet assets reconciled to regulatory exposures

	Group Balance Sheet Assets	Assets deducted from own funds	Provisions	Regulatory Off-balance sheet items	Credit Risk Exposure
Assets - 2022	**£m**	**£m**	**£m**	**£m**	**£m**
Cash in hand and balances with the Bank of England	117.6	-	-	-	117.6
Loans and advances to credit institutions	15.5	-	-	-	15.5
Debt securities	4.2	-	-	-	4.2
Derivative financial instruments	9.8	-	-	(8.2)	1.6
Loans and advances to customers	556.7[2]	-	(0.9)	19.6	575.4
Investments in subsidiary undertakings	-	-	-	0.1	0.1
Intangible assets	0.4	(0.4)	-	-	-
Investment properties	1.2	-	-	-	1.2
Property, plant and equipment	5.7	-	-	-	5.7
Other assets	0.9	-	-	-	0.9
Deferred tax assets	0.1	-	-	-	0.1
Retirement benefit asset	3.6	(3.6)		-	-
Total	**715.7**	**(4.0)**	**(0.9)**	**11.5**	**722.3**

[2] Gross exposure prior to provisions

Table 10 – 2021 Year-end balance sheet assets reconciled to regulatory exposures

	Group Balance Sheet Assets	Assets deducted from own funds	Provisions	Regulatory Off-balance sheet items	Credit Risk Exposure
Assets - 2021	**£m**	**£m**	**£m**	**£m**	**£m**
Cash in hand and balances with the Bank of England	108.1	-	-	-	108.1
Loans and advances to credit institutions	12.6	-	-	-	12.6
Debt securities	5.1	-	-	-	5.1
Derivative financial instruments	1.2	-	-	-	1.2
Loans and advances to customers	482.5[2]	-	(0.7)	17.7	499.5
Investments in subsidiary undertakings	-	-	-	0.1	0.1
Intangible assets	0.5	(0.5)	-	-	-
Investment properties	1.5	-	-	-	1.5
Property, plant and equipment	4.6	-	-	-	4.6
Other assets	0.4	-	-	-	0.4
Deferred tax assets	0.1	-	-	-	0.1
Retirement benefit asset	6.4	(6.4)	-	-	-
Total	**623.0**	**(6.9)**	**(0.7)**	**17.8**	**633.2**

Appendix 2 – Credit risk exposure and CRM effects

Table 11: UK CR4 – Standardised approach – Credit risk exposure and CRM effects 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
		£m	£m	£m	£m	£m	%
1	Central governments or central banks	120.8	-	120.8	-	-	0.0%
2	Regional government or local authorities	-	-	-	-	-	0.0%
3	Public sector entities	-	-	-	-	-	0.0%
4	Multilateral development banks	-	-	-	-	-	0.0%
5	International organisations	-	-	-	-	-	0.0%
6	Institutions	18.1	-	18.1	-	4.2	23.2%
7	Corporates	-	-	-	-	-	0.0%
8	Retail	1.2	-	1.2	-	0.9	75.0%
9	Secured by mortgages on immovable property	539.7	51.8	539.4	14.9	194.4	35.1%
10	Exposures in default	3.3	-	2.8	-	3.4	121.4%
11	Exposures associated with particularly high risk	12.5	9.5	12.4	4.7	25.7	150.0%
12	Covered bonds	-	-	-	-	-	0.0%
13	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	0.0%
14	Collective investment undertakings	-	-	-	-	-	0.0%
15	Equity	-	-	-	-	-	0.0%
16	Other items	7.9	0.1	7.9	0.1	8.1	100.0%
17	**TOTAL**	**703.6**	**61.4**	**702.6**	**19.7**	**236.7**	**32.8%**

Table 12: UK CR4 – Standardised approach – Credit risk exposure and CRM effects 2021

	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
		£m	£m	£m	£m	£m	%
1	Central governments or central banks	112.2	-	112.2	-	-	0.0%
2	Regional government or local authorities	-	-	-	-	-	0.0%
3	Public sector entities	-	-	-	-	-	0.0%
4	Multilateral development banks	-	-	-	-	-	0.0%
5	International organisations	-	-	-	-	-	0.0%
6	Institutions	14.8	-	14.8	-	3.4	23.0%
7	Corporates	-	-	-	-	-	0.0%
8	Retail	1.8	0.7	1.8	0.1	1.4	73.7%
9	Secured by mortgages on immovable property	466.8	49.2	466.1	13.8	168.0	35.0%
10	Exposures in default	3.2	-	2.6	-	3.3	126.9%
11	Exposures associated with particularly high risk	11.4	9.5	11.3	3.8	21.4	141.7%
12	Covered bonds	-	-	-	-	-	0.0%
13	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	0.0%
14	Collective investment undertakings	-	-	-	-	-	0.0%
15	Equity	-	-	-	-	-	0.0%
16	Other items	6.6	0.1	6.6	0.1	6.7	100.0%
17	**TOTAL**	**615.5**	**59.5**	**615.4**	**17.8**	**204.2**	**32.3%**