Marsden Building Society

Pillar 3 Disclosure

31 December 2022

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1 Overview

1.1 Introduction and Scope

This document represents the Society disclosure in accordance with the regulatory disclosure requirements under the Disclosure (CRR) Part of the PRA Rulebook (CRR) Instrument 2021.

The disclosure requirement in this document apply to Marsden Building Society (PRA Firm Reference Number 206050).

1.2 Regulatory framework for disclosures

The Basel framework is structured around three pillars which govern minimum capital requirements, outline the supervisory review framework, and promote market discipline through disclosure requirements.

- Pillar 1 sets out regulatory minimum capital requirements for credit, operational and market risk.
- Pillar 2 involves the Supervisory Review and Evaluation Process to assess whether Pillar 1 Requirements are sufficient and whether additional capital should be held in Pillar 2.
- Pillar 3 involves Disclosure requirements designed to promote market discipline through disclosure of key information about risk exposures and risk management processes.

1.3 Basis of preparation

The Society meets the criteria for being a ‘small and non-complex’ institution as introduced in the CRR II and incorporated into the PRA Rulebook under Article 433b.

Society policy is to comply with all requirements of the derogation for ‘small and non-complex’ institutions.

Row numbers in the below tables relate to the Prudential Regulation Authority (PRA) prescribed references within the standardised templates; where rows contain a nil value, these have been excluded in some circumstances for the purposes of enhancing the readability and understandability of these disclosures.

Unless otherwise stated all information relates to the position at 31 December 2022.

1.4 Frequency of disclosure

In accordance with the derogation in Article 433b within the PRA Rulebook, as an institution with no listed securities, disclosures are made on an annual basis.

1.5 Verification

The disclosures within this document are:

- Subject to the same level of internal verification as applicable to the management report included in the Society’s Annual Report and Accounts
- Where appropriate the information is reconciled to and conforms with the externally audited information within the Annual Report and Accounts.
- The information will be prepared and checked by 1st Line of Defence with oversight from 2nd Line of Defence as appropriate
- The Pillar 3 Disclosure Document is reviewed by the Audit Committee for onward recommendation to the Board

1.6 Summary of key disclosures

The table below provides an overview of the Societies Key Prudential Metrics:

Table 1: UK M1 Key Metrics

		2022	2021
		£000	£000
	Available own funds (amounts)		
1	Common Equity Tier 1 (CET1) capital	**50,713**	45,218
2	Tier 1 capital	**50,713**	45,218
3	Total capital	**51,280**	45,633
	Risk-weighted exposure amounts		
4	Total risk-weighted exposure amount	**243,506**	235,578
	Capital ratios (as a percentage of risk-weighted exposure amount)		
5	Common Equity Tier 1 ratio (%)	**20.83%**	19.19%
6	Tier 1 ratio (%)	**20.83%**	19.19%
7	Total capital ratio (%)	**21.06%**	19.37%
	Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)		
UK 7a	Additional CET1 SREP requirements (%)	**0.00%**	0.00%
UK 7b	Additional AT1 SREP requirements (%)	**0.00%**	0.00%
UK 7c	Additional T2 SREP requirements (%)	**0.00%**	0.00%
UK 7d	Total SREP own funds requirements (%)	**8.00%**	8.00%
	Combined buffer requirement (as a percentage of risk-weighted exposure amount)		
8	Capital conservation buffer (%)	**2.50%**	2.50%
9	Institution specific countercyclical capital buffer (%)	**0.64%**	0.02%
UK 9a	Systemic risk buffer (%)	**0.00%**	0.00%
11	Combined buffer requirement (%)	**3.14%**	2.52%
UK 11a	Overall capital requirements (%)	**11.14%**	10.52%
12	CET1 available after meeting the total SREP own funds requirements (%)	**12.83%**	11.19%
	Leverage ratio		
13	Total exposure measure excluding claims on central banks	**636,119**	619,129
14	Leverage ratio excluding claims on central banks (%)	**7.97%**	7.30%
13a	Total exposure measure including claims on central banks	**733,660**	700,062
13b	Leverage ratio including claims on central banks (%)	**6.91%**	6.46%
	Liquidity Coverage Ratio		
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	**80,881**	75,023
UK 16a	Cash outflows - Total weighted value	**33,566**	32,114
UK 16b	Cash inflows - Total weighted value	**9,493**	9,527
16	Total net cash outflows (adjusted value)	**24,073**	22,587
17	Liquidity coverage ratio (%)	**335.98%**	332.15%
	Net Stable Funding Ratio		
18	Total available stable funding	**688,454**	659,559
19	Total required stable funding	**441,839**	434,288
20	NSFR ratio (%)	**155.82%**	151.87%

