The Cambridge Building Society

Pillar 3 Disclosure

31st December 2021

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THE CAMBRIDGE Building Society

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1 Executive Summary

1.1 Background

For more than 170 years, The Cambridge Building Society has focused on helping people save to buy their own home. We are proud that we still use the power of the collective to help individual members and their families to achieve their financial goals. Underpinning this is the Society's culture and values, which centre on finding innovative but risk-aware solutions to meeting current and future customers' needs and on treating them fairly at all times.

The Society's vision is summarised below:

- we'll be admired as a modern, dynamic financial services brand built on our mutual heritage and values
- we'll be recognised for our expertise, reliability and integrity, and
- we'll be recommended for our personal approach to meeting the needs of our members, our community and our team.

The Cambridge sets ambitious targets for its commercial performance and customer experience. Delivery is underpinned by stretching strategic performance measures, and ongoing investment in:

- organisational capability
- customer centricity, digital capability, operational efficiency and a positive culture.

The Society is influenced by the environment in which it operates. 2021 continued to be dominated by the COVID-19 pandemic. Remote working at the Society has been successful and the Society is embracing hybrid working. Head Office was refurbished in 2021 to enable more agile ways of working and collaboration in person, as well as remotely. Branches and stores have remained open in a COVID-secure manner.

As a result of the pandemic but also the residual effects of Brexit, the economic outlook remained uncertain for much of 2021. Towards the end of the year inflationary pressures started to build, particularly with increasing energy prices and the re-opening of economies post-pandemic, resulting in an increase in Bank Rate by 15bps in December 2021.

In order to ensure the on-going financial and operational resilience of the organisation, the Board Risk Committee and other sub committees, consider the key risks facing the Society and assess their impact using a variety of tools, including capital and liquidity stress testing. Stress testing and broader operational resilience work provides assurance that the Society is able to withstand severe scenarios and that it can continue supporting its members.

The Pillar 3 disclosures provide a detailed view of the capital resources of the Society, the different components of Financial and Capital risk and the risk management strategy. The Society's risk appetite sets strong capital ratios, helping ensure that the Society remains resilient at all times.

1.2 Summary of key metrics

Our capital position has remained strong during the period with our Common Equity Tier 1 (CET1) ratio of 16.8% (2020: 15.5%), comfortably in excess of minimum regulatory capital requirements.

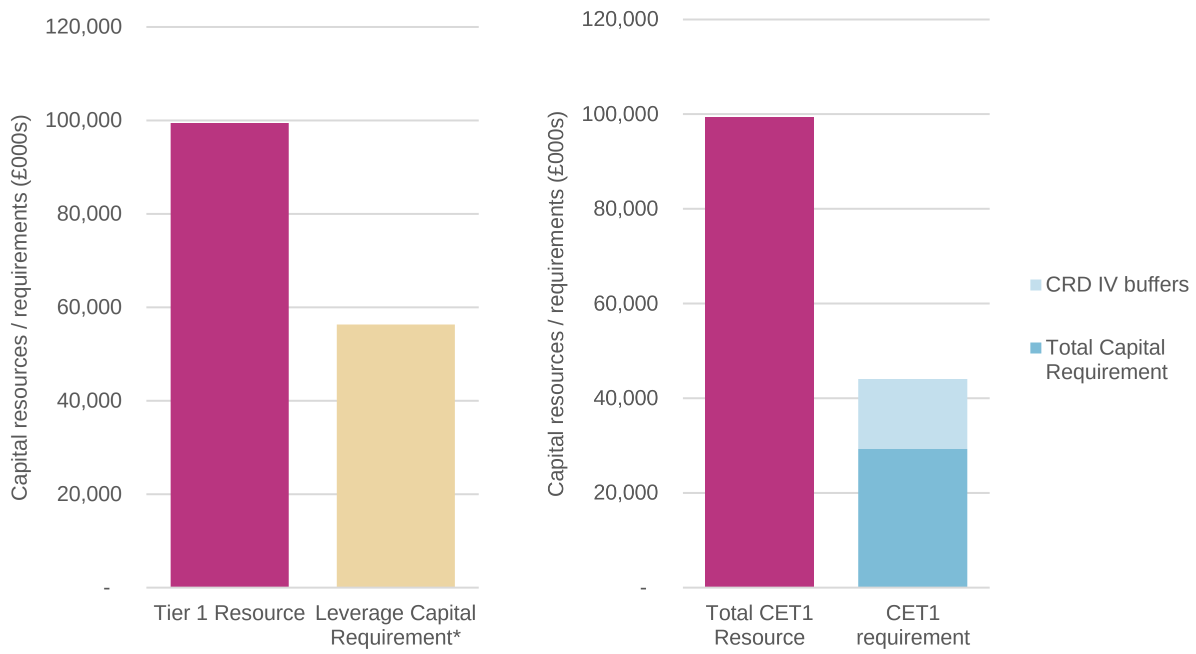
CET1 capital resources have increased over the year by circa £11.6 million, mainly driven by a retained profit of £10.0 million. Other drivers include a reduction in pension deficit and increased revaluation reserves. Risk weighted assets (RWAs) increased over the year by circa £20 million, reflecting the growth in mortgage, corporate and institution exposures.

The total regulatory capital ratio stood at 17.0% (2020: 15.8%) supported by the additional CET1 resources outlined above.

The leverage ratio measures the relationship between the capital resources of the Society and its total assets. The leverage ratio is calculated by dividing Tier 1 capital resources by a defined measure of on and off-balance sheet items. At present, the Society has no minimum regulatory leverage requirement as it is currently not within the scope of the UK Leverage Framework Regime, given that its deposit levels are less than £50 billion. However, the Society maintains a prudent risk appetite limit well above the industry minimum leverage ratio requirement of 3.25% (excluding leverage ratio buffers). The Society's leverage ratio as at 31 December 2021 was 5.7% (31 December 2020: 5.1%).

Table 1. Key Metrics	31-Dec-21 2021	31-Dec-20 2020	31-Dec-19 2019
Available Capital (£000s)			
Common equity tier 1 (CET1)	99,394	87,760	85,465
Total Capital	100,239	89,409	86,668
Total risk-weighted assets	590,446	565,372	546,238
Risk-based Capital ratios as a percentage of RWA			
Common Equity Tier 1 Ratio	16.8%	15.5%	15.6%
Tier 1 Ratio	16.8%	15.5%	15.6%
Total Capital ratio	17.0%	15.8%	15.9%
Additional CET1 Buffer Requirements as a percentage of RWA			
Capital conservation buffer requirement	2.5%	2.5%	2.5%
Countercyclical buffer requirement	0.0%	0.0%	1.0%
Total CET1 specific buffer requirements	2.5%	2.5%	3.5%
Leverage ratio			
Leverage ratio exposure measure	1,733,568	1,707,288	1,591,874
Leverage ratio	5.7%	5.1%	5.4%
Liquidity coverage ratio			
Total liquid buffer	275,598	286,011	208,378
Total net cash outflows	94,229	90,010	98,570
Liquidity coverage ratio	292%	317.8%	211.4%

Chart 1: Capital resources and minimum requirements (2021)



