BUCKINGHAMSHIRE
BUILDING SOCIETY

Pillar 3 Disclosure

Year ended 31 December 2021

Contents

1 Introduction

1.1 Background

The Capital Requirements Directive (CRD) and Capital Requirements Regulation (CRR) came into force on 1 January 2014. Collectively CRD and CRR are known as CRD IV, and is the regulatory framework governing the amount and nature of capital financial institutions are required to maintain in order to protect their shareholders and depositors. The Prudential Regulatory Authority (PRA) oversees CRD IV implementation in the United Kingdom.

The CRD sets out three main areas, known as “Pillars”, each deal with a different aspect of the rules. An explanation of the three pillars is set out below.

- **Pillar 1** - sets out the minimum levels of capital that have to be maintained for credit, market and operational risks. To meet the minimum capital requirements the Society operates under the Standardised approach that uses prescribed risk weightings as set out in the CRD for credit risk, and the basic indicator approach for operational risk;
- **Pillar 2** - an internal assessment of additional capital requirements for risks not fully covered by or not within the scope of Pillar 1. The Society’s Internal Capital Adequacy Assessment (ICAAP) documents the Pillar 2 assessment. The Board approve it annually and it is subject to review by the PRA as part of their Supervisory Review and Evaluation process (SREP).
- **Pillar 3** - covers the disclosure requirements of the CRD covering key information about risk exposures and risk management processes.

1.2 Basis, frequency and scope of disclosure

This disclosure document has been prepared in accordance with the disclosure requirements for Pillar 3, as contained in the CRR, and covers the Society on a non-consolidated basis as there are no subsidiaries or associated entities.

Unless otherwise stated, all financial information contained within this document has been drawn from the Society’s Annual Report and Accounts as at 31 December 2021. The Pillar 3 disclosures are issued on an annual basis and are not subject to external audit, except those figures drawn from the Society’s Annual Report and Accounts.

This disclosure document is available on the Society’s website (www.bucksbs.co.uk) along with the Annual Report and Accounts.

The Board reviewed and approved the Society’s Pillar 3 disclosure document on 4 April 2022.

1.3 Key metrics

The below table shows the key metrics for the Society as at 31 December 2021 and 31 December 2020.

	2021 £000	2020 £000
Available capital		
Common Equity Tier 1 (CET1)	27,194	25,784
Tier 1	27,194	25,784
Total capital	27,210	26,011
Total risk weighted assets	105,580	99,385
Capital ratios		
Common Equity Tier 1 ratio	25.76%	25.94%
Total capital ratio	25.77%	26.17%
Basel III Leverage ratio		
Total Basel III leverage ratio exposure measure	323,024	298,119
Basel III leverage ratio	8.42%	8.60%
Liquidity coverage ratio (LCR)		
Total high-quality liquid assets (HQLA)	53,466	47,923
Total net cash outflows	5,159	6,037
Liquidity coverage ratio	1,036%	794%
Net stable funding ratio (NSFR)		
Total available stable funding	293,514	258,153
Total required stable funding	182,869	167,633
Net stable funding ratio	161%	154%

2 Risk Management Policies and Objectives

Buckinghamshire Building Society is a mutual organization with no equity shareholders. The Society's fundamental purpose is to help people achieve financial security by providing a safe home for their savings and help them to buy a home of their own.

The Society's risk management process is a continuous cycle of identifying, assessing, controlling, monitoring and reporting of risk. This process allows the Society to be aware of risks at an early stage and as far as possible to mitigate them. The ability to properly identify, measure, monitor and report risk is vital in ensuring financial strength, appropriate customer outcomes and the ongoing security of Members' funds.

Risks arise naturally in the course of doing business in the financial services sector. To mitigate these risks to acceptable levels the Board has put in place a Risk Management Framework that covers all aspects of the Society's operations.

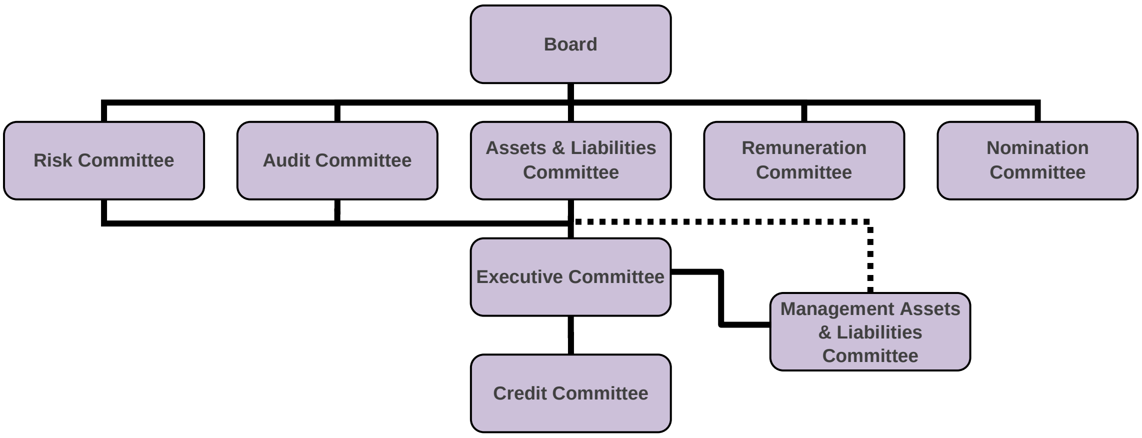
2.1 Risk governance structure

The Board has overall responsibility for risk management and ensures that the Society's policies, procedures and conduct are consistent with its risk appetite, business strategy and objectives. It has put in place the Risk Management Framework and Appetite Statement that describe the high-level approach taken to risk management across the Society and the key risk indicators used to monitor all categories of risk.

The Board has delegated specific responsibilities, including establishing the risk management framework, overseeing risk management across the business and ensuring a strong culture of risk awareness and ownership, to the Risk Committee. The Risk Committee review every material aspect of the risk management framework, including the Society's risk appetite and tolerances, and ensure relevant management information is provided to both the Board and the executive to manage the Society's risks.

The Society records the key risks that it is exposed to in the Risk Register, along with an assessment of their likelihood and impact. The Risk Register is the basis for identifying the risks that are included in the ICAAP under Pillar 2.

