

LOUGHBOROUGH BUILDING SOCIETY

Pillar 3 Disclosures as at 31 October 2022

Contents

	Page
Introduction	2
Risk management objectives and policies	2
Capital resources	5
Capital adequacy assessment	5
Leverage ratio	7
Credit risk – mortgages	8
Impairment allowance	8
Credit risk – treasury	9
Derivatives	9
Interest rate risk	10
Liquidity risk	10
Operational risk	11
Asset encumbrance	11
Remuneration policies and practices	11
Country-by-country reporting	12
Conclusion	12

Note: These Pillar 3 disclosures have been prepared solely for the purposes of compliance with the Capital Requirements Directive. The information contained therein as to the capital requirements and management of risk does not constitute any form of financial statement and shall not be solely relied upon by anyone in making judgement on the Society. There is no requirement for the disclosures to be externally audited.

Introduction

1. This document provides information on the capital strength of the Society and its approach to risk management. The Society seeks to ensure that it protects the interests of members and other stakeholders by holding sufficient capital at all times.
2. The European Union Capital Requirements Directive and Capital Requirements Regulations came into force from 1 January 2014 and have the objective of ensuring that banks, building societies and investment firms hold adequate capital to provide security for members and depositors. The regulations are collectively known as CRD IV. The Prudential Regulation Authority (PRA) is the prudential regulator of Loughborough Building Society ("[The Society](#)") and is responsible for implementing CRD IV in the UK. The Society has adopted the Standardised Approach for Credit risk and the Basic Indicator Approach for Operational risk.
3. The CRD comprises 3 main elements, or 'Pillars', as follows:
 - Pillar 1: Minimum capital requirements, using a risk-based capital calculation focussing particularly on credit and operational risk.
 - Pillar 2: Internal capital adequacy assessment process (ICAAP) and supervisory review and evaluation process (SREP). The Board of the Society undertakes an assessment of all of the key risks facing the Society and additionally performs stress testing of those risks to establish a level of additional capital to be held under Pillar 2.
 - Pillar 3: This document deals with the requirements under Pillar 3 (disclosure) concerning the risks faced by the Society and a description of the capital held. This information is provided in accordance with the Rules laid down in Capital Requirements Regulations and in the FCA handbook, BIPRU, section 11. The requirements under Pillar 3 are designed to promote market discipline through the disclosure of information about risk exposures and risk management processes.
4. The Board approves the Society's ICAAP annually, using the level of Total Capital Requirement (TCR) and regulatory buffers advised by the PRA as the minimum capital requirement.
5. The Society's assessment of capital indicates that it has adequate resources to meet the PRA and CRD IV regulatory buffers at 31 October 2022 and over the three-year strategic planning period.
6. The figures quoted in this disclosure have been drawn from the Society's Annual Report and Accounts as at 31 October 2022, unless otherwise stated.

Key Metrics

		31 st Oct 2022 £m	31 st Oct 2021 £m
	Available own funds (amounts)		
1	Common Equity Tier 1 (CET1) capital	25.5	22.5
2	Tier 1 capital	25.5	22.5
3	Total capital	25.9	22.8
	Risk-weighted exposure amounts		
4	Total risk-weighted exposure amount	178.2	183.0
	Capital ratios (as a percentage of risk-weighted exposure amount)		
5	Common Equity Tier 1 ratio (%)	14.3%	12.3%
6	Tier 1 ratio (%)	14.3%	12.3%
7	Total capital ratio (%)	14.5%	12.5%
	Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)		
UK 7a	Additional CET1 SREP requirements (%)	0%	0%
UK 7d	Total SREP own funds requirements (%)	8%	8%
	Combined buffer requirement (as a percentage of risk-weighted exposure amount)		
8	Capital conservation buffer (%)	2.5%	2.5%
9	Institution specific countercyclical capital buffer (%)	0%	0%
11	Combined buffer requirement (%)	2.5%	2.5%
UK 11a	Overall capital requirements (%)	10.5%	10.5%
12	CET1 available after meeting the total SREP own funds requirements (%)	4.2%	2.0%
	Leverage ratio		
13	Total exposure measure excluding claims on central banks	502.1	361.6
14	Leverage ratio excluding claims on central banks (%)	5.1%	6.2%
	Liquidity Coverage Ratio		
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	60.1	51.7
UK 16a	Cash outflows - Total weighted value	45.7	31.6
UK 16b	Cash inflows - Total weighted value	7.9	8.0
16	Total net cash outflows (adjusted value)	37.8	23.6
17	Liquidity coverage ratio (%)	159%	219%
	Net Stable Funding Ratio		
18	Total available stable funding	383.2	360.3
19	Total required stable funding	256.7	245.6
20	NSFR ratio (%)	149%	147%