**Leverage represents estimates of the minimum regulatory requirement for firms in scope of the UK Leverage Framework*

Chart 2: Capital Ratios

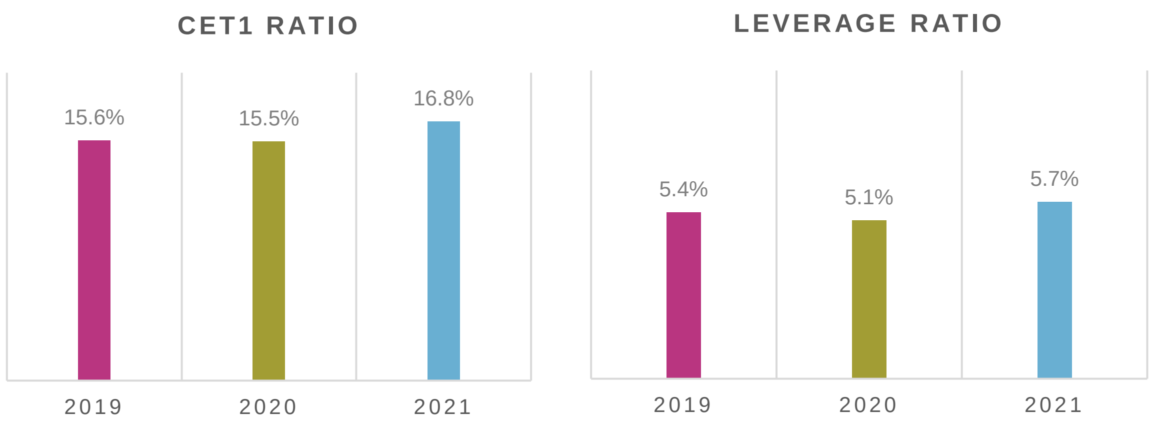


Chart 3: Risk weighted assets percentage breakdown

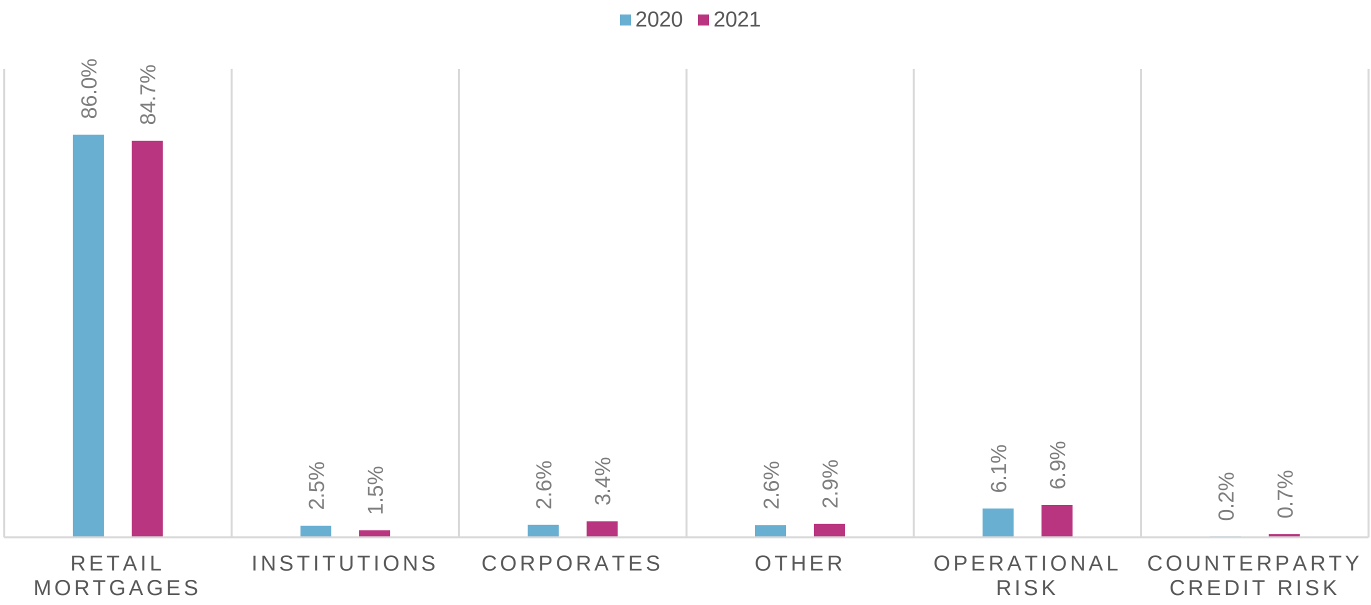
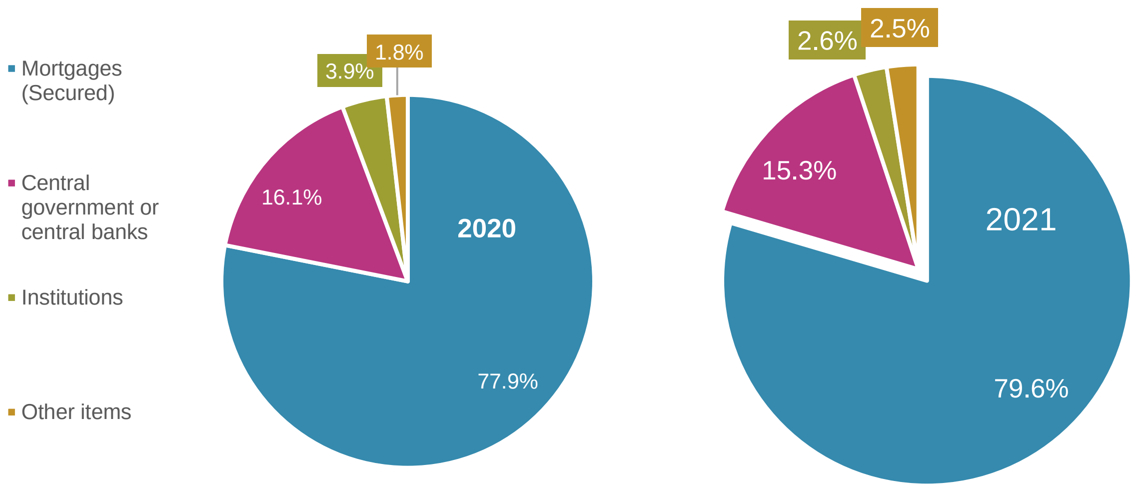


Chart 4: Exposure for calculating risk weighted assets



2 Introduction

2.1 Purpose

The purpose of this document is to provide members and other stakeholders with background information on the Society's approach to risk management and the maintenance of its capital strength. As such, it includes details of:

- the Society's approach to risk management, its policies and objectives
- the governance structure of the Board and Board Committees
- own funds information (or capital resources)
- regulatory capital requirements, and
- compliance with the UK Capital Requirements Regulation.

2.2 Coverage

This disclosure document applies to the following trading entities:

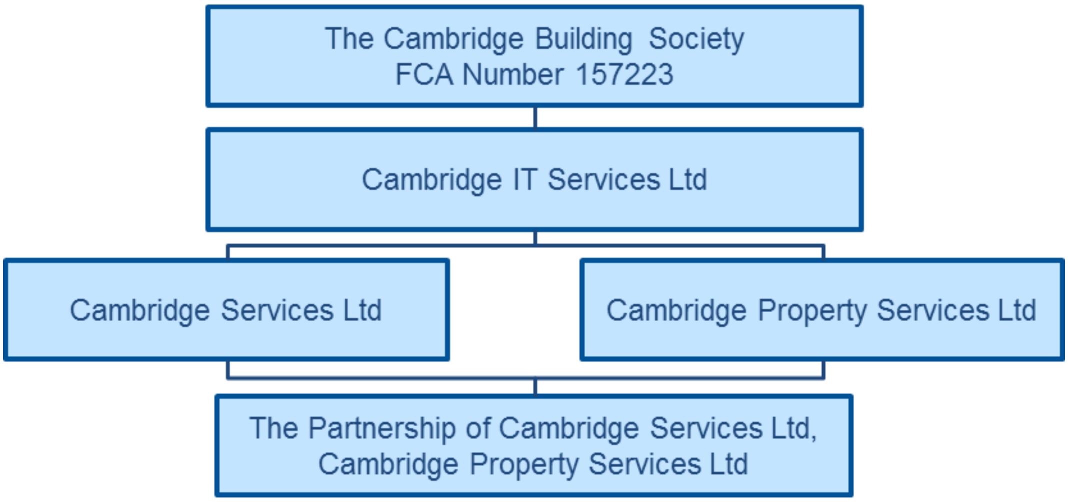


Figure 1: Cambridge Building Society subsidiary structure

The activities of the subsidiaries have ceased and are now dormant. The Society intends to extract their remaining assets and resources in the near future.

The information presented is based on the Society's Annual Report & Accounts as at 31st December 2021, but may differ where regulatory requirements deviate from the requirements underlying the Annual Report and Accounts, for example as a result of including exposures that are not recorded on the balance sheet. Consistent with regulatory reporting for capital adequacy purposes, the Society" positions from the Annual Report and Accounts have been used, in which the subsidiaries are included in the balance as separate participations.

2.3 Legislative framework

European standards for capital and liquidity requirements for EU banks, building societies and related institutions are set out in the Capital Requirements Directive IV (CRD IV, 2013/36/EU) and the Capital Requirements Regulation (CRR, 575/2013). This legislation came into force on 1st January 2014, and is the European implementation of Basel III, which sets out global standards for capital and liquidity adequacy.

In the UK, prudential supervision with regard to capital and liquidity adequacy is overseen by the Prudential Regulation Authority (PRA), and CRD IV has been implemented in the PRA

Rulebook. CRR on the other hand was directly applicable, without implementation in national legislation. CRD IV and CRR are supported by additional guidance and standards defined both on a European and on a national level.

The UK's membership of the European Union (EU) came to an end on 31st January 2020 following the ratification by the UK and the EU of the Withdrawal Agreement. Under the terms of the Withdrawal Agreement, the UK entered into a transition period during which EU law continued to apply to the UK. The transition period came to an end on Thursday 31st December 2020.

Following the end to the BREXIT transition period, the UK's Capital Requirements (Amendment) (EU Exit) Regulations 2019 came into force, onshoring the EU CRR. International standards were reflected from January 2021 in the PRA Rulebook.

CRR sets out not only capital requirements, but also specifies what the Society must disclose in regard to its risk management policies, procedures, and performance, including the main risks faced by the Society and the governance of those risks. These disclosure requirements are usually referred to as "Pillar 3", being the third pillar of the three-pillar approach, which is standard practice for prudential banking regulation.

- Pillar 1 - Minimum capital requirements, on a risk-based approach
- Pillar 2 - Assessment of the adequacy of capital requirements and the risk management system
- Pillar 3 - Disclosure

The information provided is in accordance with the rules laid out in Part 8 of the CRR and the Society's Pillar 3 Disclosure Policy.

Under FRS 102, the loan provisions are referred to as Individual Provision and Collective Provision. CRR, however refers to these provisions as Specific Credit Risk Adjustment and General Credit Risk Adjustment. For reasons of consistency, CRR terminology is used for referring to the loan provisions throughout this document, except where specific reference is made to financial accounting policies and processes.

2.4 Introduction to capital adequacy

The purpose of this section is to provide the reader with background information to capital adequacy assessments and regulatory capital requirements for banks and building societies, and to aid interpretation of the information provided in this disclosure.

2.4.1 Capital requirements

Regulatory capital requirements are defined in the CRR, and are risk sensitive, which means that if an asset or risk exposure is deemed to be more risky, more capital is required to cover potential losses. Each asset exposure is given a "risk weight", which is a percentage that depends on the risk inherent in the exposure. The Society is required to hold at least 8% of the sum of its risk weighted exposure amount in own funds.

For example, for the same loan amount, the Society would be required to hold more capital for a mortgage if it is secured on commercial property than if it is secured on residential property. This is due to the higher volatility in commercial property values, as well as higher default rates that are typically observed for commercial mortgage portfolios. The corresponding Risk Weights are 35% for a residential mortgage (up to 80% Loan To Value), and 100% for a commercial mortgage. This means that for each £100,000 that the Society lends, it is required to maintain a balance of own funds of at least £2,800 if it is a residential mortgage (35% risk weight multiplied by 8% capital requirement), and £8,000 if it is a commercial mortgage (100% risk weight multiplied by 8%).

On top of the minimum capital requirements (Pillar 1, see Section 2.3), the Society holds additional capital for risks that are not captured adequately by Pillar 1 (referred to as Pillar 2A) or risks that may materialise in the future (referred as Pillar 2B). These risks and corresponding capital requirements are captured through stress testing and scenario analysis as part of the Internal Capital Adequacy Assessment Process (ICAAP).