The governance structure the Society has in place to identify, monitor and review the principal risks to which it is exposed is as follows: -



Risk Committee

The Risk Committee is a Board Committee whose purpose is to ensure that the approach to identification and management of risk is adequate, cost effective and integrated. Oversight includes ensuring operation within Risk Appetite; ensuring effective stress and scenario testing is carried out; assessing and recommending to the Board for approval, the Individual Capital Adequacy Assessment Process (ICAAP), Risk Management Framework & Appetite and a number of Policies; and facilitating identification of emerging risks within a supportive, risk aware culture. The Committee has eight members, comprised of five non-executive directors (NEDs), plus the Chief Executive Officer (CEO), Finance Director (FD) and Chief Risk Officer (CRO). The outsourced Internal Audit function provides independent advice where required.

Audit Committee

The Audit committee is a Board Committee responsible for monitoring the integrity of the Society's financial statements; overseeing the external audit relationship; providing oversight of internal controls and compliance reporting; monitoring the effectiveness of internal audit and providing oversight of whistleblowing, fraud and bribery prevention. The outsourced internal audit function reports to the Committee. The Committee oversees the terms of appointment of the internal and external audit processes. The Committee has four members, all of which are NEDs.

Remuneration Committee

The Remuneration committee is a Board Committee responsible for determining remuneration policy across the Society. The Committee has three members, all of which are NEDs.

Nomination Committee

The Nomination Committee is a Board Committee responsible for ensuring the Directors and senior management have appropriate skills, experience, and competencies to perform their roles; to develop and consider succession plans for Board and key management roles; to make recommendations to the Board for the selection of new Directors and senior managers; and make recommendations regarding Governance requirements. The Nomination Committee has nine members, comprising all seven NEDS, the CEO and the FD.

Assets & Liabilities Committee (ALCO)

ALCO is a Board Committee responsible for ensuring liquidity and funding adequacy; suitability of interest rate basis risk and maturity mismatch controls; and ensuring suitability of Treasury investments and controls. ALCO recommends the Individual Liquidity Adequacy Assessment Process (ILAAP) and the Financial Risk Management Policy to the Board and sets the parameters within which Senior Management can price products. The Committee has six members, of which three are NEDs, plus the CEO, FD and CRO.

Executive Committee (ExCo)

ExCo is a Management Committee focusing on operational and business risks, supporting the CEO in directing and coordinating the day-to-day management of the business:-

- Monitoring, managing and communicating progress and actions to achieve Strategy;
- Allocating and prioritising resources; human, physical and financial; and
- Establishing and maintaining effective internal and external relationships.

The Committee has 7 members, comprising the CEO, FD, CRO, Head of Mortgage Sales, Head of Operations, Head of IT and Society Secretary to ensure adequate representation of all parts of the business.

Management Assets & Liabilities Committee (MALCO)

MALCO is a Management Committee formed to co-ordinate and review many of the areas subject to the ultimate governance of ALCO, as well as developing, pricing, launching and managing products and services. The Committee has eight members, comprising the CEO, FD, CRO, Head of Mortgage Sales, Financial Controller – MI, Financial Controller, Regulatory Reporting & Systems Accountant, Savings Product Manager and Head of Operations.

Credit Committee

The Credit Committee is a management committee whose purpose is to review mortgage cases outside Lending Policy or exhibiting specific risk characteristics. The Committee also considers changes to Lending Policy and reviews arrears performance. The Committee has six members, comprising the CEO, FD, CRO, Head of Underwriting and Money Laundering Reporting Officer.

2.2 Three lines of defence approach

At an operational level, risk is managed through the three lines of defence structure, which is defined below.

First line of defence - Operate key controls

The Society has an Internal Control Framework designed by each Department to identify, measure and manage risk within risk appetite. Risk Owners maintain adequate key control documentation to evaluate how key controls are operating. Key responsibilities include:-

- Assessing and managing risks within regulatory requirements as they change;
- Prompt reporting, managing and learning from incidents;
- Embedding controls in policies, procedures and training;
- Implementing control checks and monitoring; and
- Validating that controls are operational and effective.

Second line of defence - Key control reviews

The Risk & Compliance function provides risk management expertise, independent challenge and support for the Board, management and staff. Oversight involves review of all key controls and the associated documentary evidence of how they are operating on an annual basis. Other independent assurance work is carried out in accordance with the risk based Combined Assurance Plan as approved by the Audit Committee. The CRO has a direct reporting line to the CEO with a dotted line to the Board Chairman and the Chair of the Risk Committee. Key responsibilities include:-

- Creation and maintenance of Risk Management Framework & Appetite;
- Balance challenge and support of the first line of defence;
- Provide oversight and leadership on risk matters; and
- Report to the Board and its Committees.

Third line of defence - Audit

The Internal Audit function is responsible for independently reviewing the effectiveness of the internal control environment utilising a risk-based work programme. Internal Audit provides advice, benchmarking and training to assist in the continuous improvement of the control framework. To ensure further independence this function has been outsourced to RSM Risk Assurance Services LLP.

3 Principal risks

The Society's Risk Appetite is designed to promote sound decision making that recognises the consequential impact. The Board debates, refines and approves a set of parameters consistent with achieving the Strategic Plan. Management operates within these limits and reports performance in relation to the key risk indicators, trends and management actions where needed. The Risk Appetite Statement is reviewed when significant changes occur within the business or the external environment. The Risk Appetite Statement is refreshed at least annually.

The principal risks to which the Society is exposed and that are continually assessed and managed by the Board and Management are as listed below.

3.1 Credit risk

Credit risk arises from two main areas:-

- if mortgage holders are unable to meet payments on their mortgage and ultimately default on their loan; and
- if a treasury counterparty is unable to settle its financial or contractual obligations to the Society.

The Board has set a Risk Appetite designed to avoid losses by targeting a balanced portfolio of mortgage assets that match expertise and experience of underwriters. At an operational level, mortgage credit risk is managed through a combination of adherence to the Society's Lending Policy and strict underwriting procedures. The Society's Lending Policy contains detailed limits as to the amount and type of lending the Society can undertake in both the current year as well as the overall mortgage book. These limits ensure the structure of the mortgage book is consistent with the Society's risk appetite. The Society is on the Limited Approach to Lending with an extension to enable more business to be written in certain niches. The Limited Approach to Lending is defined in SS20/15.