Risk Management Objectives and Policies

7. The Board Risk Committee, consisting solely of non-executive directors, is responsible for determining a framework for risk management including governance structure, risk appetite and risk policy, which is subject to approval by the Board. The Executive Directors are responsible for operating and monitoring risk management and internal control processes. The Society has adopted a “three lines of defence” approach to the identification and management of risk as follows:

First line Day-to-day management of risk by department managers. This encompasses ownership and accountability for directly assessing, controlling and mitigating risks.

Second line Oversight of the risk framework by the Society’s Risk and Compliance function. This includes oversight of the implementation of effective risk management practices by operational management; adherence to Policies and the Board’s risk appetite; provision of guidance and support to the business and independent reporting to the Risk Committee.

Third line Independent assurance as to the effectiveness of the Society’s risk governance framework, systems and controls by the Internal Audit function.

The Society uses a Risk Register to assess the likelihood and impact of its key risks. This is reviewed annually by the Board and by the Risk Committee, and by the Risk function and risk owners on a quarterly basis. It is updated to reflect new or emerging risks and changes in controls and control effectiveness assessments. The Risk Register forms a base for the identification of key risks for incorporation into the ICAAP under Pillar 2.

8. The Board Assets and Liabilities Committee (ALCO), comprising both non-executive and executive directors, is responsible for monitoring structural risks on both sides of the balance sheet. The Board Audit and Compliance Committee, consisting solely of non-executives, considers the adequacy of internal controls, the Compliance function, Internal Audit function and the evaluation of related risks. The system of internal control is designed to enable the Society to achieve its corporate objectives within a managed risk appetite, rather than to eliminate risk. The Board Risk Committee considers all other aspects of operational and prudential risks, including lending risks. Consideration of conduct risk is reserved for the Board.
9. On going review of the risk management framework and compliance with risk appetite has not identified any material gaps that may impede the overall management of risk at the Society. The governance of risk management at the Society ensures that a change in strategy or corporate plan or when a material unexpected event occurs triggers consideration of whether change is required to any of the Society’s Risk Appetite Statements.
10. The Society has a Management Assets and Liabilities Committee, (MALCO), consisting of executive directors and senior management. MALCO meets monthly and is responsible for reviewing risks on both sides of the balance sheet and making recommendations to ALCO.
11. The Society’s Internal Audit function provides independent assurance to the Board, through the Audit and Compliance Committee, regarding the effectiveness of internal controls.
12. The principal business and financial risks to which the Society is exposed are credit, market, liquidity, regulatory, strategic, operational, conduct, reputational and climate, these are detailed in sections 12 to 23 below. Full details regarding the financial risks and instruments used by the Society are given in the Annual Report and Accounts 2022, Note 26, Financial Instruments.
13. Credit risk is the risk that losses may arise as a result of failure by a borrower or counterparty to meet its obligation to repay. The Board is responsible for reviewing the Credit Policy of the Society and for monitoring arrears. The ALCO monitors exposure to treasury counterparties as detailed in section 44 below. Concentration risk, which adds a further dimension to credit risk, arises as a result of the concentration of exposures within the same category, whether it is geographical location, product type, industry sector or counterparty type. Credit risk is managed through adherence to Board-approved credit and liquidity policies,

which provide for a range of limits that are regularly monitored and reviewed in the light of changing economic conditions and Society objectives.