CRD IV introduced additional capital buffers on top of the minimum 8% requirement. A capital conservation buffer was phased in between 2016 and 2019, and currently amounts to 2.5%. The Bank of England has the authority to set a counter-cyclical buffer where it observes the risk of excessive build-up of systemic risk in the markets (so-called “bubble formation”). As at 31st December 2021 the Counter-cyclical buffer requirement is 0% for exposures in the UK. Additional buffers are applicable to institutions that are deemed to be of global or domestic systemic significance. The Society is not classified as of systemic significance, and as such, not subject to these buffers.

2.4.2 Capital resources

To evaluate the overall quality of capital resources, also referred to as own funds items, these are classified into tiers, based on their availability and ability to absorb losses. The highest quality items are Common Equity Tier 1 (CET 1), followed by Additional Tier 1 and finally Tier 2. CRR defines eligibility limits for each own funds tier.

At least 56% of the minimum regulatory capital requirement (Pillar 1 + Pillar 2A) must be covered by CET 1 capital, and at most 25% may be covered by Tier 2 items. The additional capital buffers are required to be covered entirely by CET 1 capital.

For the Society, by far the largest component of CET1 capital is its general reserves, which is circa 82% of CET1 and circa 81% of Total Capital.

2.4.3 Capital adequacy assessment

Each bank and building society is required to regularly undertake an ICAAP, which ensures that its capital resources are sufficient to deliver its medium-term planned objectives, and meet capital requirements both in normal and stressed conditions.

The starting point of this process is for the Board to set the risk appetite in the form of a number of risk-appetite statements. Based on the corporate strategy and plan, the risk appetite sets out at a high level in which areas the Society is willing to take certain risks, and in which areas there is no tolerance for risk. The high level statements are then translated into detailed limits.

The next step involves reviewing all risks and making an assessment of capital required to mitigate any material financial impact of those risks. This includes a detailed assessment of the results of stress-testing models based on a number of economic scenarios. These scenarios should cover a wide range of severe, but plausible, stress events, both market-wide and company specific, to ensure that a wide variety of adverse situations are tested.

The information that can be extracted from the scenario analysis should be compared against the internal risk limits, as well as regulatory limits. In this way, the overall capital adequacy and the corporate plan can be adequately challenged by the Board of the Society. This challenge also takes into account any areas where it is felt that the models and internal assessments do not adequately capture the full risk exposure.

2.5 Risk management summary

The Society is primarily a producer and retailer of financial products, mainly in the form of mortgages and savings. It also invests in liquid assets and raises some funds from the wholesale markets to diversify funding sources. The Society manages interest rate risk arising from its operations using derivative instruments. Building societies operate in a highly-competitive market, with uncertainties arising from the general economic environment and market competition. Therefore, the management of risk is vital for the success of the business.

The Board is responsible for determining an appropriate framework for risk management and control. It has in place a formal risk management structure which includes policy statements, risk exposure limits, reporting lines, mandates and a regular risk review process. The Society maintains a Risk Management Framework, which identifies and categorises all risks the Society is exposed to, and includes an assessment of their likelihood and impact (see Section 3.2). This framework forms the basis for the definition of risk appetite and risk limits, as well as the capital adequacy assessments, and is reviewed regularly by Management and at least annually by the Board.

A set of key figures and ratios is provided in Table 2, which give an overview of the Society's asset and capital levels, as well as the composition of the mortgage book, with regards to both risk characteristics and geographical distribution. Capital resources (CET 1, Tier 1, and Total Capital are ratios of eligible own funds to risk-weighted exposure amounts (see also Sections 4 and 5). The leverage ratio is the ratio of eligible own funds to total assets (without risk weights) including off-balance sheet exposures (see Section 5.6). The Total Capital and Buffer Requirement is the total of capital requirements and buffers explained in Section 2.4.1 as they apply to the Society (see Section 5.2.2)

In 2021, The Society continued to build on the investments made in recent years, despite the pandemic, to ensure the business is well placed to deliver the evolving customer service requirements.

The Society seen strong growth in recent years despite the pandemic, with overall mortgage book growth of 4.33% in 2021. CET1 capital resources have increased over the year by c. £11.6 million, mainly driven by a retained profit of £10.0 million. Other drivers include a reduction in pension deficit and increase in revaluation reserves. As a result Tier 1 capital ratios increased from 15.5% in 2020 to 16.8% in 2021.

Table 2: Overview of key ratios and figures on risk management.

	31/12/2021	31/12/2020
Key figures (£000)		
Total asset exposure	1,730,303	1,714,639
Total risk-weighted exposure amount	585,717	565,372
Total own funds	100,239	89,409
Key ratios		
Common Equity Tier 1 Ratio	16.8%	15.5%
Tier 1 Ratio	16.8%	15.5%
Total Capital Ratio	17.0%	15.8%
Total Capital and Buffer Requirement	11.3%	11.4%
Leverage Ratio	5.7%	5.1%
Liquidity Coverage Ratio	292%	318%
Composition of mortgage book		
Owner-occupied Residential	74.3%	73.4%
Buy To Let	25.1%	25.9%
Commercial	0.7%	0.7%
Geographical distribution of mortgage book		
Mortgages secured in East of England	68.2%	76.3%
Mortgages secured in South East England	9.0%	6.8%
Mortgages secured in London	9.9%	8.1%
Mortgages secured in East Midlands	4.9%	4.7%
Mortgages secured in other areas	8.0%	4.1%

3 Risk management policies and objectives

3.1 Risk management

The Society's approach to risk management, governance, process and methodologies follows the three lines of defence model. Treasury, Finance and the Commercial teams are responsible for the identification and assessment of risk and controls.

The risk management function is led by the Chief Risk Officer, and its responsibility is to oversee and challenge the first line, provide guidance and direction and develop the risk management framework. The risk management function is involved in areas such as stress testing; credit, treasury and operational risk analysis; development and monitoring of the risk appetite, as well as compliance monitoring and fraud control.

Internal audit, outsourced to Deloitte, provide independent and objective assurance on the appropriateness and effectiveness of internal controls.

3.2 Risk management framework

The risk management framework has been developed to allow the Society to capture all risks across the Society and provides a framework for them to be aggregated in a meaningful way. This allows all stakeholders within the Society, from the Board to the individual risk owners, to review risk on a level of detail that is relevant to their role.

The risk management framework operates on three levels: Risk Summaries, Risk Categories, and the Risk Register.

- The Risk Summaries aggregate risks across the Society to the highest level. These are owned by members of the Executive and reviewed quarterly.
- Risk Categories give a more detailed view into the Risk Summaries and allow the Risk Committee to see where the risks in the Society lie. Risk Categories are owned by managers or members of the Executive.
- The Risk and Controls Register contains all the key risks and associated controls in the Society. These can either be inherent to the nature of the business, or relate to a specific time period. This information can inform controls testing carried out by the first line, compliance monitoring by the second line, and third line internal audit reviews.

The Risk Register is updated as necessary, with a review of scoring on a quarterly basis ahead of the Risk Committee. The Board reviews an updated dashboard on a monthly basis.

As at 31st December 2021, six Risk Summaries have been identified, for which descriptions are given in Table 3.

Table 3: Description of the most significant risks faced by the Society, aggregated into Risk Summaries.

Risk Summary	Description
Business resilience	The risk that business model is not viable or relevant
Operational resilience	The risk that the operations of the business do not withstand a stress event
Mortgage credit risk	The risk of poor credit performance in the mortgage book
Asset and liability risk	The risk that the Society does not have sufficient liquid funds or capital to meet its obligations
Conduct risk	The risk that the behaviour of the Society leads to poor customer outcomes
Operational risk	The risk of failure or loss due to processes, people or systems

The Society's view on risk management is founded on its business strategy, and covers all risks identified in the risk management framework. This has been translated into high-level risk appetite statements. An extract of the key statements is as follows:

- The Society will not enter into any business activity that could result in a loss of trust with its members and stakeholders or which does not reflect its core values, or which could result in a regulatory or legislative breach
- The Society will have systems and infrastructure that are able to support and protect the business at all times, now and in the future
- The Society will focus primarily on residential lending supported by clearly defined underwriting policies and procedures
- The Society aims to hold capital levels above existing capital requirements, and strives for a stable capital ratio in the medium term that meets foreseen future increases of capital requirements and supports future business growth
- The Society aims to hold sufficient liquidity resources, supported by a sustainable net interest-rate margin, diverse sources of funding and closely managed exposure to market risks
- The Society will conduct its business to optimise positive outcomes for its customers
- The Society will minimise losses resulting from operational failures by ensuring that there is a robust system of internal controls.

The Society has adopted a five-step risk management lifecycle (identify, assess, control, monitor and report), supported by a defined risk assessment methodology, which assigns a score to a risk such that adequate controls can be implemented to manage that risk.

The risk management framework is supported by a number of high-level policy statements, approved at the relevant level. The policy management framework is owned and operated by the Risk Department. All policies must be reviewed and approved annually at the appropriate level.

Existing risk scores are formally reviewed by the risk owner on a minimum six-monthly basis, and usually on a quarterly basis.

The purpose of reviewing risk scores is to:

- assess whether a risk is still relevant to the Society's business
- assess whether any new risks have emerged
- assess whether the risk assessment score accurately reflects of the level of risk to the business, and

- identify any new or improved controls that have been implemented to mitigate the risk.

'Risk Events' are events that cause the Society to experience a direct or indirect realisable risk impact as a result of a control weakness or failure. 'Near Miss Events' are events that could have caused the Society to experience a direct or indirect realisable risk impact, but which did not because they were prevented or detected by existing controls. Both are recorded on the Society's Risk Register and reported to the Operational and Conduct Risk Committee and Board Risk Committee. Further, event data is analysed for trends in controls' failures that can be addressed through improving the design or operation of the controls. Risk events are graded for materiality. All outstanding actions, as a result of risk events, are monitored through the quarterly action tracking process.