Credit Committee, ExCo and Risk Committee manage ongoing review and control of credit risk. The Risk Committee will report any relevant matters to the Board. These Committees receive detailed information focusing on:-

- Arrears and forbearance;
- Proportion of the overall book and 12 months rolling lending in each of niches including owner occupied, buy to let (BTL) and commercial lending;
- Indexed loan to value;
- Affordability; and
- Repayment type.

In addition to the above, the Risk and Compliance function will perform credit reviews focussing on various aspects of recent and back book lending.

Treasury counterparty risk is managed by only investing in counterparties with high credit ratings, in other building societies and in regulated UK banks following a detailed individual risk assessment by ALCO. In addition, the Society limits exposures to particular counterparties, types of investment or countries. The Society's ILAAP documents these limits, together with a range of other mitigating processes and controls.

ExCo, MALCO and ALCO manage ongoing review and control of treasury credit risk using detailed information focusing on:-

- Approved counterparty list;
- Exposures to approved counterparties;
- Credit ratings of approved counterparties; and
- Country exposures.

3.2 Capital risk

This is the risk that the Society has insufficient capital to cover stressed losses or to meet regulatory requirements. The Society conducts an assessment of capital adequacy which determines the level of capital required to support current and future risks in the business, including any changes in business volumes, mix of assets and multiple stress scenarios. The Board approve this assessment and monitor monthly. The assessment is utilised by the regulators to set the Society's capital requirements as Total Capital Requirement (TCR) previously referred to as Individual Capital Guidance. Currently, the Society has capital that significantly exceeds the regulatory requirements.

3.3 Interest rate risk including market risk

Interest rate risk is the risk of fluctuation in financial markets, which could affect the value of the Society's assets and liabilities, primarily because of movements in interest rates. The Society is on the "Matched" Treasury approach under PRA SS20/15 guidelines. This means that it has to match the interest rate profile of both its assets and liabilities, and can only take limited interest rate risk subject to tight limits set by the Board, and only then to the extent that the PRA is satisfied that the Society has the requisite risk management capability. In addition to interest rate risk, the PRA Supervisory Statement also provides guidance on treasury management, discussed under paragraph 3.4 below. Management of interest rate risk is predominantly set out in the Society's ILAAP.

ExCo, MALCO and ALCO control and manage interest rate risk exposure by receiving information focussed on:-

- Proportion of the both assets and liabilities on fixed rates;
- Matching reports both static and forward looking;
- Report highlighting exposure to various basis categories for example base rate, SONIA, fixed and administered; and
- Sensitivity analysis highlighting the impact of changing interest rates.

3.4 Liquidity and funding risk

Liquidity and funding risk is the risk that the Society is unable to meet its current and future payment obligations when they fall due or can only secure such resource at excessive cost. Payment obligations arise in respect of repayments due to depositors and commitments to lend, in addition to repayment of other borrowings and overhead costs.

ExCo, MALCO and ALCO control and manage liquidity and funding risk exposure by receiving information focused on:-

- Quantity of high quality liquid assets (HQLA);
- Level of liquidity coverage ratio (LCR);
- Level of on and off balance sheet treasury assets compared to overall funding balance;
- Maturity profile of funding book; and
- Results of cash flow stress tests.

In addition to LCR, the regulator provides further guidance through the PRA Supervisory Statement SS20/15. The Society operates under the "Matched" Treasury approach and complies with the guidance regarding the type and volume of treasury deposits and wholesale borrowing.

3.5 Operational risk

This relates to the risk of loss arising from inadequate or failed internal processes or systems, human error or external events. The management of operational risk is set out within the Society's various policies and procedures. All such risks are identified, assessed and closely monitored. It is the responsibility of each business area, supported by the Risk Department, to understand how operational risk affects them and to put in place appropriate controls or take other mitigating actions.

3.6 Business risk

This is the risk to the Society of failing to achieve sufficient long-term profitability to maintain sustainable capital adequacy. The Society mitigates this risk by preparing a business plan that it believes to be robust and achievable and then by stress testing this plan to assess the impact of various adverse market conditions. The business plan for the forthcoming year has agreed review points where the Board can assess actual performance and decide if any actions are required. The key indicators the Board use to assess business risk are as follows:-

- Capital and liquidity adequacy;
- Net interest margin;
- Management expense and cost income ratios;
- Profit before tax;
- Mortgage book growth;
- Total asset growth; and
- Funding growth and mix.

3.7 Concentration risk

Concentration risk is the risk arising from the lack of diversification in the Society's business. As a regional building society, the business is concentrated in residential mortgage lending funded by retail savings and this represents product concentration. Concentration risk can also occur due to large exposure to an individual or group of connected individuals affected by a common issue (e.g. geographical location). The Society's mortgage business is sourced from throughout England and Wales, with just under 58% of total being in London and the South East. Approximately 33% of our savings are sourced from members living in local postcodes.

Concentration risks are managed through the application of Board approved lending and financial risk management policies, containing limits suitable for the current economic climate. The policies and limits are regularly reviewed and monitored to ensure they remain in line with the Society objectives.

3.8 Conduct risk

Conduct risk is the risk of detrimental outcomes to customers derived from staff interaction throughout the product lifecycle. The risk to the Society is that we suffer reputational damage, a loss or do not benefit from an opportunity because of consumer detriment. Conduct risk comprises high-level principles of treating customers fairly, specific regulatory requirements, wider legal provisions, any relevant codes of practice and statements from the FCA.

By striving to deliver good outcomes, we will build our brand and make our relationship with members a source of competitive advantage. The Society's Conduct Risk Policy is the key policy. The Society's focus on our motto of "doing the right thing" is evidence of our approach to conduct risk.

3.9 Pension obligation risk

Pension risk arises from a potential pension liability. The Society does not provide a defined benefit scheme for staff so there is no risk in this category.

3.10 Legal and regulatory risk

This is the risk to the Society of fines, public censure, limitations on business or restitution costs arising from failing to understand, interpret, implement and comply with UK and EU legal and regulatory requirements. The Society monitors these risks through the Risk Committee and the Audit Committee.