14. The Society is predominantly a residential mortgage lender, and it is exposed to the housing market in England and Wales by virtue of its statutory nature limits. Within the residential mortgage business, the Society's main concentration risk is geographical, with a high proportion of its lending is in the East Midlands region, where the Society has its core area of operation.
15. Product type and loan to value concentrations also exist in the Society's mortgage balances. These are monitored regularly by the Board to ensure that credit policy limits are not exceeded. All concentrations are managed within limits which the Board believes are appropriate to current economic conditions and Society objectives.
16. The Board has ensured that the Society ICAAP makes provision for additional capital to be available to cover any downturn in house prices or increased mortgage losses.
17. [Market risk](#) incorporates the loss of income, mainly as a result of changes to interest rates. Exposure to this risk is primarily managed through a combination of natural hedges that exist in the Society's balance sheet together with appropriate hedging contracts with external counterparties, as permitted under the Board's Financial Risk Management Policy. Interest rate risk is considered more fully in sections 45 to 50 below. The Society does not undertake any treasury transactions of a speculative nature.
18. [Liquidity risk](#) concerns the Society's ability to meet its financial obligations as they fall due as a result of imbalances in the cash flow of its activities. This risk is managed through adherence to the Board policies for both Liquidity and Financial Risk Management.
19. [Regulatory Risk](#) considers the risk that the volume and complexity of regulatory issues may impact on the Society's ability to compete over time. Executive and management staff are kept informed of regulatory changes through regular update communications. The three lines of defence model also provides oversight, challenge and assurance as to how the Society meets regulatory requirements.
20. [Strategic Risk](#) is the risk that the Society is exposed to external factors. These are considered by the Board as part of the corporate planning process and regularly throughout the year, ensuring that the Society makes an adequate amount of profit and maintains sufficient capital.
21. [Operational risk](#) is associated with the Society's internal processes and systems and the potential for these not to function properly. It also covers human error, key supplier failure and external events. Line managers are responsible for assessing the operational risks and associated controls which are relevant to their areas, and this is reflected in the Risk Register. Management information includes a review of the Society's performance against key operational risk indicators. The Society has in place a range of insurance policies to cover operational risks including loss of systems, site disruption or crime. There is also a Business Continuity Plan and a Liquidity Contingency Plan to ensure that risks of disruptions to the Society's business can be mitigated by appropriate management actions. Within operational risk, cyber risk is a key area. Appropriate measures are in place, including penetration testing, to mitigate cyber related risks and ensure that the Society is secure. In addition, the Society is implementing processes to achieve compliance with the PRA's requirements for Operational Resilience and Operational Continuity in Resolution by the required date of 31 March 2022.
22. [Conduct risk](#) – is the risk that the Society does not treat its customers fairly and provides inappropriate products for customers. The Board has an approved Conduct Risk Appetite Statement and a Conduct Policy which applies to all staff and seeks to ensure that customers are treated fairly across the entire life cycle of customer relationships. The Conduct Risk Dashboard provides management information on the Society's performance with regard to Conduct Risk and this is reviewed quarterly by the Board and on a monthly basis by the senior management team.
23. [Reputational risk](#) – as a deposit taking institution, it is essential that the Society safeguards its members' funds to ensure that events do not arise which could damage its reputation and lead to a loss of public confidence. The Society manages this risk by the preparation of a detailed Corporate Plan with regular review by MALCO, ALCO and the Board.

