Marsden Building Society

# Pillar 3 Disclosure

31 December 2023

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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 2023.

## 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 & Compliance 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

| | | **2023** | 2022 |
|---|---|---|---|
| | | **£000** | £000 |
| | **Available own funds (amounts)** | | |
| 1 | Common Equity Tier 1 (CET1) capital | **53,078** | 50,713 |
| 2 | Tier 1 capital | **53,078** | 50,713 |
| 3 | Total capital | **53,690** | 51,280 |
| | **Risk-weighted exposure amounts** | | |
| 4 | Total risk-weighted exposure amount | **251,373** | 243,506 |
| | **Capital ratios (as a percentage of risk-weighted exposure amount)** | | |
| 5 | Common Equity Tier 1 ratio (%) | **21.12%** | 20.83% |
| 6 | Tier 1 ratio (%) | **21.12%** | 20.83% |
| 7 | Total capital ratio (%) | **21.36%** | 21.06% |
| | **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 (%) | **1.17%** | 0.64% |
| UK 9a | Systemic risk buffer (%) | **0.00%** | 0.00% |
| 11 | Combined buffer requirement (%) | **3.67%** | 3.14% |
| UK 11a | Overall capital requirements (%) | **11.67%** | 11.14% |
| 12 | CET1 available after meeting the total SREP own funds requirements (%) | **13.12%** | 12.83% |
| | **Leverage ratio** | | |
| 13 | Total exposure measure excluding claims on central banks | **649,614** | 636,119 |
| 14 | Leverage ratio excluding claims on central banks (%) | **8.17%** | 7.97% |
| 13a | Total exposure measure including claims on central banks | **749,068** | 733,660 |
| 13b | Leverage ratio including claims on central banks (%) | **7.09%** | 6.91% |
| | **Liquidity Coverage Ratio** | | |
| 15 | Total high-quality liquid assets (HQLA) (Weighted value - average) | **99,246** | 80,881 |
| UK 16a | Cash outflows - Total weighted value | **38,154** | 33,566 |
| UK 16b | Cash inflows - Total weighted value | **6,312** | 9,493 |
| 16 | Total net cash outflows (adjusted value) | **31,842** | 24,073 |
| 17 | Liquidity coverage ratio (%) | **311.68%** | 335.98% |
| | **Net Stable Funding Ratio** | | |
| 18 | Total available stable funding | **703,818** | 688,454 |
| 19 | Total required stable funding | **460,041** | 441,839 |
| 20 | NSFR ratio (%) | **152.99%** | 155.82% |

## 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 |
|---|---|---|---|---|
| | | **2023** | 2022 | **2023** |
| | | **£m** | £m | **£m** |
| 1 | Credit risk (excluding CCR) | **228,478** | 222,771 | **18,278** |
| 2 | Of which the standardised approach | **228,478** | 222,771 | **18,278** |
| 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 | **846** | 1,009 | **68** |
| 7 | Of which the standardised approach | **846** | 1,009 | **68** |
| 8 | Of which internal model method (IMM) | **-** | - | **-** |
| UK 8a | Of which exposures to a CCP | **-** | - | **-** |
| UK 8b | Of which credit valuation adjustment - CVA | **349** | 201 | **28** |
| 9 | Of which other CCR | **-** | - | **-** |
| 15 | Settlement risk | **-** | - | **-** |
| UK 22a | Large exposures | **-** | - | **-** |
| 23 | Operational risk | **22,049** | 19,726 | **1,764** |
| UK 23a | Of which basic indicator approach | **22,049** | 19,726 | **1,764** |
| 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** | **251,373** | 243,506 | **20,110** |

## 2 Risk Management Approach

### 2.1 Risk Appetite 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 each risk category.

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: Aiming to apply a strong control framework that minimises risk, whilst recognising there will still be a low level of residual risk.
- Cautious: Preference for safe options that are low risk prioritised over seeking potential reward.
- Balanced: Preference to seek options that have a degree of safety comparable to potential for reward.
- Open: Willing to consider all potential options and choose the one most likely to deliver objectives even if there are downside risks.
- Adventurous: Eager to be innovative and choose options offering potentially higher business rewards despite greater inherent risk.

The Society's overall Risk Appetite Statement is 'BALANCED'. Within the ten individual risk classifications the Risk Appetite is 'Cautious' for Treasury Credit Risk, Conduct Risk, Operational IT Risk and Reputational Risk and 'Averse' for Operational Financial Crime Risk and 'Balanced' for the remaining five.