3.11 Climate change risk

Climate change risk covers areas such as the credit risk relating to the value and saleability of properties taken as security for mortgages; reputational risks primarily relating to how we compare with other similar firms (e.g. members selecting firms that match their values and ethos, government incentives or fines penalizing certain behaviours); and operational risks primarily relating to our own security, resilience, continuity, costs and impact on the environment. The Society recognises that rising global temperatures are expected to create more extreme weather conditions causing physical risk to property, for example, through floods, coastal erosion and subsidence, and transition risks arising from changing regulatory and borrower behavior and expectations around areas such as energy efficiency. The financial implications for the Society are likely to manifest primarily in the impact on value of houses taken as security for mortgage loans.

The Society has embedded climate change risk management in the way we work and developed a strategy to deliver support for the changing needs of our members to adapt to the requirements of climate change. The Board have responsibility for managing all risks associated with climate change. The CRO is the Senior Manager responsible for climate related financial risk and provides the Board with quarterly reports which include trend analysis in relation to our defined risk appetite and other advisory indicators.

The Society has established an Environment, Social and Governance Forum, which reviews ways the Society can reduce its own impact on the environment.

Further detail can be found in the Strategic Report contained in the Society's Annual Report and Accounts.

4 Capital Resources

The Capital Resources of the Society are calculated under Pillar 1 of CRD IV. The Total Own Funds are comprised of-

- Retained earnings and revaluation reserves accumulated by the Society, less a deduction for intangible assets (capitalised software costs), representing Tier 1 Capital; and
- General credit adjustments (collective impairment provisions for bad and doubtful loans), included in Tier 2 Capital.

The Society's total capital resources at 31 December 2021, including the audited profits of 2021, stood at £27,210k and are broken down in the table below.

	2021 £000	2020 £000
Common Equity Tier 1 (CET1) capital: instruments and reserves		
Retained earnings	26,916	25,529
Accumulated other comprehensive income	387	386
Common Equity Tier 1 (CET1) capital before regulatory adjustments	27,303	25,915
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
Intangible assets	(109)	(131)
Total regulatory adjustments to Common Equity Tier 1 (CET1)	(109)	(131)
Common Equity Tier 1 (CET1) capital	27,194	25,784
Tier 1 (T1) capital	27,194	25,784
Tier 2 (T2) capital: instruments and provisions		
Credit risk adjustments	16	227
Tier 2 (T2) capital before regulatory adjustments	16	227
Tier 2 (T2) capital	16	227
Total own funds (T1 + T2)	27,210	26,011
Total risk weighted assets	105,580	99,385
Capital ratios and buffers		
Common Equity Tier 1 - regulatory minimum 4.50% *	25.80%	25.90%
Tier 1 Ratio - regulatory minimum 6.00%	25.80%	25.90%
Total Capital Ratio - regulatory minimum 8.00%	25.80%	26.20%
Capital buffers		
CET1 Ratio requirement	4.50%	4.50%
Capital conservation buffer requirement	2.50%	2.50%
Countercyclical buffer requirement	0.00%	0.00%
Total CET1 capital and buffer requirements	7.00%	7.00%

** The Tier 1 capital ratio presented in the Annual Report and Accounts at 25% is based on information presented to the PRA as at 31 December 2021, which excluded the 2021 profit*

The reconciliation of own funds to the Society's Annual Report and Accounts is below (references to the Annual Report and Accounts are shown in brackets).

	2021 £000	2020 £000
Reserves (Balance sheet)	27,303	25,915
Less Intangible assets (Note 18)	(109)	(131)
CET1 capital	27,194	25,784
Collective impairment provision (Note 15)	16	227
Tier 2 capital	16	227
Regulatory capital	**27,210**	**26,011**

Common Equity Tier 1 Capital

These are the cumulative general reserves of the Society, externally verified, and represent an accumulation of post-tax-profits and the revaluation reserve for the own-use land and buildings owned by the Society. Intangible assets are deducted from capital as required under the rules of CRD IV.

Tier 2 Capital

This is the collective impairment provision of the Society which represents expected losses arising form the Society's portfolio of secured advances. Individual impairment provisions (£252k at 31 December 2021) are not allowable as Tier 2 Capital.

The Society does not hold any alternative Tier 1 instruments nor have any Tier 3 capital resources.

5 Capital adequacy assessment

5.1 Overview

The Society considers its strategic priorities regularly and produces a five-year strategic plan; the Society's Board reviews this at least annually. The Strategic plan includes the financial plan for the forthcoming year's business activities, which takes account of the Board's risk appetite and current and changing economic conditions. The plan considers the impact of the planned activities on the Society's capital resource. The plan also considers various adverse business and economic scenarios (stress tests). Capital resource is measured against these various stress scenarios.

Capital is required primarily to protect the Society from losses. Losses could mainly result if, following repossession, the property does not realise sufficient funds to cover the loan balance from mortgage customers that have been in arrears. However, other risks can result in losses such as a treasury counterparty default, changes in interest rates that may result in a reduction in net interest margin to a point where overheads are not covered.

The Society aims to maintain its capital strength above the Board agreed requirement, which is higher than the minimum required by the PRA. In order to do this, the Society needs to generate, and retain, profits that will add to the general reserves, the Society's main source of capital. The generation of capital is targeted to exceed an agreed return but is not aimed at maximisation.

A strong capital position also provides confidence to our members and to our regulators, and supports the Society's long term objectives of sustainable growth, targeting optimum profitability generating sufficient earnings to invest in the services our customers' require.

5.2 Capital adequacy assessment process

The Society prepares an Internal Capital Adequacy Assessment Process (ICAAP), which focuses on ensuring the capital resources of the Society are sufficient to support its plan both in normal and stressed conditions. The ICAAP is aligned to the strategic plan and the combination of both ICAAP and strategic plan ensure that the Society maintains sufficient capital to support its planned business objectives.

The ICAAP process involves reviewing risks relating to the Society's assets and operations and assessing capital required to mitigate any material financial impact of those risks. A detailed assessment of the results of the Society's stress tests based on a number of economic scenarios is included in the process. Scenarios include (but are not limited to) reduced business volumes, adverse interest rate margin, negative house price inflation (HPI), and increased default rates.

Finally, the Board approves the capital assessment taking into account any areas where they may feel the regulatory calculations do not adequately capture the full risk exposure and then use internal models to determine if any extra capital is required.

5.3 Capital resources

The Society calculates its Pillar 1 capital requirement under the "Standardised Approach" for credit risk. Standardised risk weightings are applied to each asset class resulting in a risk-weighted asset (RWA), the minimum capital requirement is 8% of RWA.