24. [Climate risk](#) - is the risk of adverse impacts on the Society's business caused by climate change. These risks have been identified as being physical and transitional. Physical risks could create a direct impact, such as properties over which the Society holds a mortgage becoming uninhabitable or unsaleable due to increased risk of flooding. Transition risks could include developments such as potential disruption to certain sectors of the economy as society moves from higher to lower levels of carbon production in energy generation. In response to these risks, the Society is participating in industry initiatives to understand and plan for their effect. To support it in meeting the requirements of the PRA's supervisory statement SS3/19, which sets out regulatory expectations in response to climate risk, the Society commissioned a statistical analysis of its mortgage book during the past year to understand the potential impact of climate risk on existing accounts. This analysis suggests that direct, physical risks may not present a significant risk to the Society's business, but that transitional risks, especially the remediation costs of converting low energy efficiency homes to a better standard of energy efficiency may be substantial. The impact of this will be incorporated into the Society's annual assessment of its capital position and the impact on this of various stress scenarios.
25. The Society has a formal structure for managing financial risk, which includes the establishment of risk limits, reporting lines, mandates and other control procedures. The ALCO is charged with responsibility for managing and controlling structural balance sheet exposures and the use of financial instruments for risk management purposes.
26. The Board recognises that there are residual risks inherent in any business, which may not be identified specifically. Provision has been made for general residual risks in the ICAAP by applying a buffer to the Total Capital requirement issued by the PRA.
27. The Board, as the ultimate management body, is responsible for ensuring that the Society's risk management and internal control systems remain effective. As a sub-committee of the Board, the Audit Committee is responsible for reviewing the effectiveness and appropriateness of the controls in place.

Capital Resources

28. Total Society capital resources at 31 October 2022, amount to £25.9m. Under the Own Funds definition in the CRD this is made up of Common Equity Tier 1 capital comprising general reserves and other reserves, less a deduction for intangible assets. Tier 2 capital represents the Collective Impairment Provision.

29. [Table 1](#) provides details of the positive and negative components of capital within the Society.

TABLE 1	Society
Common Equity Tier 1 capital resources	£m
Gross (accumulated profits held as general reserves)	25.6
Deduction (intangible assets – IT software)	(0.1)
Net Tier 1 capital resources	25.5
Tier 2 capital resources	
Gross (collective provision for bad and doubtful debts)	0.4
Net Tier 2 capital resources	0.4
Total capital resources	
Gross	26.0
Deduction	(0.1)
Net Total capital resources	25.9

Capital Adequacy Assessment

30. The Society maintains a three-year strategic planning framework, this is reviewed by the Society's Board annually to take account of current and changing economic conditions. The process culminates in the annual production of a three-year Corporate Plan with detailed budgets covering the following year's activities.

31. The Corporate Plan has regard to the Society ICAAP submission and in particular the Board's risk appetite for different business activities and risks.

32. The Society's ICAAP also contains the capital plan for the next three years and the Board ensures that there are adequate capital resources to support the corporate goals contained in the plan.

33. In order to produce a detailed capital plan, the Society's ICAAP includes calculations of the capital resources requirement each year using the standardised approach for credit risk and the basic indicator approach for operational risk.

34. Under the standardised approach for credit risk, the Society applies a risk weighted asset value to each of its exposure classes and provides 8% of that risk weighted asset value as the minimum capital requirement for credit risk.

35. Under the basic indicator approach for operational risk, the Society calculates its average net income over the previous three years and provides 15% of that average net income as the minimum capital requirement for operational risk.

36. [Table 2](#) provides details of the calculation of capital resource requirements within the Society as at 31 October 2022, covering both liquidity and mortgage exposures.

TABLE 2			
CAPITAL RESOURCES REQUIREMENT	SOCIETY		
	Exposure £m	Risk weighted assets value £m	Minimum capital required £m
Credit risk			
<i>Treasury assets</i>			
Central government	61.1	-	-
Credit institutions	8.3	2.3	0.2
Total treasury assets	69.4	2.3	0.2
<i>Loans & advances to customers</i>			
Non-residential & business - performing loans	4.1	4.1	0.3
Non-residential & business - past due loans	-	-	-
Residential use - performing loans	370.4	130.1	10.4
Residential use - past due loans	0.8	0.8	0.1
Total loans & advances to customers	375.3	135.0	10.8
<i>Other exposures</i>			
Fixed and other assets	3.9	3.9	0.3
Interest rate derivatives	1.4	0.7	0.1
Mortgage commitments	41.5	7.4	0.6
Total other exposures	46.8	12.0	1.1
Credit risk - capital resources required	491.5	149.3	12.1
Operational risk - capital resources required		13.0	1.0
Society total capital resources required		162.3	13.1

37. Table 3 gives a reconciliation between the total exposures as shown in Table 2 and Total Assets as reported in the Society's Annual Report and Accounts.