1.7 Overview of Risk Weighted Exposure Amounts (RWEA)

The table below provides RWEAs and for the current year own funds requirements:

Table 2: UK OV1 Overview of Risk Weighted Exposure Amounts

		Risk weighted exposure amounts (RWEAs)		Total own funds requirements
		2022	2021	**2022**
		£m	£m	**£m**
1	Credit risk (excluding CCR)	**222,771**	216,275	**17,822**
2	Of which the standardised approach	**222,771**	216,275	**17.822**
3	Of which the foundation IRB (FIRB) approach	**-**	-	**-**
4	Of which slotting approach	**-**	-	**-**
UK 4a	Of which equities under the simple risk weighted approach	**-**	-	**-**
5	Of which the advanced IRB (AIRB) approach	**-**	-	**-**
6	Counterparty credit risk - CCR	**1,009**	1,754	**81**
7	Of which the standardised approach	**1,009**	1,754	**81**
8	Of which internal model method (IMM)	**-**	-	**-**
UK 8a	Of which exposures to a CCP	**-**	-	**-**
UK 8b	Of which credit valuation adjustment - CVA	**201**	344	**16**
9	Of which other CCR	**-**	-	**-**
15	Settlement risk	**-**	-	**-**
UK 22a	Large exposures	**-**	-	**-**
23	Operational risk	**19,726**	17,549	**1,578**
UK 23a	Of which basic indicator approach	**19,726**	17,549	**1,578**
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**	**243,506**	235,578	**19,481**

2 Risk Management Approach

2.1 Risk Statement

The Risk Appetite Statement enables the Board to articulate the level of risk it is willing to accept in pursuit of meeting it's strategic objectives and effectively communicate this risk appetite to senior management, staff and all stakeholders. It enables the Board to set the tone in how it expects senior management and staff to operate in managing Principal and Secondary Risks.

The Society's Risk Appetite Statement consists of an overall Risk Appetite Statement combined with a Risk Appetite for each of the Principal Risks. The five Risk Appetite options are as follows: Averse, Cautious, Neutral, Open and Hungry.

The Society's overall Risk Appetite Statement is 'NEUTRAL'. Within the ten individual risk classifications the Risk Appetite is 'Open' for Strategic Risk, 'Cautious' for Counterparty Credit Risk and Legal and Regulatory and 'Neutral' for the remaining seven.

The Board is the custodian of members' and key stakeholders' interest with the responsibility of ensuring the Society is managed effectively and efficiently to achieve Strategic Objectives with a robust governance structure to maintain strong capital and liquidity holdings that comply with the regulatory requirements. The Society's ability to meet its capital commitments is tested under various stress scenarios to ensure it continues to remain financially viable and is able to meet its capital commitments under stress conditions.

The Society is committed to delivering fair customer outcomes and providing excellent quality and value of service to its customers who remain at the heart of its decision-making process. The Society encourages a culture that that promotes behaviour which values and respects colleagues, employees, customers and members whilst operating a culture of integrity, openness and honesty.