The Board is the custodian of members' and key stakeholders' interests 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 and liquidity commitments is tested under various stress scenarios to ensure it will continue to remain financially viable.

The Society is committed to delivering good customer outcomes through excellent quality and value of service. Members remain at the heart of our purpose and strategy. The Society encourages a culture that that promotes behaviour which values and respects colleagues 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 in its Risk Management Framework (RMF), which is aligned to the Strategic Plan both as an initial feed into the planning process and refined as an output of the process. The Board ensure that appetite and metrics are aligned to the overall Strategic objectives. In all risk categories, management and Board use appetite, Regulatory and advisory metrics to understand risks and effectively manage them in everyday decision making and behaviours. The RMF is designed to:

- Set out a clear vision of how we manage risk at the Society

- Promote good risk management culture and practice whilst meeting the expectations of the Regulators
- Facilitate identification, assessment, monitoring and reporting of material risks
- Help staff to understand their role, embedding in day-to-day operations, the importance of following procedures, operating controls and escalating risk events

This is achieved by setting out:

- Risk Focused Governance Structure
- Risk Identification, Monitoring and Reporting
- Three Lines of Defence - Internal Control Framework
- Risk Appetite and metrics

The Risk Management Framework applies to all areas of the business. The Society has adopted a three lines of defence model for managing risks and controls in an organisation. The Society has an Internal Control Framework designed by each department to identify, measure and manage risk within risk appetite. Effective communication across the organisation ensures that the Risk & Controls Register provides a comprehensive account of all key preventative, detective and mitigative controls. Risk Owners evaluate their own key controls and provide an opinion regarding adequacy and effectiveness of key controls and accuracy of current risk scores. The first line responsibilities include:

- Assessing and managing risks within regulatory requirements as they change
- Prompt reporting, managing and learning from incidents
- Preparation of timely management information
- Embedding controls in policies, procedures and training
- Testing and monitoring control effectiveness using suitable sample and frequency
- Validating that controls are operational and effective

The Risk and Compliance Teams provide independent assurance to management, Board and Committees, risk management expertise, challenge and support. This may include assessment of compliance or review of key controls and associated documentary evidence of how they are operating. Reviews are typically segmented by area of the business or type of risk. Support includes the provision of advice, methodologies and insight from the external environment. Challenge involves proactive engagement to confirm the integrity and effectiveness of the control framework.

The Internal Audit function is responsible for independently reviewing the effectiveness of the internal control environment utilising a risk based work programme to provide assurance. This will include reviews of key areas such as cyber security, MCOB and regulatory reporting. Internal Audit provide an objective view of practice at the Society, benchmarking of peer group practice, presentations, insight and advice regarding changing regulatory expectations, to assist in the continuous improvement of the control framework.

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

#### 2.3.2.1 Macro-Economic Context

During 2023, CPI fell from 9.2% to 4.2% and wage inflation in H2 was higher than CPI. This mitigated the worst impacts of cost of living crisis so the Society's arrears performance remained very strong. House price inflation experienced some turbulence in 2023 but annual HPI ended the year up 1.7%, albeit with a decline in Q4. Unemployment reduced from 3.9% to 3.8% during 2023 with rises expected in 2024. GDP remained low and with the final two quarters showing negative movement, the UK went into recession. Expectations for 2024 are for a degree of stability. Bank of England rate rose from 3.5% to 5.25% and because of the persistent inflationary pressures in the economy, rates are only expected to start to gradually fall in H2 2024. The macro-economic context may impact the Society as follows:

- Inflation over recent years has significantly increased our cost base and at the same time external factors have made competition in the market more intense. This creates a degree of margin pressure between mortgage and savings rates.
- Combination of increasing unemployment, low GDP and slowly reducing inflation and interest rates, may put increased pressure on mortgage payments, increasing arrears.
- Perception of stability rather than improvement, may reduce consumer confidence, making growth in mortgage business more challenging and impacting our ability to invest in the business.

Key controls and mitigation actions are summarised as follows:

- We have cross trained colleagues to provide contingency resource should arrears start to increase. 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. 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.
- We have become increasingly agile in product positioning on both sides of the balance sheet, to take advantage of opportunities in the market as they emerge. We are increasingly focussed on funding volume and mortgage margin in order to achieve optimum growth rather than maximum growth.
- We continue to focus on core mortgage niches, where our underwriting expertise are strongest, so that we do not compromise quality of lending, thereby protecting us from the worst impacts of economic volatility.