TABLE 3	
Reconciliation of Total Exposures to Total Assets per Accounts	£m
Total credit risk exposures per Table 2	491.5
Less: collective loss provision not deducted	(0.4)
Less: off balance sheet items	(41.5)
Total Assets per Report & Accounts at 31 October 2022	449.6

Template UK OV1 – Overview of risk weighted exposure amounts		Risk weighted exposure amounts (RWEAs)		Total own funds requirements
		a	b	c
		31st Oct 2022 £m	31st Oct 2021 £m	31st Oct 2022 £m
1	Credit risk (excluding CCR)	141.4	128.7	11.3
2	Of which the standardised approach	141.4	128.7	11.3
6	Counterparty credit risk - CCR	10.8	40.3	0.9
7	Of which the standardised approach	2.8	4.5	0.2
UK 8b	Of which credit valuation adjustment - CVA	8.0	35.8	0.7
9	Of which other CCR	15.2	4.2	1.2
15	Settlement risk	-	-	-
16	Securitisation exposures in the non-trading book (after the cap)	-	-	-
17	Of which SEC-IRBA approach	-	-	-
18	Of which SEC-ERBA (including IAA)	-	-	-
19	Of which SEC-SA approach	-	-	-
UK 19a	Of which 1250%/ deduction	-	-	-
20	Position, foreign exchange and commodities risks (Market risk)	-	-	-
21	Of which the standardised approach	-	-	-
22	Of which IMA	-	-	-
UK 22a	Large exposures	-	-	-
23	Operational risk	10.8	9.8	0.9
UK 23a	Of which basic indicator approach	10.8	9.8	0.9
UK 23b	Of which standardised approach	-	-	-
UK 23c	Of which advanced measurement approach	-	-	-
24	Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)	-	-	-
29	Total	178.2	183.0	14.3

Leverage Ratio

38. CRD IV introduced a non-risk-based leverage ratio which became mandatory from 1 January 2018. The minimum requirement for all banks and building societies is 3%. The leverage ratio measures Tier 1 capital as a percentage of on and off-balance sheet assets. The Society's leverage ratio was 5.08% at 31 October 2022. The following tables show the calculation of the leverage ratio.

TABLE LR Sum	
Summary reconciliation of accounting records and leverage ratio exposures	£m
Total assets per published financial statements	449.6
Adjustments for derivative financial instruments	1.6
Adjustments for off-balance sheet items	41.5
Asset amounts deducted in determining Tier 1 capital	-0.1
Other adjustments	8.5
Leverage ratio exposures	501.1

TABLE LR Spl	
Split of on balance sheet exposures (excluding derivatives)	£m
Exposures treated as sovereigns	61.1
Institutions	8.4
Secured by mortgages on immovable properties	373.6
Exposures in default	0.8
Other exposures (e.g., equity, securitisations and other non-credit obligation assets)	15.2
EU-3 Banking book exposures	459.1
Trading book exposures	-
EU-1 Total on-balance sheet exposures (excluding derivatives)	459.1

TABLE LR Com	
Leverage ratio common disclosure	£m
On-balance sheet items (excluding derivatives and SFTs but including collateral)	459.1
Asset amounts deducted in determining Tier 1 capital	-0.1
Total on-balance sheet exposures (excluding derivatives and SFTs)	459.0
Total derivative exposures	1.6
Total off-balance sheet exposures	41.5
Total Exposures	502.1
Tier 1 Capital	25.5
Leverage ratio	5.08%

Credit Risk - Mortgages

39. The Society regards as 'past due' any mortgage or loan account where more than three monthly repayments have not been made at the accounting date. Arrears of mortgage repayments are monitored closely, and the Society has performed satisfactorily in comparison with national arrears and possession statistics.