3.3 Risk management policy

The most significant individual risks faced by the Society, together with mitigating actions, are set out in this section.

3.3.1 Credit risk

The Society has two main areas of credit risk. Firstly, borrowers may be unable to make timely payments on their mortgages and may ultimately default on their loans. Secondly, the Society places a proportion of its liquidity with other financial institutions to ensure that it can meet its liabilities as they fall due (see liquidity risk opposite). These Treasury counterparties may also be unable to meet their obligations to repay the Society.

Mortgage credit risk is managed through prudent underwriting policies. Lending can only be approved, according to defined affordability criteria, by a central team of experienced underwriters. The underwriting is operationally independent of sales activity, ensuring that the Society has adequate security for the loan and that the borrower will be able to meet their repayments. The underwriting requirements have been closely monitored and adapted during the pandemic, in order to manage risks arising from payment deferrals, furlough arrangements and other measures. This has included withdrawing higher loan to value lending and more in-depth reviews of income.

No matter how prudent lending is, some members inevitably get into financial difficulties and struggle to keep up their mortgage payments. As well as rigorous, risk-based underwriting, the Society prides itself on being highly proactive in supporting its members through any financial difficulties, thereby being true to its mutual values and helping mitigate mortgage credit risk. In 2020 we saw the introduction of payment deferrals by the Government and FCA. Payment deferrals were made available to all eligible customers, and we worked closely with impacted borrowers to ensure they were able to resume payments and find the most appropriate solution for repaying missed payments. Most customers who took a payment deferral have now returned to full payments and we are supporting the small number who have been unable to restart payments. In line with FCA rules, the payment deferrals framework came to an end in 2021 and we no longer offer payment deferrals.

As a result of these controls the Society has low levels of concessions, arrears and repossessions; which is in comparison well below the industry average.

As a mutual, we are committed to helping members that are in financial difficulty meet their mortgage commitments. We do this:

- By offering payment deferrals where available
- by having people with relevant expertise empathically handling approaches from borrowers experiencing repayment difficulties
- by gaining a thorough understanding of their circumstances

- through interviews establishing a repayment plan that considers the interest of both the borrower and the Society, and
- by ensuring that any repayment plan, be it a temporary reduction in monthly repayment or some other form of concession, is affordable and practical in terms of the borrower's circumstances, but without placing the loan in an unsustainable position.

All accounts in payment deferrals or arrears are subject to ongoing monitoring to ensure the support in place for them remains appropriate.

The table in section 27 on page 73 of the Annual Report and Accounts provides information on the loans existing at 31st December 2021 by types of forbearance measure applied to our members over the previous two years. This is regardless of whether the account remains under forbearance at the reporting date or has reverted to its original terms.

Treasury counterparty risk is kept to a minimum by only investing in counterparties with high credit ratings and in selected building societies. In addition, the Society limits exposures to particular counterparties, types of investment or countries, and limits the period it is prepared to invest for. These limits, together with a range of other mitigating processes and controls, are documented in the Society's Treasury Policy. The Board delegates oversight of counterparty credit risk to the Assets & Liabilities Committee (ALCO), through the Board Risk Committee.

3.3.2 Liquidity risk

Liquidity risk is the risk that the Society is unable to meet its financial obligations as they fall due or can do so only at excessive cost. These obligations include, for example, savers' withdrawals and mortgage advances. The Society has policies in place to help ensure that it always holds prudent levels of liquid assets such that it can meet these obligations. The Society also has liquidity contingency plans in place to cope with any sudden or extreme outflows and carries out regular stress tests to ensure the robustness of these plans.

The liquidity policy and liquidity contingency plans are monitored by ALCO, which receives regular reports on the liquidity position and stress testing thereon. It also receives regular reports on the Society's compliance with regulatory guidelines that govern the scope and nature of the Society's liquid asset holdings.

During the latest stages of the pandemic our members have continued to regard the Society as a trusted home for savings, and liquidity levels have remained very high.

The Society expresses its liquidity requirement as an internal liquidity requirement, which is based on estimated requirements for liquid assets in a severe but plausible stress scenario. Additionally, the regulatory Liquidity Coverage Ratio (LCR) expresses the Society's liquidity holdings and requirements using a short-term 30-day stress scenario. The LCR is the ratio of the liquidity buffer and the net liquidity outflow. These amounts are expressed as at 31st December 2021 in Table 4:

Table 4: Key figures for liquidity risk

Liquidity risk	(£000)
Liquidity buffer	275,598
Net liquidity outflow	94,229
Liquidity Coverage Ratio (%)	292%

3.3.3 Funding risk

Funding risk is the risk that the Society is not able to source the right type of funding to support its asset commitments.

The Society manages this risk by sourcing the majority of its funding through stable retail savings deposits, and by enforcing strict limits for the amount and term of funding that is sourced from money markets. Money markets have remained active and liquid throughout 2021.

3.3.4 Market risk

Market risk is the exposure to movements in interest rates, reflecting the mismatch between the dates on which interest receivable on assets and interest payable on liabilities are next reset or, if earlier, the instruments' maturity.

For example, if the Society was funded by variable rate savings but lent at fixed rates, it would expose itself to the risk that if rates rose, its cost of funding would rise without any corresponding increase in interest income on loans.

In order to keep its interest rate risk exposure within limits, the Society enters into interest rate swaps with major banks. For example, the Society would swap the fixed rate of income into a variable rate, usually by reference to the Sterling Overnight Interbank Average Rate (SONIA).

In this case, the Society would pay the bank a fixed rate of interest and in return receive SONIA-based income from the bank. The Society proactively manages its levels of fixed rate lending.

The LIBOR benchmark rate will cease to operate after 2021, and the market has transitioned to SONIA rate. The Society has migrated its swaps to a SONIA basis and all new swaps are SONIA linked. Comprehensive interest rate risk limits are set by the ALCO and reviewed against actuals at both Board and ALCO meetings.

3.3.5 Basis risk

The Society manages its interest rate risk exposure on several different bases, such as the Bank of England Base Rate and SONIA. Basis risk is the risk of divergent movements of these bases. The Society manages this risk by setting limits to the relative exposure between the different bases and performing scenario analysis to assess the impact of unexpected relative movements of different interest rates.

The Bank of England raised base rate by 15bps in its December 2021 meeting. The rate rise was managed in line with our pricing policy and we continued to remain within our basis risk appetite.

3.3.6 Margin risk

Margin risk is the risk that competition erodes the margin between rates charged to borrowers and rates paid to savers, thereby threatening the financial strength of the Society. This risk is heightened in the current period of historically low interest rates. However, one of the Society's key aims is to offer both its savers and borrowers competitive rates and only earn sufficient margin to maintain the Society's financial strength and meet the product and service needs of its members.

The Board manages this risk by setting financial objectives and closely monitoring performance against them. Reforecasts are regularly carried out, enabling the Society to react promptly to challenges to these financial objectives.

3.3.7 Operational risk

Operational risk relates to the risk of loss arising from inadequate or failed internal processes or systems, human error, or external events. Operational risk is overseen by the Operational and Conduct Risk Committee.

All such risks are identified, assessed, and closely monitored as part of the formal risk management structure, which includes reporting into the Board Audit Committee and Board Risk Committee. It is the responsibility of each business area, supported by the Chief Risk

Officer, to understand how operational risk impacts them and to put in place appropriate controls or take other mitigating actions

Where the Society has outsourced a particular activity, such as the provision of IT services, it has a robust set of procedures in place to monitor closely the provision and quality of these services against pre-determined service level agreements and key performance indicators and ensuring the Society has adequate oversight of these activities.

The Society, like most organisations, is dependent on a number of key third party suppliers. A framework has been introduced to assess and monitor all third parties before and during any contractual relationship, including their financial resilience and the risk they pose to the Society's data and cyber platforms.

Information and cyber security risk is assessed as part of the Society's operational risk framework. Cyber threats have increasingly become an area of focus for the industry as digital transformations progress and as potential attacks become more sophisticated. The Society has cyber security subject matter experts in the first and second line responsible for identifying, measuring and monitoring these risks and MI is reported to Risk Committee and Board level.

There has been an increasing focus on operational resilience across the UK financial system. The Society ensures it understands the risks to key business and customer processes, and has contingency plans in place, including business continuity plans to ensure that the impact of any service interruption is minimised. The Society's Head Office functions operated on a mainly remote basis during 2021. All services have been available throughout the pandemic, although availability has been managed in response to customer demand and to maintain a safe working environment for team members. The Society has maintained a COVID-secure working environment for all team members in all settings, ensuring that the Government requirements and guidance in areas such as social distancing, face coverings, deep cleaning and protective screens were maintained.

The transition to remote working in 2020 increased the operational risk within the Society and as a result increased control testing was introduced by the second line of defence and in 2021 this has remained in place.

3.3.8 Conduct risk

Conduct risk is the risk that the Society does not treat its customers fairly and delivers inappropriate consumer outcomes. The Board acknowledges the requirement to fully embrace the FCA's Statement of Principles to ensure that the Society pays due regard to good conduct governance at all times. These principles are firmly embedded within the organisation's culture and the interests of the Society continue to be best served by following this strategy. This approach has been established into working practices within the Society.

Conduct risk is overseen by the Operational and Conduct Risk Committee, which considers regular conduct risk management information, approves the conduct risk policy and ensures that conduct risk is at the heart of the product development process, marketing, sales and post-sales customer service. The Committee also regularly considers the treatment of vulnerable customers and ensures this is embedded across the business, for example in product development and changes.

The conduct risk framework is regularly reviewed by internal audit. Compliance and internal audit both consider whether the Society is doing the best for members as part of their reviews.

During the pandemic the Society continued to monitor its treatment of customers and customer outcomes, including additional feedback and surveys of customers who have found themselves in financial difficulties.

The Society is particularly conscious of ensuring that it treats any vulnerable customers appropriately and offers them the necessary support.