#### 2.3.2.2 Business Risk

Business Risk relates to sustainability of the Society. The risk is of insufficient long-term profitability to maintain capital adequacy and balance sheet growth to maintain investment. The principal drivers of business risk are failure to: adopt an appropriate business model; invest appropriately in the future; set appropriate strategic goals and targets; or adapt to external events or meet stakeholder expectations. Key controls and mitigation actions are summarised as follows:

- The Society maintains a strong strategic planning process, which includes a focal strategy event each year.
- The Board monitors delivery of strategic plans and objectives.
- Stress Testing and monitoring of position to Board Risk Appetite is monitored routinely.

#### 2.3.2.3 Mortgage Credit Risk (including Climate Change and Concentration)

Mortgage Credit Risk is the risk of loss if a borrower fails to make timely repayment of a loan, credit commitment or other contractual obligation as it falls due. Concentration Risk is the risk of loss due to large exposure to an individual or group of connected individuals that are affected by a common issue (e.g. property price falls or large employer closes in a specific area). The most significant element of Climate Change Risk to the Society is considered to relate to the value and saleability of properties taken as security for mortgages from physical risks (e.g. flood, subsidence and coastal erosion) or transitional risks (e.g.

changes in behaviour and demands of Members, Regulators and Government relating to energy efficiency). Key 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 and inclination to continue to be able to afford their mortgage repayments in a stressed environment and the value of the Society's security.
- The Society has a series of Board approved risk appetite, regulatory and advisory limits, which are monitored on an ongoing basis, targeting a balanced portfolio of assets, predominantly lower LTV and appropriately diverse.
- The Society has increased its focus on climate change risk, engaging an external consultancy to help assess the impact of climate change (e.g. through flood, coastal erosion, subsidence, energy efficiency and insurability) on its lending portfolio under a range of different climate change scenarios. We have used this assessment to calculate the potential capital impact to ensure we are protected.
- The Society has also taken a range of actions to improve our impact on the environment.

#### 2.3.2.4 Treasury Credit Risk

Treasury Credit Risk is the risk of loss if a treasury counterparty fails to make timely repayment of a loan or other credit commitment. Prudential regulation provides protection for the UK Banking System, although the risk of counterparty default remains. Key controls and mitigation actions are summarised as follows:

- Risk is managed in line with Financial Risk Management Policy and risk appetite.
- The significant majority of exposures are with the Bank of England alongside limited short-term deposits with approved Bank counterparties domiciled and authorised in the UK.

#### 2.3.2.5 Liquidity & Funding Risk

Liquidity Risk is the risk that the Society does not have sufficient financial resources available in terms of quality or quantity to meet its liabilities as they fall due or can only secure them at an excessive cost. Funding Risk is the risk that the Society cannot secure sufficient long term, stable funding for lending needs, at a rate that is affordable. The primary liquidity risks arise from the nature of the retail funding, its maturity profile and the extent to which customers would seek to withdraw funds in a stressed scenario. Key controls and mitigation actions are summarised as follows:

- The Society manages this risk by maintaining adequate liquidity in High Quality Liquid Assets based on forecasting under stressed conditions, adequate overnight balances in clearing banks, a high level of prepositioned assets with the Bank of England as contingency, managing maturity profile through tranches and maintaining a high quality, sticky funding book, with a relatively low proportion of unprotected funds, available online or on easy access.
- The Society has a specific plan for prepayment of Term Funding Scheme with additional incentives for SME's (TFSME) across 2024 and 2025.

#### 2.3.2.6 Interest Rate Risk

Interest Rate Risk arising from non-trading book activities is the current and prospective risk of a negative impact to the institution's economic value of equity, or to the institution's net interest income, taking market value changes into account as appropriate, which arise from adverse movements in interest rates affecting interest rate sensitive instruments, including gap risk, basis risk and option risk. Gap Risk results from the term structure of interest rate sensitive instruments that arises from differences in the timing of their rate changes, covering changes to the term structure of interest rates occurring consistently across the yield curve (parallel risk) or differentially by period (non-parallel risk). Basis Risk arises from the impact of relative changes in interest rates on interest rate sensitive instruments that have similar tenors but are priced using different interest rate indices. Basis risk arises from the imperfect correlation in the adjustment of the rates earned and paid on different interest rate sensitive instruments with otherwise similar rate change characteristics. Option Risk arises from options (embedded and explicit), where the institution or its customer can alter the level and timing of their cash flows, namely the risk arising from interest rate sensitive instruments where the holder will almost certainly exercise the option if it is in their financial interest to do so (embedded or explicit automatic options) and the risk arising from flexibility embedded implicitly or within the terms of interest rate sensitive instruments, such that changes in interest rates may affect a change in the behaviour of the client (embedded behavioural option risk).