2.2 Declaration

In accordance with the requirements of Article 435(1) the Society's Board are satisfied that the risk arrangements in place at the Society are adequate with regard to the Society's profile and strategy.

2.3 Strategies and Processes to Manage Risks

2.3.1 Risk Management Framework

The Society approach to Risk Management is set out within its Risk Management Framework (RMF). The purpose of the RMF document is to establish a robust risk management culture within the Society to enable it to operate in accordance with its risk appetite and meet its strategic objectives whilst ensuring compliance with its regulatory obligations.

The Society has adopted a 3 Lines of Defence approach using the Hub and Spokes Principle for the establishment and implementation of the RMF.

The 3LOD approach ensures clarity in the roles and responsibilities. The first line, (the business) will be responsible for making decisions whilst the second line will provide challenge and oversight on the decisions made. The third line, Internal Audit, will provide independent assurance over the establishment, implementation and maintenance of framework within the Society.

The Hub and Spokes Principle enables the business to implement framework within their department through Risk Champions and provide a single point of contact for the second line.

1st Line – Business	2nd Line – Risk and Compliance	3rd Line – Internal Audit
• Accountability & Ownership of RMF Implementation • Management risks within Risk Appetite • Set the tone for Risk Management Culture	• Establish RMF and Governance Framework • Ensure successful implementation of RMF • Provide Challenge and Oversight of Risk Submissions	• Provide independent review of 1st and 2nd Line on the establishment and implementation of the RMF

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

2.3.2.1 Macro-Economic Environment

This is the risk that the economic, political or regulatory changes arising from the wider environment cause detriment to the Society including the post Covid-19 environment, Economic Outlook, Cost of Living Crisis and Conflict in Ukraine.

During the year Bank Rate increased from 0.5% to 3.5%, and in February 2023 from 3.50% to 4.0%. As a result of political event in Autumn 2022 interest rate expectations spiked well above these levels causing significant turmoil in the mortgage markets and increasing mortgage pay rates to c6%, albeit these have eased subsequently. Both these factors, in addition to the high inflation environment and significant increases in energy costs, have combined to place significant pressure on household finances with implications for both mortgage demand and loan performance. The economy is forecast to experience a protracted recession, although forecasts of the depth and length of this have eased somewhat since the turn of the year, with the prospect of increased unemployment and with it declines in house prices.

This may impact the Society in a number of ways including:

- Payment shock for existing mortgage borrowers, with customers on variable rate loans already experiencing a steep but phased payment shock whilst fixed rate borrowers with mortgages repricing in 2023 and 2024 set to experience a sudden increase in payment. Borrowers on interest only terms and those with repayment loans with terms beyond 30 years will experience greater relative payment shock. This may result in increased defaults and credit losses.
- Volatility in interest rate expectations has a material impact on mortgage pricing decisions and related hedging of interest rate risk giving rise to volatility in earnings as a result of fair value gains or losses on pipeline hedge transactions where Interest Rate Swaps are utilised, particularly for medium term instruments at 5 years duration. In addition there is increased risk to management of interest rate risk and achievement of the desired margin.
- A general reduction in mortgage market activity has the potential to impact loan book growth and generation of increased net interest income to offset significant cost pressures from both staff cost inflation and IT investment.
- Increased costs in terms of pay and reward for colleagues, driven both by increased hybrid working opportunities and working practice post Covid-19 and Cost of Living pressures, and sharp inflation in cost from existing contracts.

Key risk controls and mitigation actions are summarised as follows:

- To date, evidence of emergence of payment difficulties and impairment are modest. However, impairment provisions have increased, reflecting the risk of default yet to emerge and the prospect of

forecast reductions in house prices. The combination of prudent credit risk management by the Society in terms of both affordability and a low loan to value book should minimise losses.
- In respect of Interest Rate Risk Management, the Society has taken interest rate risk management decisions based on sound risk management considerations and accepts the accounting impact of profit volatility arising from pipeline hedging as a result.
- In terms of achievement of mortgage growth, the Society benefits from its modest scale relative to larger peers and plans to continue to grow the mortgage book where assets are available at an acceptable risk reward. In the event of greater demand and flow of retail savings relative to mortgages the Board will consider prepayment of TFSME borrowings currently concentrated for repayment in 2024 and 2025.
- In relation to management expenses cost inflation can be minimised to a degree through management with adjustment to the mix of assets and liabilities and ultimately margins and/or reductions in targeted levels of profitability for a period.