40. A geographical analysis of Society mortgage exposures is as follows:

TABLE 4						
Society	Non-residential			Residential		
	Performing £m	Past Due £m	Total £m	Performing £m	Past Due £m	Total £m
Geographical region						
Northeast	-	-	-	9.6	-	9.6
Yorkshire & Humberside	-	-	-	32.2	-	32.2
Northwest	0.1	-	0.1	44.9	-	44.9
East Midlands	3.7	-	3.7	123.0	0.6	123.6
West Midlands	0.1	-	0.1	36.6	0.1	36.7
East of England	-	-	-	32.5	-	32.5
Southeast	0.2	-	0.2	40.8	-	40.8
Greater London	-	-	-	12.7	-	12.7
Southwest	-	-	-	24.9	0.1	25.0
Wales	-	-	-	13.2	-	13.2
Less: Individual loss provisions	-	-	-	-	-	-
Total included in Table 2	4.1	-	4.1	370.4	0.8	371.2
Less: Collective loss provisions			-			(0.4)
Total per Report and Accounts			4.1			370.8

41. A residual maturity analysis of Loans and Advances to customers is provided at Note 14 of the Annual Report and Accounts 2022. The following caveat is added: "The maturity analysis is based on contractual maturity not expected redemption levels".

Impairment allowance

42. The Society's accounting policy in relation to the impairment allowance for loans and advances is set out in full at Note 1, accounting policies, to the Annual Report and Accounts 2022.

43. Full details of the movement on impairment allowance are provided at Note 15 to the Annual Report and Accounts 2022.

44. For capital adequacy purposes, collective provisions are regarded as Tier 2 capital (Table 1 above). Summarised details of the individual impairment provision movements during the year to 31 October 2022 are given in Table 5:

TABLE 5				
Individual impairment provisions - 2021	Brought forward £m	Written Off £m	Movement £m	Carried Forward £m
Society				
Non-residential	-	-	-	-
Residential	-	-	-	-
Total	-	-	-	-

45. Individual provisions of £0.04m have been used to adjust downwards the value of risk-weighted mortgage assets in the capital adequacy calculations.

Credit Risk - Treasury

46. The purpose of the treasury credit risk policy is to ensure that the Society operates within strict credit quality limits, while still achieving a reasonable yield on the amounts placed with counterparties. Investments in banks and building societies are held purely for liquidity purposes. The minimum policy ratings are generally Fitch short term F1 and long-term A. Other investments are only made on agreement of ALCO. Treasury deposits are also made with unrated building societies.

47. Policy limits and counterparties are regularly reviewed by the Society's MALCO and by the Board ALCO, with formal policy approval being made at Board level. The Society receives regular counterparty rating amendments from its Treasury advisors and limits may be suspended following adverse downgrades.

48. The following table shows the breakdown of liquid assets by maturity and rating at 31 October 2022 under the standardised approach. There were no liquid assets with maturity of more than one year.

Table 6		3 months to	Total
Rating	Maturity less than 3m £m	1 year £m	£m
Cash and balances at the Bank of England	61.1	-	61.1
AAA to AA-	-	-	-
A+ to A-	4.8	2.0	6.8
BBB+ and below	1.0	-	1.0
Unrated Building Societies	0.5	-	0.5
TOTAL	67.4	2.0	69.4

Derivatives

49. In addition to the exposures above that relate to liquid assets, the Society has exposures relating to derivative instruments. The Society uses derivative instruments in the form of interest rate swaps to hedge its exposure to interest rate risk. Counterparty credit risk includes the risk that the derivatives counterparty will default on the transaction. All of the Society's derivatives are bilateral and conducted over the counter (OTC).