In addition, an evaluation of capital required to cover Operational Risk is calculated under the "Basic Indicator Approach" and determined by reference to the net income of the Society averaged over the previous 3 years, the minimum capital requirement under Pillar 1 being 15% of the average net income calculation.

As the Society uses derivatives to hedge its exposure to interest rate risk, the CRR requires additional capital to be held to cover the Society's exposure to credit valuation adjustments risk.

As at 31 December 2021 the Society's TCR set by the PRA did not include an add-on for Pillar 2A capital.

The Pillar 1 capital requirement as at 31 December 2021 is set out below.

	Exposure 2021 £000	Risk weighted assets 2021 £000	Minimum capital requirements 2021 £000
Liquidity exposures			
Central Government and Bank of England	53,929	-	-
Credit institutions	13,038	2,608	209
Interest rate derivatives	416	84	7
Total liquidity exposures	67,383	2,692	216
Loans and advances to customers			
Residential - non-arrears	241,496	83,871	6,710
[1] Residential - past due	1,180	1,180	94
Non-residential - non-arrears	2,346	2,280	182
[2] Forward commitments - off balance sheet	16,430	2,862	229
Total loans and advances to customers	261,452	90,193	7,215
Credit risk - Pillar 1 capital requirements	328,835	92,885	7,431
Fixed and other assets	2,513	2,371	190
Operational risk		10,125	810
Credit valuation adjustment		199	16
Total Pillar 1 capital requirement	331,348	105,580	8,447
Total capital resources (from table in section 4 above)			27,210
Surplus of capital resources over Pillar 1 capital requirement			18,763

Notes

1 – "past due" are any loans and advances where three or more monthly repayments have not been made at the accounting date.
2 – forward commitments are loans and advances offered to customers that have not yet been drawn down

The difference between the Society's total credit risk exposure and the total assets recognised in the Statement of Financial Position in the society's Annual Report and Accounts is shown in the table below.

	2021 £000
Total credit risk exposures per above	331,348
Less: collective impairment provision not deducted	(16)
Less: off balance sheet items	(16,543)
Total assets per Annual Report and Accounts	**314,789**

5.4 Capital buffers

The Society is required under CRR to hold additional capital for the following capital buffers:-

- Capital conservation buffer – this is an additional amount of capital required above the Pillar 1 capital requirement to be built up outside any periods of stress and is designed to avoid breaches of minimum capital requirements. This buffer can then be drawn upon in times when losses are incurred. As at 31 December 2021institutions in the UK are required to hold 2.5% of risk weighted assets in this buffer.
- Countercyclical capital buffer (CCyB) – is an additional amount of capital required above the Pillar 1 capital requirement to absorb potential losses, to enhance resilience and contribute to a stable financial system. For credit exposures in the UK, the Bank of England's Financial Policy Committee (FPC) sets the rate for the CCyB within the range of 1.00% to 2.50%. As at 31 December 2021, this rate was 0% following the reduction from 1.00% on 9 March 2020 by the FPC in light of the challenging period faced by financial institutions resulting from COVID-19. The FPC, at its November 2021 meeting,

agreed to increase the rate to 1.00% with binding effect from 13 December 2022. The Society does not hold any non-UK credit exposures, so does not hold any other CCyB amounts.

- Other buffers – the Society is not classed as having a globally systemic importance and therefore, does not meet the criteria for these buffers. Nor does the Society meet the criteria for the Systemic Risk Buffer. The Society's Minimum Requirement for own Funds and Eligible Liabilities (MREL) is set to be equal to regulatory capital requirements, no additional capital is required for this purpose.

The Society's capital requirements for these buffers as at 31 December 2021 is shown in the table below.

	Risk weighted assets 2021 £000	Capital 2021 £000
Capital conservation buffer	105,580	2,624
Countercyclical capital buffer		-
Total buffer requirement		**2,624**

6 Credit Risk – loans and advances

Mortgage credit risk is the risk of losses arising because of the Society's borrowers failing to meet their obligations to repay. At an operational level, mortgage credit risk is managed through a combination of adherence to the Society's Lending Policy, overseen by the Chief Risk Officer and approved by the Board, and strict underwriting procedures. Underwriting mandates are strictly controlled to ensure that only those with suitable expertise are able to commit the Society to lend. The Society only operates throughout England and Wales and has no exposures to properties outside of these countries.

In the event that the personal circumstances of borrowers change, the Society applies an Arrears and Forbearance Policy to work proactively with borrowers to seek arrangements designed to enable them to resolve their difficulties.

A reconciliation of the Loans and Advances to Customers figure reported in the Annual Report and Accounts to the risk exposure used in the Pillar 1 capital calculation is shown below.

	2021 £000
Loans and advances to customers per Annual Report and Accounts	244,774
Fair value adjustment for hedged risk and effective interest rate	232
Collective impairment provision	16
Society accounting value of loans and advances to customers	**245,022**
Total residential exposures for capital adequacy purposes	242,676
Total non-residential exposures for capital adequacy purposes	2,346
Society capital adequacy value of loans and advances to customers	245,022
Adjustments to reflect different reporting requirements and timing differences	-
Reconciled value of loans and advances to customers	**245,022**

6.1 Concentration risk

A detailed geographical analysis including "past due" and "performing" exposures is set out below.

The Society regards as "past due" any mortgage or loan account where three or more monthly payments have not been made at the accounting date.

	Secured on residential property			Secured on land			
	Past due balance £000	Performing balance £000	Total balance £000	Past due balance £000	Performing balance £000	Total balance £000	Total balance all loans to customers £000
Outer Metropolitan Area	91	48,026	48,117	-	766	766	48,883
Greater London	146	50,785	50,931	-	897	897	51,828
Outer South East	-	41,111	41,111	-	-	-	41,111
South West	-	27,048	27,048	-	-	-	27,048
North West	728	15,357	16,085	-	-	-	16,085
West Midlands	-	15,379	15,379	-	-	-	15,379
East Anglia	-	9,879	9,879	-	-	-	9,879
East Midlands	-	13,922	13,922	-	-	-	13,922
Yorkshire And Humberside	-	9,784	9,784	-	-	-	9,784
Wales	154	6,403	6,557	-	-	-	6,557
North	61	4,485	4,546	-	-	-	4,546
	1,180	**242,179**	**243,359**	**-**	**1,663**	**1,663**	**245,022**

A maturity analysis of mortgage assets outstanding as at 31 December 2021, based on contractual maturity, of loan types is shown in the table below. Loans to customers rarely run their full course. The actual repayment profile is likely to be significantly different from that shown in the analysis.