2.3.2.2 Strategic Risk

Strategic risk is the risk that internal and external events impact the ability to achieve objectives and strategic goals.

The principal drivers of strategic risk are the Society fails to:

- adopt an appropriate business model
- set appropriate goals and targets in the Corporate Plan
- adapt to external events or the strategy fails to live up to expectations

Key risk controls and mitigation actions are summarised as follows:

- The Society maintains a strategic planning process, which involves routine discussion of risks to strategic objectives with a focal strategy event each year.
- The Board monitors Management in the delivery of strategic plans and objectives
- Stress Testing and monitoring of position to Board Risk Appetite is monitored routinely

2.3.2.3 Credit Risk (Mortgage)

Mortgage credit risk is the risk that mortgagors will fail to meet their obligations as they fall due, which results in a potential loss following enforcement of the loan and realisation of the mortgage security and related additional security.

The principal driver of credit risk in relation to mortgage lending remains a slowdown in the UK economy leading to higher unemployment and falling house prices which would result in increased arrears and impairment losses.

Key risk controls and mitigation actions are summarised as follows:

- All mortgage loans are underwritten according to a Board-approved Credit Risk Management Policy to assess the credit quality of the customer, their ongoing ability to continue to be able to afford their mortgage repayments and the value of the Society's security.
- The Society has a series of Board approved risk appetite limits and all lending must be done within appetite.
- The performance of the loan portfolio is monitored closely to ensure it is performing as expected so that swift action can be taken if necessary.

- The full impact of increased mortgage rates/payment shock and the cost of living crisis on credit portfolios is yet to be seen and the impact is likely to be uneven across borrower profile and loan portfolio. The Society continues to monitor loan book performance closely.

2.3.2.4 Credit Risk (Counterparty)

Counterparty credit risk is the risk that Market Counterparties will fail to meet their obligations as they fall due and subsequently default resulting in a loss.

Prudential regulation requires that regulatory liquidity is held in high quality liquid assets reducing risk exposure. Due to a range of prudential regulatory reforms, the health of the UK Banking System has improved however the risk of counterparty default remains.

Key risk controls and mitigation actions are summarised as follows:

- Risk is managed in line with a Board-approved policy and risk appetite.
- The significant majority of exposures are with the Bank of England and UK Government Treasury Bills alongside limited short-term deposits with approved Bank and Building Society counterparties domiciled and authorised in the UK.

2.3.2.5 Interest Rate Risks in the Banking Book

Interest Rate Risk in the Banking Book is the adverse impact on the Society's future cashflows arising from changes in interest rates including:

- Economic Value (NPV) – The risk to the capital value of the Society as a result of changes in interest rates.
- Earnings Risk (NII) – The risk to profitability of the Society as a result of changes in interest rates.
- Basis Risk – The risk to profitability arising from non-parallel movement in net exposures to different interest rate bases.
- Optionality – The risk to profit arising from provision of embedded optionality in products such as early prepayment or access with or without penalty.

The Society is exposed to this risk as a retailer of financial instruments, in the form of mortgage and savings products and the investment of both liquid assets and wholesale borrowing. The outlook for interest rates as implied by the market at the time of writing is for a series of rate increases which collectively represent a material increase by post financial crisis standards. Volatility in market expectations may cause the actual margin achieved to deviate from plan due to the timing of the interest rate hedge.