3.3.9 Regulatory risk

This is the risk that the volume, prescription and complexity of regulation, and changes thereto, may impair the Society's ability to compete effectively and grow profitably. The Board and management team closely monitor the Society's compliance with all regulatory requirements and keep up to date with relevant changes.

Key areas of regulatory change include:

- regulation of capital, including ongoing updates of the Capital Requirements Directive (CRD) IV
- PRA requirements on Operational Resilience
- Gaining an understanding of the risks of climate change on the Society's business model
- FCA requirements around Consumer Duty

3.3.10 Economic risk

The economic backdrop against which the Society operates remains volatile. In addition to the residual effects of the COVID-19 pandemic, Brexit remains a source of potential disruption and the as-yet unknown economic impact of the conflict in Ukraine and related sanctions gives rise to further uncertainty.

The primary economic risk to the Society is its dependency upon the UK housing market. Although house prices increased and unemployment reduced over the course of 2021, most commentators agree that 2022 will see higher levels of inflation together with further increase in the Bank of England's base rate, which may place pressure on borrowers' ability to repay mortgages.

The Society's capital position, predominantly retail funding and flexible but prudent approach to doing business mean that it is well placed to continue to meet the needs of its members, whatever future economic conditions prevail. The Society regularly tests the strength of its balance sheet in a number of ways, including taking account of the stress testing parameters set out by the Bank of England.

3.3.11 Pension funding risk

The Society has an ongoing commitment to fund its defined benefit pension scheme, which is closed to new entrants and future accrual. Pension funding risk is the risk that the value of the scheme assets will be insufficient to cover the scheme's obligations to scheme members over time. The value of scheme assets and scheme obligations is vulnerable to changes in corporate bond yields, equity markets, long-term inflation expectation, and longevity.

To mitigate this risk, management, together with the trustees of the scheme, regularly review reports prepared by independent actuaries to assess the risks and consider appropriate actions. These actions may include, for example, the trustees adjusting the investment strategy.

3.3.12 Pandemic risk

2021 continued to be dominated by the COVID-19 pandemic.

Regular updates are provided to the Board and Board Risk Committee on the risks posed by the pandemic. The risks included:

- Operational risk from a remote working environment
- Health and safety risk in maintaining a COVID-secure workplace

- Credit risk as customers take payment deferrals due to reduced income caused by the pandemic
- People risk as we support the physical and mental wellbeing of team members
- Third party risk arising from poor supplier performance due to staff absence, an inability to work remotely or financial instability.

The Board remains alert to future possible risks arising from potential falls in house prices, despite the significant house price increases in 2020 and 2021. It is not yet clear if house price rises will be sustained if we were to see a rapid rise in the Bank of England base rate.

As part of its ongoing capital and liquidity risk management, the Society models a range of adverse market scenarios and this work is reviewed by regulators.

3.3.13 Climate risk

The Board recognises that climate change is one of the most critical global issues and as such may present risk to the Society in a number of ways. These risks may be direct physical risks to the Society's property or to properties upon which loans are secured, such as flooding or subsidence, or indirect such as financial difficulties experienced by our customers in transitioning to a low carbon economy.

In line with regulatory requirements during 2021 the Society integrated climate change risk into its risk management framework and has carried out analysis to help it better understand the financial risks it presents, including carrying out stress testing through its annual Internal Capital Adequacy Assessment Process ("ICAAP").

The Society will use the work carried out to date to help inform its wider climate strategy to reduce its own carbon footprint and to support its customers in transitioning to a low carbon economy.

3.4 Risk governance

3.4.1 Board and Board Committees

The Committee structure as at 31st December 2021 is shown in Figure 2.

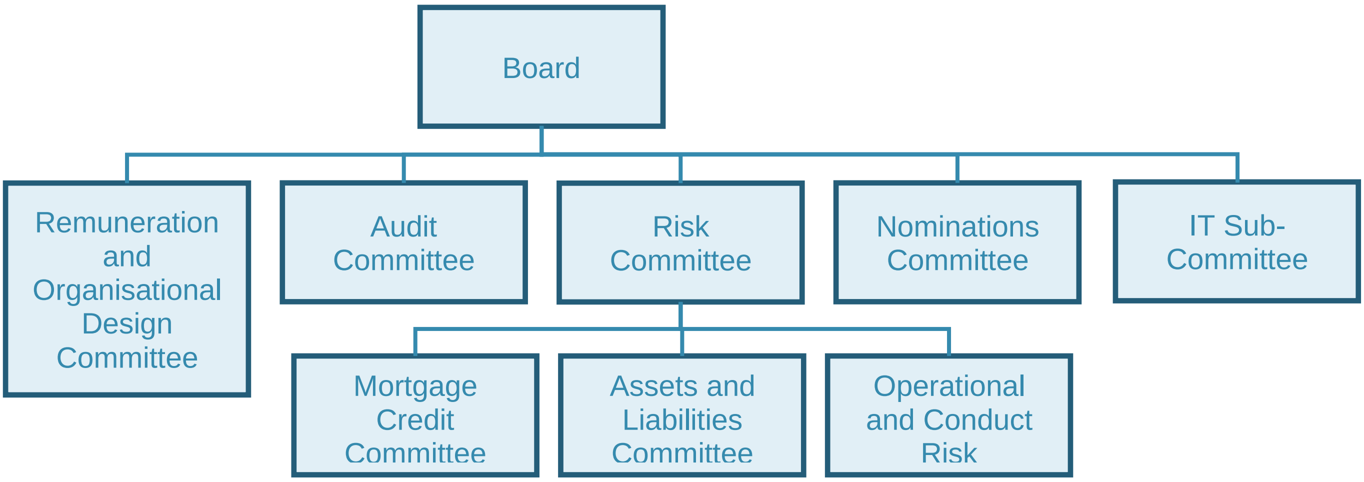


Figure 2: Schematic overview of the Committee structure.

Remuneration and Organisational Design Committee

Composition:

The Committee is made up of at least two Non-Executive Directors. Meetings are attended by the Chief Financial Officer and the Chief Executive.

Main functions:

The Committee is responsible for reviewing and recommending to the Board policies for remuneration and organisational design; setting the policy for employee benefits structures and scope, approving any performance related pay schemes and payments under these and reviewing on an annual basis the performance objectives of the Executive Directors and Executive set by the Chairman and Chief Executive.

Frequency: meets twice a year or more frequently if required.

Audit Committee

Composition: The Committee is made up of at least two Non-executive Directors. Meetings are attended by the Chief Executive, the Chief Financial Officer, the Chief Risk Officer, the Society's outsourced internal audit provider, and the Society's external auditors.

Main functions:

The role of the Audit Committee is to review the integrity of financial statements, to review the effectiveness of internal controls and compliance, to monitor and review the effectiveness of the internal audit function and to consider and recommend to the Board (for approval by the members) the appointment or reappointment of the external auditors.

It also, inter alia:

- approves senior management appointments with overall responsibility for arrangements in relation to adherence to internal systems and controls
- approve the remit of the internal audit and compliance functions and ensure they have adequate resources
- receives a report on the results of internal audit's work and monitors management's responsiveness to internal audit's findings and recommendations
- oversees the Society's relationship with the external auditor and monitors the content of the external auditor's annual management letter and management's response
- reviews arrangements established by management for compliance with regulatory requirements
- reviews the compliance monitoring programme and ensures that the compliance function is adequately resourced and has appropriate standing in the Society
- receives a report on the results of the compliance monitoring programme and monitors management's responsiveness to compliance findings and recommendations, and
- approves and monitors the Society's integrated assurance plan.

Frequency: meets four times a year, or more frequently if required.

Risk Committee

Composition:

The Committee is made up of at least two Non-Executive Directors. Meetings are also attended by the Chief Executive, the Chief Financial Officer, Chief Commercial Officer, the Chief Operating Officer, and the Chief Risk Officer.

Main functions:

The role of the Risk committee is to oversee risk management strategy, systems and controls and to review the effectiveness of internal controls and compliance.

It also, inter alia:

- approves the remit of the risk management function and ensures that it is appropriately resourced and has sufficient independence to effectively meet its responsibilities
- monitors how the Society's business strategy impacts its overall risk profile and appetite
- advises the Board on the Society's overall risk appetite and the metrics to be used to monitor performance against this risk appetite, and
- receives risk reports from operational committees and provide oversight of, and challenge to, those committees on risk matters.

Frequency: meets four times a year, or more frequently if required.

Nominations Committee

Composition:

The Committee is made up of at least two Non-Executive Directors together with the Chief Executive. Meetings are attended by the Company Secretary.

Main functions:

- regularly review the structure, size and composition (including the skills, knowledge and experience) required of the Board, compared to its current position and make recommendations to the Board regarding any changes
- give full consideration to succession planning for members of the Board and the Chief Executive, taking into account the challenges and opportunities facing the Society, and what skills and expertise are therefore needed on the Board in the future
- evaluate the balance of skills, knowledge and experience on the Board, and in light of this evaluation, prepare a description of the role and capabilities required for a particular appointment
- keep under review the leadership needs of the Society, both Executive and Non-Executive, to ensure that the Society can continue to compete successfully in the market place, and
- to review and determine the fees for the Society's Non-Executive Directors.

Frequency: meets twice a year, or more frequently if required.

Mortgage Credit Committee

Composition:

The Committee is made up of the Chief Risk Officer, the Chief Commercial Officer, the Chief Operating Officer, the Head of Lending, the Underwriting Manager, the Business Intelligence Manager, the Credit Risk Manager, and the Prudential Risk Manager.

Main functions:

- approve the credit quality of the mortgage book involving trend analysis based on risk profile

- assess the quality of underwriting decisions, and have oversight of the Mortgage Underwriting Committee
- approve changes to the lending policy as recommended by the Mortgage Underwriting Committee including underwriting mandates
- recommend to the Board the Society's high-level policy on lending (residential and commercial)
- provide guidance and instruction on any policy change required as a result of a change in the risk profile of the Society's mortgage book
- receive and approve a report on the credit quality, risk profile and performance of the Society's mortgage book, and
- review relevant internal audit and compliance monitoring reports.