50. Under the CRR, credit institutions and investment firms are required to hold additional own funds due to Credit Valuation Adjustment (CVA) risk arising from the OTC derivatives. The charge is applicable to derivatives not subject to centralised clearing.

51. An overview of the CVA capital requirement is detailed below:

TABLE 7	Asset £'000	Risk Weighted Asset £'000	Capital required (£'000)
CVA Risk	-	0.7	0.1

Interest Rate Risk

52. Interest rate risk is referred to under the heading of Market Risk, in paragraph 16 of this disclosure document. The main activities undertaken by the Society that give rise to interest rate risk are as follows:

- Management of the investment of capital and other non-interest bearing liabilities;
- Issue of fixed rate savings products;
- Fixed rate wholesale funding;
- Fixed rate mortgage lending; and,
- Fixed rate treasury investments.

53. Interest rate risk is managed by utilising natural hedges on the balance sheet and by effecting interest rate swaps with external counterparties.

54. The interest rate risk on savings and mortgage products is reviewed on a regular basis and hedging action taken as appropriate.

55. The Society's balance sheet is tested against Board gap limits on a monthly basis for the effects of a 2% parallel shift in interest rates.

56. Basis risk is reported to the MALCO, ALCO and the Board and is managed within the limits stated in the Financial Risk Management Policy.

57. Interest rate risk limits are an expression of the Board's risk appetite and are reviewed as part of updating the Society ICAAP.

Liquidity Risk

58. Liquidity risk is the risk that the Society will be unable to meet its financial obligations as they fall due as a result of imbalances in the cash flow of its activities either in stressed or business as usual conditions. This risk is managed through adherence to the Board policies for both Liquidity and Financial Risk Management, for which MALCO is responsible. Day to day responsibility for the management of the risk lies with the Finance Director.

59. Liquidity stress testing is carried out on a monthly basis to ensure the Society can withstand normal and stressed outflows. The key regulatory metric for measuring short term (30 day) liquidity risk is the liquidity coverage ratio (LCR) which compares the potential cash flows under a prescribed set of assumptions with the value of high-quality liquid assets held as a Liquidity Buffer. The LCR must exceed 100%.

60. Table 8 shows the main components of the LCR calculation on an average basis for each quarter, based on the previous twelve-month positions. The regulatory minimum requirement for the LCR is 100% and on 31 October 2022 the Society's LCR was 159%.

TABLE 8	Averages in Quarter Ended 31 Jan 2022	Averages in Quarter Ended 30 Apr 2022	Averages in Quarter Ended 31 Jul 2022	Averages in Quarter Ended 31 Oct 2022
Liquidity Buffer £m	51.3	44.5	40.6	47.6
Total Net Cash Outflows £m	28.9	25.9	26.7	27.1
Liquidity Coverage Ratio %	178%	172%	152%	176%

Operational Risk

61. Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems, or from external events. The Society operates a robust control environment to mitigate operational losses, including the maintenance of insurance policies. This risk is managed by the departmental managers of the Society, the 'risk owners', who have responsibility for putting in place appropriate controls for their business area. Regular reports are prepared for Risk Committee by risk owners setting out the effectiveness of the elements of the control framework for which they are responsible.

To ensure support the Society's capital position in the event of an operational risk materialising the Society maintains a range of insurance policies to cover eventualities such as business interruption, loss of IT systems etc.

62. A Business Continuity Plan and disaster recovery process is in place to ensure that disruptions to the Society's business can be appropriately managed.

63. To monitor its operational risks, the Society records all key risks and quantifies these through risk likelihood and impact, together with a reduction in impact and likelihood from the application of controls assigned to each risk. This allows the residual risk position to be monitored.

64. The Society monitors and reports on operational and conduct risk events which have occurred to better understand those exposures and drive sustainable risk mitigation activity to prevent recurrence. For the purposes of this report, operational and conduct risk events include only those where a financial loss arises from the risk event.