Key risk controls and mitigation actions are summarised as follows:

- The risk is primarily managed by match funding retail savings to mortgages on balance sheet or through interest rate swaps in a manner consistent with the Building Societies Act 1986.
- Interest rate risk is managed within a Board-approved Financial Risk Management Policy, predominantly on balance sheet or off balance sheet with minimal basis risk to minimise volatility in earnings.
- The Board has set out clear quantified statements of risk appetite for each aspect of Interest Rate Risk.
- Exposure is stressed monthly to ensure it is managed in compliance with the policy.

2.3.2.6 Liquidity Risk

Liquidity Risk is the risk that the Society, though solvent, either does not have sufficient financial resources available to enable it to meet its obligations when they fall due, or can secure them only at excessive cost.

The primary liquidity risks arise from the nature of the retail deposit base and its maturity profile and the extent to which customers would seek to withdraw funds in response to a loss of confidence in the ability of the Society to meet its obligations as they fall due.

Key risk controls and mitigation actions are summarised as follows:

- The Society manages this risk through continuous forecasting of cashflow requirements and assessment of retail and wholesale funding risk, in particular the characteristics of deposit base and concentration of the maturity profile of fixed term funding.
- The required amount, quality and type of liquid assets required to ensure obligations can be met at all times is maintained in accordance with the Liquidity and Funding Policy.
- Periodic stress testing is performed to ensure obligations can be met in both normal and stressed circumstances.
- The Society is actively planning for TFSME repayment due across 2024 and 2025.

2.3.2.7 Operational Risk (including Operational Resilience)

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems. Operational resilience is the Society's ability to maintain important business services in the event of experiencing adverse external or internal events.

Within the Society, Operational Risk is an umbrella term that covers a range of risk types including financial crime, legal and regulatory, people and reputational risk. With COVID-19 operational risk has increased as the Society has moved much of the Principal Office staff to working from home.

Key risk controls and mitigation actions are summarised as follows:

- The Society has processes and procedures in place to manage operational losses, and the effectiveness of these controls are managed through the Operational and Conduct Risk Committee.
- The Society has undertaken Business Impact Assessments to identify and map Important Business Services and set specific impact tolerances that are consistent with Board risk appetite.
- To manage the additional risks of home working and changes to working practice additional controls have been implemented to manage risk.

2.3.2.8 Cyber Risk

Cyber Risk is the risk of harm to the Society as a result of breaches of, or attacks on, information systems.

The Society recognises the increasing threat that cyber attacks present to the financial system so this is a distinct risk in the Society's Risk Management Framework.

Failure to protect the Society from cyber attacks poses risks of direct financial losses as well as impacting the ability to perform significant business operations.

Key risk controls and mitigation actions are summarised as follows:

- Cyber security forms part of the Society's Information Security Policy Framework.

- The Society has chosen to base its Cyber Security Strategy around the National Cyber Security Centre's (NCSC) framework pillars and continues to have regard to the FCA initiative Cyber Coordination Group that maintains a cyber risk 'radar'.
- The Society continues to invest in systems infrastructure and software to mitigate risk

2.3.2.9 Conduct Risk

Conduct risk is the risk that any action, either by the Society or staff, leads to customer detriment or has an adverse impact on market stability or effective competition.

The Society is committed to the fair treatment of customers and to ensure that the systems and controls in place both prevent and detect misconduct.

Key risk controls and mitigation actions are summarised as follows:

- The Society has policies and procedures in place to ensure that fair customer outcomes are delivered.
- The Society's Compliance function is in place to ensure that the Society and staff comply with all applicable legislation and regulation.
- The Society is currently reviewing policy, process and practice to ensure compliance with the FCA Consumer Duty

2.3.2.10 Climate Risk

Climate Risk is the risks climate change could create for the Society as a result of physical impact and transition risks.

Physical risks arise from a number of factors, most notably extreme weather events and longer terms shifts in the climate. Primary drivers of physical risks on the Society include increased risk of flooding, subsidence and coastal erosion impacting on the value of, and longer-term ability to insure, mortgaged properties resulting in increased risk of financial loss.