Frequency: meets four times a year, or more frequently if required.

Assets and Liabilities Committee

Composition:

The Committee is made up of the Chief Financial Officer, Chief Risk Officer, Prudential Risk Manager, Asset and Liability Manager, Treasurer and Product Manager.

Main functions:

The Committee formulates and recommends the Treasury Policies to the Board Risk Committee. The policy sets out risk appetites relating to balance sheet structure, liquidity, interest rate risk and basis risk. The policy also sets out counterparty, sector, country, instrument and funding limits. The Committee is responsible for monitoring the Society's position against these risk appetites and limits.

The Committee also assesses the effect on the Society's capital of the competitive squeeze on margins, the mismatch between interest characteristics of assets and liabilities, capital and solvency directives issued by regulatory bodies, and the performance and risk profile of the pension deficit obligation.

Frequency: meets 10 times a year, or more frequently if required.

Operational and Conduct Risk Committee

Composition:

The Committee is made up of the Chief Commercial Officer, Chief Operating Officer, the Head of Marketing, the Head of Lending, the Head of Customer Engagement, the Head of Information Technology, the Head of Compliance, the Head of People, the Compliance Manager, the Information and Resilience Risk Manager and the Prudential Risk Manager.

Main functions:

- approve the operational risk management framework
- assess the impact of risk events and monitor actions arising from risk events
- review relevant internal audit and compliance monitoring reports, including reviews of conduct risk, complaints handling and product governance
- approve the financial crime policy, the conduct risk policy, and the gifts and hospitality policy
- review operational Management Information
- approve the conduct risk management framework

- review the conduct risk dashboard, and
- review new products and product changes escalated by the Product Development Committee for conduct risk.

Frequency: meets four times a year, or more frequently if required.

IT Sub-Committee

Composition:

The Committee is made up of three Non-executive Directors, the Chief Financial Officer, Chief Risk Officer, and Chief Operating Officer.

Main function:

An additional short-term Board Sub-Committee for the delivery of Information Technology change has been formed and meets regularly with the business to ensure the project remains on track to enhance customer and business efficiencies.

3.4.2 Other directorships held by members of the management body

Information on the number of directorships held by members of the management body can be found on page 85 of the Annual Report and Accounts.

3.4.3 Recruitment policy for members of the management body

The Nomination Committee conducts a regular review of the structure, size and composition required of the Board and its Committees, compared to its current position and makes recommendations to the Board with regard to any changes. The review encompasses an assessment of the skills, knowledge and expertise of the Board and whether these are aligned to the requirements of the Society's Corporate Plan. Changes identified from the review are recommended to the Board for implementation through a targeted approach to recruitment.

A succession planning review is conducted on an annual basis, unless action is required at an earlier stage, for members of the Board and the Chief Executive. This review takes into account the challenges and opportunities identified by the Corporate Plan, and what skills and expertise are therefore needed for the Board in the future. The findings of the review are used by the Committee to prepare a description of the role to be recruited for and any particular capabilities required of the individual. The Committee utilises external support to ensure that the right potential candidates are identified.

The recruitment of Non-executive Directors is based on the Society's policy of ensuring diversity of its Board members including but not limited to gender, geographical location, and sector.

The Committee is responsible for the review and determination of fees for Non-Executive Directors and ensures that they are aligned to the skills and knowledge required for the Board. The Committee recognises the need to attract the right candidates, balancing risk and reward whilst maintaining fees which are in line with the market.

3.4.4 Governance and reporting on risk management

During 2021 the Risk Committee met a total of five times.

The Society operates a structured system of management information reporting to Board, Senior Management and Committees. The main component is the information pack that is reviewed by the Board on a monthly basis. This pack is fully aligned with the risk appetite and key risk indicators that form part of the risk management framework, and also contains several relevant forward-looking indicators intended to keep the Board informed on emerging risks and market developments.

3.4.5 Risk assurance

The following statement regarding risk assurance is included on page 27of the Annual Report and Accounts.

The Society has established a comprehensive risk management framework to provide an effective method of managing risk. The framework's purpose is to provide a structured and disciplined approach to managing risk, with documented procedures for identification, mitigation and control of material risks to the Society's business.

3.4.6 Climate change governance

The Board has ultimate accountability for all climate change related matters. The Board Risk Committee and Executive level Committees are responsible for oversight of our climate-related risks. During 2021, the Society integrated climate change risk into its risk management framework and has carried out analysis to help it better understand the financial risks it presents, including carrying out stress testing through its annual Internal Capital Adequacy Assessment Process ("ICAAP").

The Society has assigned an Executive with overall responsibility for climate change – this position is held by the Chief Financial Officer. The Executive is responsible for recommending to senior committees the Society's strategy for addressing the risks that climate change poses, and overseeing implementation of that strategy.

4 Own funds

The own funds (or capital resources) of the Society are determined in accordance with Part 2 of CRR, and shown in Table 5.

Table 5: Overview of the Society's own funds.

	£000s
Common Equity Tier 1	
Instruments and reserves	
Capital instruments and the related share premium accounts	15,000
Retained earnings	81,318
Accumulated other comprehensive income (and other reserves)	3,806
Regulatory adjustments	
Intangible assets	(730)
Deferred tax liabilities associated to other intangible assets	-
Total CET 1	**99,394**
Additional Tier 1	
Additional Tier 1	-
Total Tier 1	**99,394**
Tier 2	
Credit risk adjustments	846
Total Tier 2	**846**
Total Capital	**100,240**
Amounts below thresholds for regulatory adjustments	
Deferred tax assets arising from temporary differences	1,517

The majority of the Society's own funds are in the form of Common Equity Tier 1 (CET 1), and consist of retained earnings (see Section 2.4.2 for an explanation of the own funds classifications) and capital instruments in the form of Core Capital Deferred Shares. Both the specific and general credit risk adjustments (see Section 5.2.6) are subtracted from CET 1 capital, but the general credit risk adjustments are included as part of Tier 2.

The Society has issued CCDS for a total amount of £15m, as part of a partnership with the Cambridgeshire County Council Pension Fund. The CCDS are included as part of The Society's capital resources as CET 1 capital. The main features of the CCDS are listed in detail in Appendix B, and more information can be found in Note 82 of the Annual Report and Accounts.

Intangible assets recognised on the Society's balance sheet are required to be deducted from CET 1 capital, and the corresponding deferred tax liability may be added back. Deferred tax assets that rely on future profit and arise from temporary differences are also required to be deducted from CET 1 capital, but an exemption is applicable as long as the amount is below 10% of total CET 1 capital.

5 Capital requirements

5.1 Internal Capital Adequacy Assessment Process

Underpinning the Society's Corporate Plan is the need to maintain its capital strength above the Board-agreed requirement, which is in turn higher than the regulatory required minimum capital. In order to do this, the Society needs to generate, and retain, profits that will add to the retained earnings, the main source of capital.

Complementing the Corporate Plan, the Society annually undertakes an ICAAP (see Section 2.4.3), to ensure that the Society's capital resources are sufficient to deliver the Corporate Plan objectives in normal as well as stressed conditions.

This process involves reviewing all risks relevant to the Society, and assessing the required capital to mitigate those risks, through analysing the impact of a range of stress scenarios. The key risks that are evaluated as part of the ICAAP are described in Section 3.3.

The Board assesses relevant financial information on each of these areas against a clearly defined risk appetite and approves the capital requirements arising from this detailed review. In its challenge of the capital assessments, the Board also takes into account any areas where they feel the models and internal assessments do not adequately capture the full risk exposure by holding extra capital where appropriate.

The Society translates its overall risk appetite for credit and treasury risk into a range of lending and liquidity limits controlling the exposures taken. These exposures, and other risks, are carefully monitored by the Board and Board committees on a regular basis.

5.2 Risk-weighted exposure amounts and capital requirements

The assets of the Society are analysed by risk category and given weightings according to the level of risk entailed. The following sections provide an overview of the risk exposures that contribute to the Society's capital requirements. An explanation of how capital requirements are calculated is provided in Section 2.4.1.

5.2.1 Credit Risk

Credit risk weightings for the calculation of Pillar 1 capital requirements are determined by the Standardised Approach following the methodology set out in Part 3, Title 2, Chapter 2 of CRR. An overview of the total assets, risk-weighted exposure and minimum capital requirements per exposure class is given in Table 6.

Table 6: Overview of the total asset exposure, risk-weighted exposure, and minimum capital requirements (defined as 8% of the risk-weighted exposure) specified into major exposure classes.

Exposure Class	Assets (£000)	Risk-Weighted Exposure (£000)	Minimum Capital Required (£000)
Credit Risk			
Central governments or central banks	265,493	-	-
Regional governments or local authorities	-	-	-
Public sector entities	-	-	-
Multilateral development banks	-	-	-
International organisations	-	-	-
Institutions	44,977	8,805	704
Corporates	20,123	20,123	1,610
Retail	2,793	2,079	166
Secured by mortgages on immovable property	1,380,589	491,046	39,285

Exposures in default	7,665	7,465	597
Items associated with particular high risk	-	-	-
Covered bonds	-	-	-
Claims on institutions and corporates with a short-term credit assessment	-	-	-
Collective investments undertakings (CIU)	-	-	-
Equity exposures	1,517	3,793	303
Other items	13,865	13,012	1,041
Securitisation positions SA	-	-	-
Total credit risk	*1,737,022*	*546,323*	*43,706*
Operational Risk			
Basic Indicator Approach (BIA)		40,245	3,220
Credit Valuation Adjustment (CVA) Risk			
Standardised Method		3,878	310
TOTAL		**590,446**	**47,236**

5.2.2 Total Capital Requirement and buffer requirements

The Society is provided with a Total Capital Requirement (TCR) by the PRA, taking into account the Society's ICAAP, which is the sum of Pillar 1 and Pillar 2A requirements. The TCR and buffer requirement as it applies specifically to The Society are detailed in Table 7.