	Total balance £000	Not more than 3 months £000	More than 3 months but not more than 1 year £000	More than 1 year but not more than 5 years £000	More than 5 years £000	Individual impairment provision £000
Loans past due						
Residential mortgages - owner occupied	1,180	6	746	115	351	(38)
Residential mortgages - buy-to-let	-	-	-	-	-	-
Commercial mortgages	-	-	-	-	-	-
Total past due	**1,180**	**6**	**746**	**115**	**351**	**(38)**
Performing loans	243,842	2,250	5,755	37,126	198,925	(214)
Total loans	**245,022**	**2,256**	**6,501**	**37,241**	**199,276**	**(252)**

An analysis of mortgage assets outstanding as at 31 December 2021 by indexed LTV is shown in the table below.

	2021 £000	2021 %
Less than 50%	131,946	53.9%
50% - 80%	90,532	36.9%
More than 80%	22,544	9.2%
	245,022	**100.0%**

6.2 Impairment of loans

Having regard to the size of the Society's mortgage assets and the limited number of arrears cases, provisioning is carried out on an individual basis. The accounting policy the Society follows for calculating impairment provisions is stated in Note 1 of the 2021 Annual Report and Accounts. A breakdown of the movements on the impairment provisions on loans and advances to customers is shown in Note 16 of the 2021 Annual Report and Accounts. The table below shows a summary of the movements in the impairment provisions.

	As at 1 January 2021	Charge/ (Release)	Written off	Recovered	As at 31 December 2021
	£000	£000	£000	£000	£000
Collective provision	227	(211)	-	-	16
Individual provision	285	(33)	-	-	252
Total	**512**	**(244)**	**-**	**-**	**268**

For capital adequacy purposes, collective impairment provisions are regarded as an addition to Tier 2 capital.

7 Credit Risk – liquidity

The purpose of the Society's ILAAP is to ensure that the Society has sufficient liquid assets to meet its obligations as they fall due. This overarching requirement informs policy limits for the amount and quality of treasury assets.

The methodology for establishing counterparty limits involves consideration of the background rating information and balance sheet data relevant to the counterparty. The Society's policy is to measure counterparties against three main ratings agencies. The counterparty is acceptable if it achieves a minimum rating against two of the ratings agencies. A counterparty limit is assigned to unrated peer group building societies, which is assessed on the individual society published balance sheet data.

New limits are approved and existing limits removed only on the recommendation of ALCO to the Board. The FD prepares a submission for the approval of new, or the removal of existing counterparties. Limits may be suspended by Treasury Department pending removal in the events of adverse market intelligence. No dealing will take place with counterparties that do not have a pre-approved limit. Where appropriate, exposure to counterparties is monitored on a consolidated basis.

For capital adequacy purposes, the Society uses both residual maturity and an External Credit Assessment Institution (ECAI) to determine the credit quality step (CQS) of its treasury portfolio. The Society has nominated Fitch as its ECAI for capital adequacy purposes.

The mapping of Fitch's credit ratings to the CQS used to determine the risk weighting applied to each exposure is shown in the table below.

			<= 3 months residual maturity		> 3 months residual maturity	
Credit quality step	**Ratings**	**Central Bank and Governments**	**Rated institutions**	**Unrated institutions**	**Rated institutions**	**Unrated institutions**
1	AAA to AA-	0%	20%		20%	
2	A+ to A-	20%	20%	20%	50%	20%
3	BBB+ to BBB-	50%	20%		50%	

The table below shows the breakdown of liquid assets by maturity and credit rating as at 31 December 2021.

Ratings	Credit quality step	Residual maturity < 3 months £000	3 months to 1 year £000	> 1 year £000	Total	Risk weighted assets
AAA to AA-	1	53,929	-	-	53,929	-
A+ to A-	2	8,033	-	-	8,033	1,607
BBB+ to BBB-	3	-	-	-	-	-
Unrated institutions	-	5	5,000	-	5,005	1,001
Total exposure		**61,967**	**5,000**	**-**	**66,967**	**2,608**

No provisions for losses relating to liquidity credit risk are held by the Society at 31 December 2021

As at 31 December 2021, the Society has no exposure to equities and no assets subject to securitisation.

8 Credit risk – credit valuation adjustment (CVA)

The Society only uses derivatives to reduce the risk of loss arising from changes in interest rates. Such instruments are not therefore used in trading activity or for speculative purposes. Under the CRR, the Society is required to hold additional capital to cover the CVA risk for all derivatives that are not subject to centralised clearing. All of the Society's derivatives are plain vanilla, over-the-counter, bilateral interest rate swaps.

The below table shows the Society's total CVA capital requirement as at 31 December 2021.

	Exposure 2021 £000	Risk weighted assets 2021 £000	Minimum capital requirements 2021 £000
Interest rate derivatives	416	84	7

9 Asset encumbrance

Article 100 of the Capital Requirements Regulation (CRR) requires institutions to report the level of their asset encumbrance. Asset encumbrance is a claim against an asset by another party, often in the form of security interests given on assets by a borrower to a lender. The Society's assets can be used to support collateral requirements for secured funding or central bank operations. Encumbrance benefits the Society as it provides cheaper and more stable funding.

The information disclosed below is based on the median values of quarterly data based on a rolling twelve-month period. Therefore, the results below may not be directly comparable to those shown in the December 2021 Annual Report and Accounts or elsewhere in this document.

	Encumbered assets		Unencumbered assets	
	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Loans on demand	-	-	55,440	-
Debt securities	-	-	-	-
Loans and advances other than loans on demand	50,227	-	190,850	-
Other assets	-	-	2,717	-
Total assets	**50,227**		**249,007**	

The Society is a member of the Term Funding Scheme with additional incentives for SMEs, and as at 31 December 2021 had drawings totaling £31m. These drawings are collateralised by an encumbered pool of residential mortgages with the carrying value of £50.2m at 31 December 2021. The excess collateral in the encumbered pool of residential mortgages is eligible to support drawings on other Bank of England facilities. These mortgages remain fully owned and operated by the Society.