Transition risks arise from the process of adjustment to a low carbon economy, driven by a number of factors, most notably changes in policy and regulation, shifting sentiment and societal preference and emergence of disruptive technology and business models.

Key risk controls and mitigation actions are summarised as follows:

- The Society is increasingly cognisant of these risks and is continuing to refine its approach to managing the financial risks associated with climate change.
- The Board has engaged an external consultancy to assess the impact of climate change on its lending portfolio. This has revealed below average exposure to flood risk, and coastal erosion, average exposure to subsidence and above average exposure to F or G rated mortgage securities. This assessment included modelled capital impacts in four climate change scenarios and extreme weather events, the outcome of which has been assessed within the Internal Capital Adequacy Assessment Process.
- Whilst physical risks are anticipated to crystallise in the long term transition risks, as a result of changes in policy and regulation, are anticipated to impact in the short to medium term as government policy change is formalised and implemented, for example in relation to Minimum EPC ratings for the private rented sector.
- The Society is increasing its focus in the management of this risk and will both continue to monitor the impact of climate change on its portfolio, taking action on the same as judged appropriate, and seek to both quantify and minimise its carbon footprint.

3 Remuneration

3.1 Decision making process for determining remuneration

3.1.1 Mandate and composition of the committee

The Board has established the People Remuneration and Culture Committee (PRCC) which has responsibility for policy on remuneration of the Executive Directors, senior management and the Chairman.

The terms of reference of the People, Remuneration and Culture Committee are published on the Society's website and include the following:

- Ensuring compliance with the requirements of the PRA Remuneration Code and other applicable law and regulation
- Determining the policy for Directors' remuneration and setting remuneration for the Society Chairman, Executive Directors and Senior Management
- Determine the total individual remuneration package of each Executive Director, Society Secretary and senior managers
- Exercise of independent judgement and discretion when determining remuneration awards, taking account of the Society's and individual performance, and wider circumstances

The Committee consists of four Non-Executive Directors, with the Chief Executive attending by invitation. Neither the Chairman nor Chief Executive take part in the discussions on their individual remuneration. The Committee met seven times during the financial year to 31 December 2022.

3.1.2 Use of external consultants

In setting remuneration, the Committee considers the remuneration levels and structure of other building societies that are similar in size and complexity, as well as external market conditions. Periodically, a report may be commissioned from external consultants to assist in this process. The Committee did not use the services of an external consultant during the reporting period.

3.1.3 Material Risk Takers (MRTs)

The PRCC has determined there are 16 individuals who are MRT's and whose professional activities have a material impact on the Society's risk profile.

The categories of employees cover:

- All members of the Society's Board, including both Non-Executive and Executive Directors
- Members of the Executive Committee
- Head of Functions and Senior Management Functions where they are hold a Senior Management Function or a Certified Function or hold a role which could have a material impact on the Society Risk Profile

3.2 Overview of the key features and objectives of remuneration policy

The Society's remuneration policy supports our achievement of our strategic objectives to deliver long term sustainable value to our members, avoiding a focus on short-term performance. The Society's people live by our five core values, which underpin delivery of our strategy:

- Make a lasting impression
- Proud of our past, excited by our future
- Passionate about people
- Work together and
- Deliver on promises

We believe that remuneration of Executive Directors and senior managers should be comparable with that of similar organisations in the financial sector to attract, retain, and motivate individuals with the required skills and competence.

Basic salaries are reviewed annually taking into account the Society's overall performance; individual performance; the salaries and incentives payable to executives in similar roles within building societies and levels generally within the wider financial services industry.

Executive Directors, senior managers and staff participate in the Society's Bonus Scheme. The level of bonus paid is based on criteria set by the Board each year, linked to the overall performance of the Society including both business and risk management objectives.