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 liquid assets. Volatility in market expectations may impact the actual margin through imperfect timing of the interest rate hedge. Key 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 to reduce basis risk and 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 using a range of scenarios to ensure it remains within appetite.

2.3.2.7 Operational Risk

Operational Risk is the risk of loss arising from failed or inadequate processes, systems and controls or from external events including legal risk. Our focus is on cyber security, people, IT resilience and financial crime prevention. It includes The Information Security Framework suite of documents and Business Continuity Plan are the key documents approved by Risk Committee. Operational Financial Crime Risk is the risk of loss arising from failed or inadequate financial crime prevention systems and controls or external events including legal risk. The Financial Crime Prevention Policy is the key policy.

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. Key controls and mitigation actions are summarised as follows:

- The Society has an adequate policy, procedure and training framework in place, together with a comprehensive preventative, detective and mitigative control framework. The Society continues to invest in systems infrastructure and adequate resourcing for change management, business as usual and strategic ambition.
- The Society has undertaken Operational Resilience Self-Assessment including Business Impact Assessments to identify Important Business Services, set specific impact tolerances, carried out resource mapping, scenario testing and vulnerability remediation.
- The Society's Cyber Security Strategy is based around the National Cyber Security Centre's (NCSC) framework pillars and current best practice.

#### 2.3.2.8 Conduct Risk

Conduct risk is the risk of delivering detrimental outcomes to customers. It is increasingly synonymous with Consumer Duty, which is focussed on evidencing good outcomes. Outcomes are usually derived from colleague 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. Key controls and mitigation actions are summarised as follows:

- The Society has policies, procedures and training in place to ensure delivery of fair customer outcomes.
- We use a range of metrics to evidence good outcomes and monitor for potentially poor outcomes.
- The Society's Compliance function is in place to ensure that the Society and staff comply with all applicable legislation and regulation.

# 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 once during the financial year to 31 December 2023.

### 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 22 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
- Members of the Senior Leadership Team 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. Under Scheme 1 (All colleagues): where a colleague is not assessed as 'on track' with objectives the payment will not be made. Under Scheme 2 (Executive Directors): The bonus is paid based on criteria set by the Board each year, including overall performance of the Society, including business and risk management objectives which may not be paid if the criteria are not met.

## 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 2023 operated within the Society remuneration policy, with ratios for annual variable remuneration ranging from 0-30%.

### 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

Scheme 2: Executive Directors

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 | 8 | 3 | 11 | 0 |
| 2 | | Total fixed remuneration | 234,360 | 596,327 | 793,447 | 0 |
| 3 | | Of which: cash-based | 234,360 | 488,076 | 578,264 | 0 |
| 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 | 108,251 | 215,183 | 0 |
| 9 | Variable remuneration | Number of identified staff | 0 | 3 | 11 | 0 |
| 10 | | Total variable remuneration | 0 | 38,747 | 22,988 | 0 |
| 11 | | Of which: cash-based | 0 | 38,747 | 22,988 | 0 |
| 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 | | 234,360 | 635,074 | 816,435 | 0 |

### 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 | 8 | 3 | 11 | | 2 | | 6 | 3 | | 22 |
| 2 | Of which: members of the MB | 8 | 3 | 11 | | | | | | | 11 |
| 3 | Of which: other senior management | | | | | 2 | | 6 | 3 | | 11 |
| 4 | Of which: other identified staff | | | | | | | | | | |
| 5 | Total remuneration of identified staff | 234,360 | 635,074 | 869,434 | | 137,519 | | 347,460 | 331,456 | | 1,685,869 |
| 6 | Of which: variable remuneration | 0 | 38,747 | 38,747 | | 4,593 | | 11,595 | 6,800 | | 61,735 |
| 7 | Of which: fixed remuneration | 234,360 | 596,327 | 830,687 | | 132,926 | | 335,865 | 324,656 | | 1,624,134 |

## 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

M Sullivan
Audit & Compliance Committee Chair

27 March 2024

**Contact**

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