10 Liquidity risk

The Society's business model is based on long-term mortgage lending which is financed mainly by retail funding that is contractually short term. This therefore requires the Society to maintain sufficient quantity and quality of liquid assets with appropriate access characteristics.

The Society's ILAAP ensures that it always holds a highly prudent level of liquid assets so that it can meet these obligations. As well as holding relatively high levels of liquid assets, the Society also has contingency funding 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 assessment of the appropriate balance of liquid assets, which is documented in the ILAAP, is informed by both the LCR, considered as the Pillar 1 requirement, and an internal analysis considered as the Pillar 2 requirement. In combination both the Pillar 1 and 2 assessments satisfy the overall liquidity adequacy rule that states the Society must at all times maintain liquidity resources which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due.

The LCR is calculated by dividing the value of HQLA, held as a liquidity buffer, by the forecast net cash outflows under stress over 30 calendar days. From January 2018, the minimum requirement for the LCR ratio is 100%. The Society's LCR has been significantly above this level since inception and is expected to continue at this higher level.

The table below shows the summary information for the calculation of the LCR based on a simple average for each quarter. The average LCR for the financial year ending 31 December 2021 was 1,180%.

Quarter ended	31 Mar 2021 £000	30 Jun 2021 £000	30 Sep 2021 £000	31 Dec 2021 £000
Liquidity buffer	49,028	50,208	43,217	53,466
Net cash outflows	4,834	8,068	4,165	5,159
Liquidity coverage ratio	1,014%	622%	1,038%	1,036%

11 Net stable funding ratio (NSFR)

The Society calculates its NSFR on a quarterly basis. The table below shows the Society's quarterly NSFR for the 12 months ending 31 December 2021, which are all above the required minimum of 100%.

Quarter ended	31 Mar 2021 £000	30 Jun 2021 £000	30 Sep 2021 £000	31 Dec 2021 £000
Total available stable funding	261,761	270,436	266,982	293,514
Total required stable funding	170,065	170,852	181,831	182,869
Net stable funding ratio	154%	158%	147%	161%

12 Market risk including interest rate risk

Market risk is the risk that the value of, or income arising from, the assets and liabilities of the Society changes as a result of changes in market price. The principal element of market risk affecting the Society is interest rate risk.

The Society only transacts in sterling therefore is not directly affected by currency risk.

The Society is exposed to interest rate risk in the form of changes (or potential changes) in the general level of interest rates, changes in the relationship between short and long-term interest rates and divergence of interest rates for different statement of financial position elements (basis risk).

12.1 Interest rate risk in the banking book (IRRBB)

IRRBB arises from timing differences in the maturity of fixed and variable rate assets, liabilities and off balance sheet positions. In a rising rate environment if liabilities reprice earlier than the assets they are funding; or in a falling rate environment, if assets reprice earlier than the liabilities funding them, the Society is likely to be left with a reduction in future income. Repricing risk is inherent in fixed rate instruments as the market value will change inversely with interest rate movements up until the fixed incentive period ends.

The main activities of the Society that expose it to interest rate risk are-

- Issue of fixed rate savings business;
- Fixed rate mortgage lending;
- Fixed rate treasury lending; and
- Management of the investment of capital and other non-interest bearing liabilities.

The Society has adopted the "Matched" approach to interest rate risk, as defined by the PRA. This aims to match the interest rate profile of both its assets and liabilities within tight limits set by the Board, and only to the extent that the PRA is satisfied that the Society has the requisite risk management capability. The matching is managed by using natural hedges between fixed rate savings business and fixed rate mortgages, and by the use of derivative financial instruments (vanilla over-the-counter interest rate swaps).

Repricing risk is measured using gap analysis and economic value movements. The Society uses a 2% parallel shift in the interest rate curve to quantify the impact on reserves, which is reviewed against agreed limits as set out in the Board approved Financial Risk Management policy. The review is prepared and reported to MALCO on a monthly basis and to ALCO on a quarterly basis.

The interest rate sensitivities for the year ended 31 December are in the table below.

	EBA shocks		**200bps**	
	2021	**2020**	**2021**	**2020**
	£000	**£000**	**£000**	**£000**
Sensitivities				
Parallel up	(374)	(279)	(305)	(225)
Parallel down	415	298	326	236
Short rate up	(248)	(215)		
Short rate down	266	225		
Steepener	75	86		
Flattener	(137)	(138)		
Maximum in financial year	497	298	391	236
Limit EBS/GL/2018/02	4,079	3,868	5,442	5,202
Tier 1 capital	27,194	25,784		
Own funds			27,210	26,011
Internal limit 3% reserves			819	777
Reserves			27,303	25,915

In line with EBA/GL/2018/02 "Guidelines on the management of interest rate risk arising from non-trading book activities" paragraph 114, the EBA shocks must not exceed 15% of Tier 1 capital (£4,079k) and under paragraph 113 the 200bps shock must not exceed 20% of reserves (£5,442k); the Society was able to satisfy both limits with sensitivities as at 31 December 2021 of £497k and £391k respectively. Furthermore, the Society's 200bps shock is measured against its internal risk appetite of 3% of reserve which at 31 December 2021 was £819k with the corresponding sensitivity of £391k satisfying the limit.

12.2 Basis risk

Basis risk is the result of mismatches across each interest rate basis. The Society's banking book interest rate bases consist of administered, fixed, SONIA, Bank Base Rate and non-interest bearing assets and liabilities.

Basis risk is managed through the setting of limits upon the maximum negative impact that the movement between interest bases will have. It is modelled by analysing the historical spread between each rate basis, where market rates are available, such as Bank Base Rate and SONIA. Where such information is not available, like with administered and fixed, it is instead driven by internal assumptions.

The total basis risk appetite limit is the sum of the positive net absolute interest bearing assets and interest bearing liabilities expressed as a percentage of total assets. Limits are also set for the exposure to each interest rate basis. The position is reported to MALCO monthly and ALCO quarterly. At 31 December 2021 the Society's overall basis risk mismatch was 42.4% against a limit of 85%.

The Society's exposure to each interest rate basis is as follows:-

- Bank of England Base Rate – Base Rate linked mortgages, Bank of England reserve account and TFSME drawings;
- SONIA – interest rate swaps receivable leg;
- Fixed rates – fixed rate treasury investments, mortgages, shares and interest rate swaps payable leg;
- Administered – Society controlled interest rate receivable/payable products for mortgages and savings; and
- Other – non-interest bearing bank deposits and cash, other assets and liabilities and mortgages linked to other indices.