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

The Society has a process in place for measuring performance referred to as the 'STEP' framework. This process applies to every colleague. Overall corporate objectives are set by the Board based on the strategy, corporate plan and our values. These incorporated within the objectives of the Chief Executive and cascaded through the business via the STEP framework. Individuals have objectives set throughout the performance year which are documented and measured and assessed during the year as to whether each colleague is on track. The CEO will make recommendations to the PRCC who have the discretion to decide whether an individual's, or the Society's performance is such that the payment of variable remuneration is not justified.

3.4 Information on how the Society ensures that Staff in internal control functions are remunerated independently of the business they oversee

Employees in control functions are subject to the same remuneration and reward process as all other colleagues in the Society. In accordance with its terms of reference, the Remuneration Committee oversees the remuneration of senior managers in the risk management and compliance function, ensuring it is not appropriately weighted to variable pay and that the method for determining remuneration does not compromise the objectivity of those individuals.

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

The Society does not award guaranteed variable remuneration and as a result there are no policies or criteria with respect to this.

The Society has a Redundancy Policy which outlines redundancy entitlements based on complete years of continuous service with the Society. The policy sets out entitlements from 2 to over 20 years service based on full salary rising from 9 to 52 weeks. On termination of employment the Society may waive its right to insist on staff working notice and instead give a payment in lieu of notice.

The employment of the Chief Executive and Finance Director can be terminated by either party giving twelve months notice with compensation for loss of office being twelve months remuneration.

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

The Society's remuneration policy, practices and procedures are consistent with and promote sound and effective risk management and do not encourage risk-taking that exceeds our level of tolerated risk. Staff are not remunerated on basis of volume or achievement of target sales.

The remuneration targets and objectives are based on the approved corporate plan. The plan considers a range of risks and is stress-tested to ensure the level of risk it contains is consistent with the Society's risk appetite. The plan risks are assessed by the CRO and reviewed by the Risk Committee in advance of its approval by the Board.

The PRCC liaise as necessary with all other Board Committees, specifically the Board Audit and Compliance and Board Risk Committees to satisfy itself that performance objectives do not drive excessive risk taking and to ensure that the Remuneration Policy promotes sound and effective risk management

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

All variable pay schemes are appropriately balanced and that the fixed element represents sufficiently high proportion of total remuneration to allow the possibility to pay no variable remuneration.

All variable pay in respect of year ending 31 December 2022 operated within the Society remuneration policy, with ratios for annual variable remuneration ranging from 0-30%, and the regulatory limit of no greater than 100% of fixed pay.

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

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

The Society operates two Discretionary bonus schemes as follows:

<u>Scheme 1: All colleagues in scope including Executive Directors</u>

The Board regards variable remuneration, comprising of incentive schemes relating to financial and business performance, is an appropriate part of a balanced individual remuneration package. The general approach has been to set variable remuneration under Scheme 1 at relatively modest levels, capped at 15% of basic salary. The Board considers that this is appropriate level considering the mutual status of the organisation and to ensure that the outcomes achieved are beneficial to the Society and its members.

Within the Board Policy Statement, consideration has been given to the specific factors that the Board would consider in determining the level of variable non- contractual: Business performance, risk appetite, ethical and business standards of conduct, and individual performance.

Achievement of 100% of the discretionary bonus is dependent on the following criteria:

- 60% of the bonus due for complete months of service Jan – December of the previous year will be awarded to everyone in recognition of their contribution to business performance
- 20% will be available to those who have been rated as on track or exceeds in their formal quarterly STEP meetings at a rate of 5% for each quarter January to December – evidence of the STEP meeting + assessment rating to be provided to HR for each quarter by 31 December to support the award for that calendar year.
- 20% will be awarded to those who are 100% complete with their mandatory training as at 31 December

<u>Scheme 2: Executive Directors</u>

Executive directors participate in the Society's Bonus Scheme (Scheme 1). The level of bonus paid is based on criteria set by the Board each year, linked to the overall performance of the Society including both business and risk management objectives. In addition, executive directors can receive an amount in excess of the Society Bonus Scheme 1 reflecting individual performance in delivering outcomes in excess of planned performance of the Society.