65. The Society's operational risk capital requirement is calculated (under the Basic Indicator Approach) as 15% of the Society's average net income over the previous 3 years.

TABLE 9 – Banking Activities		a	b	c	d	e
		Relevant Indicator			Own Funds Requirement	Risk Weighted Exposure Amount
		31 st Oct 2022 £m	31 st Oct 2022 £m	31 st Oct 2022 £m	31 st Oct 2022 £m	31 st Oct 2022 £m
1	Banking activities subject to basic indicator approach (BIA)	5.3	6.8	8.7	1.0	13.0
2	Banking activities subject to standardised (TSA) / alternative standardised (ASA) approaches	-	-	-	-	-
3	<i>Subject to TSA:</i>	-	-	-		
4	<i>Subject to ASA:</i>	-	-	-		
5	Banking activities subject to advanced measurement approaches AMA	-	-	-	-	-

Asset Encumbrance

66. The Society joined the Term Funding Scheme in January 2018 and the Index Long-Term Repo Scheme in July 2019 which required collateral in the form of mortgage loans to be lodged with the Bank. The funding received totalled £16.3m and allows the Society to reduce its funding costs and the rates charged to borrowers. The loans remain fully owned and operated by the Society, but they are reported as encumbered.

67. The information in Table 10 is required to be disclosed based on median values of at least quarterly data on a rolling basis over the previous twelve months. As such, the results may not be directly comparable to other information provided in this disclosure or the Annual Report and Accounts.

TABLE 10	Encumbered Assets		Unencumbered Assets	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Loans on demand	-	-	56,938	-
Debt securities	-	-	3,006	3,001
Loans and advance other than loans on demand	48,794	-	302,861	-
Other assets	-	-	9,044	-
Assets of the reporting institution	48,794		371,848	

Remuneration Policies and Practices

68. A risk arises if the Society's remuneration policies and practices could result in staff being rewarded for decisions inconsistent with the Board's risk appetite. It is therefore the Society's policy on remuneration to seek to ensure that its remuneration decisions are in line with effective risk management.

69. The Society seeks to ensure that its remuneration decisions are in line with its business strategy and long-term objectives, and consistent with the Society's current financial condition and future prospects. It also seeks to establish an appropriate balance between the fixed and variable elements of remuneration, although this balance will vary depending on the seniority and nature of an individual's employment. Performance measures used to calculate variable remuneration are therefore adjusted to take account of current or potential risks to the business and are consistent with the need to retain a strong capital base. Variable remuneration is not paid unless it is sustainable within the Society's overall financial position. Guaranteed incentive payments do not form part of any remuneration package and all incentive schemes are non-contractual.

70. The Board has identified that those staff whose professional activities have a material impact on the Society's risk profile are the three Executive Directors: the Chief Executive Officer, Customer Service Director and Finance Director.

71. Information concerning the mandate of the Board Remuneration Committee and the decision-making process used in determining the remuneration policy of the Executive Directors, and information on the link between pay and performance, is contained in the Directors' Remuneration Report in the Society's Annual Report and Accounts 2022 and the Summary Financial Statement 2022. The total remuneration of the Executive Directors in respect of the year ended 31 October 2022 was £592,000.

72. The Remuneration Committee is also responsible for determining the terms and conditions for all other management and staff of the Society.

Country-by-country reporting

73. The country-by-country disclosures as required by Article 89 of the Capital Requirements Directive IV (CRD IV) are disclosed in the Society's Annual Report and Accounts.

Conclusion

74. This disclosure document, prepared annually in accordance with the requirements of CRR Articles 431 to 455, as interpreted for the Society, is intended to provide background information on the Society's approach to risk management. It also provides asset information and capital calculations under Pillar 1.

75. In the event that a user of this disclosure document requires further explanation on the disclosures given, application should be made, in writing, to the [Finance Director at Loughborough Building Society, 6 High Street, Loughborough, Leicestershire LE11 2QB](#).