13 Operational risk

The principal operational risks of the Society at the current time are cyber risk, financial crime, HR resilience and risks associated with how our staff interacts with customers throughout the product lifecycle.

The Society has a robust control framework in place including insurance policies, disaster recovery and business continuity plan. The Risk Committee considers a range of metrics and reports from management to ensure that the Society continues to operate within this framework to maintain operational resilience and protect members and staff.

Evaluation of capital required to cover Operational Risk is calculated under the "Basic Indicator Approach" which determined as 15% of the average net income over the previous three years.

Year ended 31 December	**2019**	**2020**	**2021**	**Average**	**Capital requirement @ 15%**	**Risk weighted assets**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Net income	5,182	5,153	5,856	5,397	810	10,125

Net income comprises net interest receivable plus fees and commissions receivable less fees and commissions payable plus other operating income.

14 Leverage ratio

Basel III requires the calculation and disclosure of the Society's leverage ratio, which provides a non-risk-based measure to supplement the risk-based capital adequacy assessment. The leverage ratio is a measure of Tier 1 capital as a proportion of on and off-balance sheet assets. The ratio does not distinguish between the credit quality of loans and acts as a primary constraint to excessive lending in proportion to the Society's capital. The minimum ratio must be 3%, which came into force on 1 January 2018.

The Society's leverage ratio as at 31 December 2021 was 8.4% as shown in the tables below.

Leverage ratio common disclosure	**2021**	**2020**
	£000	**£000**
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets but including collateral)	314,486	288,853
Asset amounts deducted in determining Tier 1 capital	(93)	96
Total on-balance sheet exposures (excluding derivatives and SFTs)	314,393	288,949
Replacement cost associated with all derivatives transactions	303	-
Add-on amounts for PFE associated with all derivatives (mark-to-market method)	113	30
Total derivatives exposures	416	30
Off-balance sheet exposures at gross notional amount	16,430	18,280
Adjustments for conversion to credit quality amounts	(8,215)	(9,140)
Other off balance sheet exposures	8,215	9,140
Total leverage ratio exposures	**323,024**	**298,119**
Tier 1 capital	**27,194**	**25,784**
Leverage ratio	**8.4%**	**8.6%**

Summary reconciliation of accounting assets and leverage ratio exposures	**2021**	**2020**
	£000	**£000**
Total assets per published Annual Report and Accounts	314,789	288,853
Adjustments for derivative financial instruments (mark-to-market method)	113	30
Adjustments for off-balance sheet items	8,215	9,140
Other adjustments	(93)	96
Leverage ratio total exposure measure	**323,024**	**298,119**

Split of on balance sheet exposures excluding derivatives	2021 £000	2020 £000
Banking book exposures, of which:		
Exposures treated as sovereigns	53,929	48,341
Institutions	13,038	19,201
Secured by mortgages on immovable property	242,623	212,933
Retail exposures	1,181	4,150
Exposures in default	1,218	1,278
Other exposures (e.g. equity, securitisations and other non-credit obligation assets)	2,497	2,950
	314,486	288,853
Trading book exposures	-	-
Total on-balance sheet exposures	**314,486**	**288,853**

15 Remuneration and material risk takers

The Society may be subject to excessive risk if remuneration policies and practices result in staff being rewarded for decisions inconsistent with the Board's risk appetite. It is therefore the Society's policy to ensure that its remuneration decisions are in line with effective risk management. The management of the Society to attract and retain appropriate capability and talent balances this. Full details of the Society's remuneration policy and details of Executive Directors' emoluments for the year ending 31 December 2021, with prior year comparative, are in the Directors' Remuneration Report in the Annual Report and Accounts.

The Society, through its Remuneration Committee, seeks to ensure that its remuneration policies and decisions comply with both the PRA/FCA Remuneration Code and the UK Corporate Governance Code and are in line with its business strategy and long term objectives, and consistent with the Society's current and future financial position. Further information on the decision-making process, mandate, and composition and meeting frequency of the Remuneration Committee is available in the Society's Annual Report and Accounts.

The Remuneration Committee also seeks to establish an appropriate balance between the fixed and variable elements of remuneration. Variable remuneration will only be paid if the Society's current and expected future financial position is sufficiently strong. In addition to financial position and business performance, the level of variable pay is dependent on a number of measures that focus on the following:-

- Members
- Employees
- Systems and controls risk management

The performance measurements used to calculate variable remuneration are therefore adjusted to take into account current or potential risks to the business and are consistent with the need to retain a strong capital base. Guaranteed incentive payments do not form part of any remuneration package and all incentive schemes are non-contractual.

Remuneration Code staff are defined by the FCA as 'staff that have a material impact on the firm's risk profile; this includes staff that perform significant influence functions, senior managers and risk takers'. The Board has determined that Non-Executive Directors, Executive Directors, other key management and staff whose duties require them to have a relevant qualification fall within the definition of Remuneration Code staff under SYSC 19D of the PRA Handbook. Under CRD IV, these staff are identified as 'Material Risk Takers'. The members of staff that have been identified as Material Risk Takers are the Non-Executive Directors, Executive Directors, the MLRO and nine others.

Information on Remuneration Code staff for the year ending 31 December 2021is shown in the table below.

	Number	Fixed remuneration £000	Variable remuneration £000	Total remuneration £000
Non-Executive Directors	7	157	-	157
Executive Directors	2	339	36	375
Leadership Team	5	476	42	518
Certified Staff	5	336	28	364
	19	**1,308**	**106**	**1,414**

Fixed remuneration for all categories apart from Non-Executive Directors includes basic salary, pension contributions paid by the Society and payment in lieu of pensions (PILOP). Variable remuneration is any bonus paid in 2021. Non-Executive Directors receive fees from the Society only and this is shown as fixed remuneration in the table above.

16 Conclusion

This disclosure document has been prepared in accordance with regulatory requirements as interpreted by the Society based on its size and complexity, and is updated on an annual basis following the publication of the Annual Report and Accounts.

In the event that a user of this disclosure document requires further explanation on the disclosures given, they should write to the Society Secretary at Buckinghamshire Building Society, High Street, Chalfont St Giles, Buckinghamshire, HP8 4QB.