3.8.2 Overview of how individual variable remuneration is linked to institution wide and individual performance

Awards are made based on an assessment of Society-wide performance and individual performance against an agreed set of corporate plan objectives.

Awards are also subject to review and approval by the PRCC, with recommendations from the Chief Executive.

3.8.3 Information on the criteria used to determine the balance between different types of instruments awarded including shares, equivalent ownership interest, options and other instrument

Our only instrument is cash reflecting our mutual status and the absence of any listed capital market instruments.

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

Performance is measured by the achievement of a range of corporate objectives based on performance measures, linked to Board approved Society and personal objectives.

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

We do not have a policy on deferral, pay-out in instrument, retention periods and vesting of variable remuneration due to the levels and amounts of variable remuneration we have in place, the challenges inherent in our mutual business model which does not provide access to instruments in the way envisaged by regulatory rule makers, and the framework we have in place to reward variable pay.

3.10 Remuneration awarded for the financial year

The table below provides an overview of remuneration awarded in the financial year:

Table 3: UK REM1 – Remuneration Awarded for the Financial Year

			a	b	c	d
			MB Supervisory function	MB Management function	Other senior management	Other identified staff
1	Fixed remuneration	Number of identified staff	6	2	6	2
2		Total fixed remuneration	203,225	430,420	629,349	104,164
3		Of which: cash-based	203,225	373,958	461,937	87,474
UK-4a		Of which: shares or equivalent ownership interests				
5		Of which: share-linked instruments or equivalent non-cash instruments				
UK-5x		Of which: other instruments				
7		Of which: other forms	0	56,462	167,412	16,690
9	Variable remuneration	Number of identified staff	0	2	6	1
10		Total variable remuneration	0	54,564	33,251	3,513
11		Of which: cash-based	0	54,564	33,251	3,513
12		Of which: deferred				
UK-13a		Of which: shares or equivalent ownership interests				
UK-14a		Of which: deferred				
UK-13b		Of which: share-linked instruments or equivalent non-cash instruments				
UK-14b		Of which: deferred				
UK-14x		Of which: other instruments				
UK-14y		Of which: deferred				
15		Of which: other forms				
16		Of which: deferred				
17	Total Remuneration		203,225	484,984	662,600	107,677

3.11 Remuneration information on staff designated at Material Risk Takers

The table below provides an overview of remuneration by business line:

Table 4: UK REM5 – Remuneration Information on MRT staff

		a	b	c	d	e	f	g	h	i	j
		Management body remuneration			Business areas						
		MB Supervisory function	MB Management function	Total MB	Investment banking	Retail banking	Asset management	Corporate functions	Independent internal control functions	All other	Total
1	Total number of identified staff	6	2	8		4		2	2		16
2	Of which: members of the MB	6	2	8							8
3	Of which: other senior management					3		1	2		6
4	Of which: other identified staff					1		1			2
5	Total remuneration of identified staff	203,225	484,984	688,209		340,100		134,193	295,984		1,458,486
6	Of which: variable remuneration	0	54,564	54,564		16,275		4,482	16,007		91,328
7	Of which: fixed remuneration	203,225	430,420	633,645		323,825		129,711	279,977		1,367,158

4 Attestation

Each of the Directors listed below, confirms that to the best of their knowledge that, the disclosures provided according to Disclosure (CRR) Part of the PRA Rulebook (CRR) Instrument 2021 have been prepared in accordance with the internal control processes agreed upon at the management body level.

Approved by the Marsden Building Society Board and signed by their order.

N Walker
Finance Director

C A Ritchie
Audit & Compliance Committee Chair

29 March 2023

Contact

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