Table 7: Capital and buffer requirements expressed in £-amounts and as percentage of the risk-weighted exposure.

	% of RWA	£000
Risk-weighted exposure amount		590,446
Capital requirements		
Total Capital Requirement (including Pillar 1)	8.83%	52,163
Capital Conservation Buffer	2.50%	14,761
Counter Cyclical Buffer	0.00%	-
Total	**11.34%**	**66,897**

5.2.3 Residual maturity

The maturity of exposures on a contractual basis is shown in Table 8. Note that this table does not take into account any instalments receivable over the life of the exposure. The retail exposure category consists only of mortgage balances in excess of 80% LTV, and has been combined with the category for exposures secured by mortgages on immovable property for the purpose of this section only. The mortgage exposure is reported gross of specific credit risk adjustments.

Table 8: Residual maturity breakdown by exposure class

Exposure Class As per 31/12/2021	< 3 mo	3 mo - 6 mo	6 mo - 1 yr	1 yr - 5 yr	> 5 yr	Total
Central governments or central banks	-	-	258,624	6,869	-	265,493
Institutions	-	-	20,834	19,248	4,895	44,977
Secured by mortgages on immovable property and Retail	1,603	2,355	3,709	15,070	1,380,768	1,403,505
Exposures in default	-	-	-	33	7,632	7,655

Equity exposures	1,517	-	-	-	-	1,517
Other items	13,865	-	-	-	-	13,865
Total Credit Risk	**16,985**	**2,355**	**283,167**	**41,220**	**1,393,295**	**1,737,022**

5.2.4 Exposure of wholesale credit investments by credit quality step

The exposure of wholesale credit investments (essentially the exposure to central governments or central banks and institutions) by credit quality step is shown in Table 9. The assignment of a credit quality to an exposure is based on the long-term Fitch rating according to the table below.

Table 9: Exposure of wholesale credit investments by credit quality step

Credit Quality Step	Fitch rating	Exposure Value
1	AAA to AA-	285,942
2	A+ to A-	24,527
3	BBB+ to BBB-	-
4	BB+ to BB-	-
5	B+ to B-	-
6	CCC+ to CCC-	-
Unrated		-
Total		310,470

5.2.5 Operational risk

Operational risk is calculated under the Basic Indicator Approach as 15% of the sum of the average net interest, fees and commissions receivable, fees and commissions payable, other operating income, other operating charges, and net profit or loss on financial operations over the previous three years, in accordance with Part 3, Title 3, Chapter 2 of CRR. A breakdown of the calculation of capital requirements for operational risk is provided in Table 10.

Table 10: Basic Indicator Approach calculation for operational risk

Operational Risk (£000)	2019	2020	2021
Net interest	17,958	19,569	24,283
Fees & commissions receivable	625	615	387
Fees & commissions payable	(15)	(12)	(18)
Other operating income	93	180	60
Other operating charges	(144)	(313)	(82)
Net profit or loss on financial operations	(455)	(1,192)	2,307
Total	18,062	18,847	26,937
Basic Indicator (3-year average)	17,731	18,510	21,464
Own Funds Requirement (15% of the Basic Indicator)	2,660	2,777	3,220

5.2.6 Credit risk adjustments

Provisions (under CRR referred to as credit risk adjustments) on commercial and residential accounts are made to reduce the value of loans and advances to the amount that is considered likely to be recoverable in the event of the property held as security for the loan being sold in possession by the Society.

Throughout the year, and at the year end, individual assessments are made of all loans and advances which are in possession or are significantly in arrears and a specific credit risk adjustment is made against those cases that are considered to be impaired (see also

Section 3.3.4). In considering the individual provisions for impaired loans, account is taken of any discount that may be needed against the value of the property at the balance sheet date to agree a sale within three months of that date. Where a property in possession is subject to an acceptable offer from a potential purchaser and the Directors are satisfied that commitment to completion of the transaction exists, the individual provision has been made on the basis of the agreed selling price. On the basis of the Society's previous experience it is recognised that not all serious arrears cases will ultimately result in possession, and the amounts provided on individual cases not in possession reflect the estimated propensity for a loss to be realised. The Society also looks to mitigate losses using Mortgage Indemnity Guarantee insurance, which is taken out on residential lending over 80% loan to value.

An individual provision is also made in the case of accounts, which may not currently be in arrears, where the Society has exercised forbearance in the conduct of the account. The provision is based on the propensity of the account to realise a loss, had forbearance not been shown. In all cases account is taken of any amounts recoverable under contracts of indemnity insurance, where this is virtually certain to be received, and of anticipated disposal costs. No provision is made against the future carrying costs of impaired loans.

A collective provision is made against those advances for which the Society's experience and the general economic climate would indicate that impairment events have occurred but have yet to be notified and as such could ultimately result in a loss.

The amount charged in the income and expenditure account represents losses written off in the year together with the net change in credit risk adjustments. Interest in respect of all loans is credited to the income and expenditure account as it becomes receivable.

Table 11: Reconciliation of specific and general credit risk adjustments

(£000)	Specific Credit Risk Adjustment	General Credit Risk Adjustment
As at 31st December 2020	128	1,649
Amounts written off	-	-
Charge in year	77	(803)
As at 31st December 2021	205	846

The balance sheet shows loans and advances to customers net of both collective and individual provisions. The effect on the income and expenditure account comprises the movement in the provisions, including losses written off or recovered in the year.

Under CRR, the individual and collective provisions are referred to as specific and general credit risk adjustments. A reconciliation of the specific and general credit risk adjustments is shown in Table 2. The specific credit risk adjustment and general credit risk adjustment per significant geographical region are provided in Table , Table 20, and Table 21 in Appendix C.

5.2.7 Mortgage portfolio distribution

Table 12 shows an overview of the mortgage portfolio separated by risk characteristics (i.e. owner-occupied residential, buy to let residential, or commercial mortgages), as well as geographical regions. A detailed distribution of performing and non-performing loans, as well as general and specific credit risk adjustments with regards to risk characteristics and geographical area is provided in Appendix C.

Table 12: Mortgage portfolio distribution

Mortgage Portfolio	Owner-occupied Residential	Buy To Let Residential	Commercial	Total
Total exposure	1,042,919	352,010	9,522	1,404,451
Performing	1,037,082	350,519	9,185	1,396,786
Non-performing	5,837	1,491	337	7,665
General credit risk adjustment	522	181	142	846
Specific credit risk adjustment	203	2	-	205
Exposure by region				
Scotland	0.0%	0.0%	0.0%	0.0%
Northern Ireland	0.0%	0.0%	0.0%	0.0%
Wales	0.7%	0.7%	0.0%	0.7%
North East England	0.4%	0.2%	0.0%	0.3%
North West England	1.4%	2.9%	0.0%	1.8%
Yorkshire and the Humber	0.8%	1.4%	0.0%	1.0%
East Midlands	5.1%	4.3%	0.0%	4.9%
West Midlands	1.4%	2.3%	0.0%	1.6%
East of England	73.1%	53.2%	95.5%	68.2%
London	5.6%	22.9%	4.5%	9.9%
South East England	8.8%	9.8%	0.0%	9.0%
South West England	2.7%	2.3%	0.0%	2.6%
	-	-	-	-
Total	**100%**	**100%**	**100%**	**100%**

5.3 Counterparty credit risk and CVA risk

For derivative instruments, risk weightings are determined according to the Mark-To-Market Approach for Counterparty Credit Risk according to Part 3, Title 2, Chapter 6 of CRR, and the Standardised Method for Credit Valuation Adjustment Risk following the approach described in Part 3, Title 6 of CRR for derivatives that are traded Over The Counter (OTC). The exposure values related to counterparty credit risk are shown in Table 13.

Table 13: Overview of exposures to counterparty credit risk

Counterparty Credit Risk	Exposure Value £000
Gross positive fair value of contracts	5,615
Netting benefits	-
Netted current credit exposure	5,615
Potential future exposure	2,317
Collateral held	-
Net derivatives credit exposure	7,932
Risk weighted derivatives credit exposure	3,954
Capital requirement	316

5.4 Encumbered assets

The Society has pledged part of its loan book as collateral with the Bank of England, in order to participate in the Bank's Term Funding Scheme (TFS) and Indexed Long-Term Repo (ILTR). Participation in these schemes provides the Society with a source of funding that diversifies the funding portfolio and reduces the overall funding cost and allows the Society to optimise mortgage rates for its members. Although the loans remain fully owned and operated by the Society, they are reported as encumbered.

Other encumbered assets are collateral posted for the derivative portfolio that supports the management of interest rate risk. Details of the encumbered assets, and sources of encumbrance can be found in Table 14 and Table 15.

Note that this information is required to be disclosed as median values over quarterly positions during the 12 months preceding 31st December 2021, and as a result may differ from other information provided in this disclosure.

As can be seen in the tables, the Society has encumbered more assets than it receives in collateral, since its counterparty requires a buffer against potential non-performance of assets in its pool. The Society does not consider making its other assets in Table 14 available for encumbrance.

Table 14: Overview of encumbered and unencumbered assets

	Encumbered assets		Unencumbered assets	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets of the reporting institution	230,806	-	1,496,956	-
Loans on demand	1,420	-	279,457	-
Equity instruments	-	-	-	-
Debt securities	-	-	17,809	17,809
Loans and advances other than loans on demand	229,386	-	1,181,096	-
Other assets	-	-	18,593	-

Table 15: Sources of encumbrance

	Matching liabilities, contingent liabilities or securities lent	Assets and collateral received encumbered
Carrying amount of selected financial liabilities	177,319	230,806

5.5 Interest rate risk in the banking book

Interest rate risk is the risk of loss arising from adverse movements in interest rates, reflecting the mismatch between the dates or bases on which interest receivable on assets and interest payable on liabilities resets.

The Society aims to match all fixed rate exposures on either side of the balance sheet using both on-balance sheet and off-balance sheet hedging (subject to ALCO approved mismatch limits). The Society has Board approved limits that ensure that the impact of a change in a range of interest rate scenarios has a limited effect of the present value of its re-pricing gaps, which is shown in Table 16.

Table 16: Impact of parallel and non-parallel shock to interest rates on the present value of assets and liabilities

Interest Rate sensitivity	Change to central rate (£000)
Impact of interest rate shift of +2.5%	(938)
Impact of interest rate shift of -2.5%	1,257
Impact of interest rate shift short rates up	(75)
Impact of interest rate shift of short rates down	744
Impact of interest rate shift flattener	350
Impact of interest rate shift steepener	(356)

5.6 Leverage ratio

The leverage ratio is defined as ratio between the Tier 1 capital and the total on and off-balance sheet asset exposure, without taking into account any risk weighting. Its objective is to reduce the risk of excessive leverage (i.e. an excessively low amount of own funds compared to total assets), as well as acting as a back stop against the model complexities involved in calibrating risk weights.

The Society calculates its Tier 1 capital on the basis that will apply once CRD IV has been fully phased in. In addition to the on-balance sheet assets, the leverage ratio also takes off-balance sheet exposure into account.

The total exposure measure and leverage ratio are shown in Table 17 based on the on-balance and off-balance sheet exposures as per 31st December 2021. The accounting value of assets, as it appears in the Annual Report and Accounts, is reconciled to the leverage ratio exposure. Differences arise due to:

- different requirements for the valuation of derivatives
- inclusion of undrawn credit facilities in the capital exposure
- deduction of intangible assets from capital resources and capital exposure
- the credit risk exposure is reported gross of the general credit risk adjustment.

There is a small difference between the leverage ratio exposure and the credit risk exposure as reported in Table 6 due to the different weighting of undrawn credit facilities.

Table 17: Overview of components for the calculation of the leverage ratio and reconciliation of leverage ratio exposure and accounting value of balance sheet assets.

Leverage ratio	£000
Capital	
Tier 1 Capital (fully phased in definition)	99,394
Accounting value of assets	1,727,682
Accounting value of derivatives	(5,632)
Derivatives gross positive fair value of contracts	5,615
Derivatives potential future exposure	2,318
Undrawn credit facilities	3,470
Deduction of intangible assets	(730)
General credit risk adjustment	846
Total leverage ratio exposure	1,733,569
Leverage Ratio	5.7%

6 Remuneration policy

The Directors Remuneration Report, which is set out on pages 30 to 33 of the Society's Annual Report and Accounts sets out the policies and process for determining the Remuneration Policy of the Society.

6.1 Remuneration and Organisational Design Committee

The Remuneration and Organisational Design Committee is responsible for the remuneration policy of all Executive Directors, Management and staff and it makes recommendations to the Board regarding remuneration and contractual arrangements. The Committee meets at least twice a year and reviews supporting evidence, including external professional advice if appropriate, on comparative remuneration packages. During 2021, the Committee met a total of three times.

No Director or Executive is involved in any decision on their own remuneration.

6.2 Nominations Committee

The Society's Nominations Committee determines the fees paid to Non-Executive Directors based on comparable data from similar financial services organisations. Members of the Committee do not agree their own fees.

The Committee meets at least twice a year to determine fees paid to Non-executive Directors and to consider the balance and diversity of skills, knowledge and experience of the Board and the requirements of the organisation. During 2021, the Committee met a total of three times.

6.3 Material risk takers

The PRA's Remuneration Code contains the principle of proportionality which means that firms are expected to comply with the remuneration requirements of the Code in relation to their size, internal organisation and the nature, scope and complexity of their activities. Accordingly, the Society is grouped in Tier 3 with banks and building societies with total assets averaging less than £15bn over the last three financial years.

In accordance with CRD IV, criteria apply for the identification of 'Code staff', now referred to as staff identified as material risk takers. The Society has conducted a review to ascertain which employees are governed by these requirements.

6.4 Remuneration of Non-Executive Directors

The remuneration of Non-Executive Directors is based on fees which are reviewed annually. Non-Executive Directors do not receive any pension or reward from variable pay schemes.

The Society's policy is designed to ensure that remuneration reflects performance and enables the Society to attract, retain and motivate the Non-executive team to lead and direct the Society in an increasingly regulated and competitive market.

6.5 Main components of remuneration

An overview of aggregated remuneration to material risk takers is provided in Table 18. The table includes remuneration to staff members and Directors that have left or joined during the year.

Table 18: Aggregate quantitative information on remuneration of material risk takers

Type of staff	Number	Fixed £	Pension £	Variable £	Total £
Non-Executive Directors	8	229,192	-	-	229,192
Executive Directors	5	715,053	88,292	53,617	856,962
Other Material Risk Takers	10	570,224	68,427	52,896	691,547
Total	23	1,514,469	156,719	106,513	1,777,701

6.5.1 Basic salary

The basic salary of Executive Directors is set according to the scope of the role and responsibilities, individual performance (assessed twice a year), salary levels of similar positions in comparable organisations and internal benchmarks.

Salaries are reviewed annually and individual increases are awarded based on the individual's performance against personal objectives measured in accordance with the performance management framework in each area.

6.5.2 Variable pay scheme

The Executive Directors and Executive are part of the Society's overall 'Sharing in Success' variable pay scheme. The scheme's principles are weighted towards customer and financial outcomes to ensure that the scheme balances long term sustainable benefits for both customers and the Society.

6.6 Contracts

No Executive Director holds a contract with a notice period of more than six months. No individuals were remunerated £850,000 or more.

Settlement agreements were structured in line with contractual and legal requirements.

Appendix A: EBA own funds disclosure template

Common Equity Tier 1 (CET1) capital: instruments and reserves		
1	Capital instruments and the related share premium accounts	15,000
2	Retained earnings	81,318
3	Accumulated other comprehensive income (and other reserves)	3,806
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	100,124
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
8	Intangible assets (net of related tax liability) (negative amount)	(730)
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	(730)
29	Common Equity Tier 1 (CET1) capital	99,394
Additional Tier 1 (AT1) capital: instruments		
36	Additional Tier 1 (AT1) capital before regulatory adjustments	0
Additional Tier 1 (AT1) capital: regulatory adjustments		
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	0
44	Additional Tier 1 (AT1) capital	0
45	Tier 1 capital (T1 = CET1 + AT1)	99,394
Tier 2 (T2) capital: instruments and provisions		
50	Credit risk adjustments	846
51	Tier 2 (T2) capital before regulatory adjustments	846
Tier 2 (T2) capital: regulatory adjustments		
57	Total regulatory adjustments to Tier 2 (T2) capital	0
58	Tier 2 (T2) capital	846
59	Total capital (TC = T1 + T2)	100,240
60	Total risk weighted assets	590,446
Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	16.8%
62	Tier 1 (as a percentage of total risk exposure amount)	16.8%
63	Total capital (as a percentage of total risk exposure amount)	17.0%
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	7.5%
65	of which: capital conservation buffer requirement	2.5%
66	of which: countercyclical buffer requirement	0.0%
67	of which: systemic risk buffer requirement	0.0%
67 a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0.0%
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	8.1%
Amounts below the thresholds for deduction (before risk weighting)		
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	1,517
Applicable caps on the inclusion of provisions in Tier 2		
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	846
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	6,829

Appendix B: Capital instruments main features

Capital instruments main features template		
1	Issuer	The Cambridge Building Society
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	N/A
3	Governing law(s) of the instrument	English
Regulatory treatment		
4	Transitional CRR rules	CET1
5	Post-transitional CRR rules	CET1
6	Eligible at solo/(sub-)consolidated/ solo & (sub-)consolidated	S
7	Instrument type (types to be specified by each jurisdiction)	CCDS
8	Amount recognised in regulatory capital (as of most recent reporting date)	£15,000,000
9	Nominal amount of instrument	£15,000,000
9a	Issue price	£100
9b	Redemption price	£100
10	Accounting classification	Shareholder's Equity
11	Original date of issuance	04/09/2017
12	Perpetual or dated	Perpetual
13	Original maturity date	No
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	N/a
16	Subsequent call dates, if applicable	N/a
Coupons / dividends		
17	Fixed or floating dividend/coupon	Variable
18	Coupon rate and any related index	Bank of England Base Rate + 5%

Capital instruments main features template		
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully Discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully Discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	Non contractual statutory via bail in
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	AT1
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	

Appendix C: Geographical breakdown of loans and credit risk adjustments

Table 19, Table 20, and Table 21 below detail performing loan exposure, non-performing loan exposure (defined as more than 3 months past-due), and general and specific credit risk adjustments by geographic region for the main exposure classes in the mortgage book (core residential, buy to let, and commercial). Past due amounts shown relate to the overall mortgage balances, not the amount in arrears.

Table 19: Geographical breakdown of assets classified as core residential (£000)

Owner-occupied Residential	Performing	Non-performing	General credit risk adjustment	Specific credit risk adjustment
East of England	756,413	5,169	228	162
South East England	91,666	468	80	42
London	58,363	200	54	-
East Midlands	53,238	-	42	-
Other areas in UK	77,404	-	118	-
Total	**1,037,082**	**5,837**	**522**	**204**

Table 20: Geographical breakdown of assets secured on immovable property classified as buy to let (£000)

Buy To Let Residential	Performing	Non-performing	General credit risk adjustment	Specific credit risk adjustment
East of England	185,502	1,490	37	-
South East England	34,619	-	19	-
London	80,497	-	92	-
East Midlands	15,055	-	8	2
Other areas in UK	34,846	-	25	-
Total	**350,519**	**1,490**	**181**	**2**

Table 21: Geographical breakdown of assets secured on immovable property classified as commercial (£000)

Commercial	Performing	Non-performing	General credit risk adjustment	Specific credit risk adjustment
East of England	8,761	338	107	-
South East England	-	-	-	-
London	424	-	35	-
East Midlands	-	-	-	-
Other areas in UK	-	-	-	-
Total	**9,185**	**338**	**142**	**-**

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