Marsden Building Society

Pillar 3 Disclosure

31 December 2021

CONTENTS

Executive Summary 3
1 Overview 4
1.1 Background 4
1.2 Scope of Application, Basis and Frequency of Disclosures 4
1.3 Changes to Disclosure Requirements 4
2 Risk Management 5
2.1 Risk Management Framework 5
2.1.1 Strategic Overview 5
2.1.2 Risk Management Strategic Principles 5
2.1.3 Three Lines of Defence Model 6
2.2 Risk Governance Structure 7
2.2.1 Board of Directors 7
2.2.2 Board Committees 7
2.2.3 Management Committees 8
2.3 Principal Risk Overview 9
3 Capital Resources 11
3.1 Regulatory Capital 11
3.2 Reconciliation of Regulatory Capital 11
4 Capital Requirements 12
4.1 Approach to assessment of adequacy of capital 12
4.2 Total Capital Requirement (TCR) 12
4.3 Credit Risk Capital Requirement 13
4.4 Operational Risk Capital Requirement 15
4.5 Credit Valuation Adjustment (CVA) Capital Requirement 15
4.6 Capital Buffers 15
4.6.1 Capital Conservation Buffer (CCB) 15
4.6.2 Countercyclical Buffer (CCyB) 15
4.7 Leverage Ratio 16
5 Risk Management Objectives and Policies 17
5.1 Strategic Risk 17
5.1.1 COVID-19, Brexit and the Impact on the Economic Environment 17
5.1.2 Competition 17
5.1.3 Climate change 17

5.2 Credit & Concentration Risk 18
5.2.1 Mortgage Credit & Concentration Risk 18
5.2.2 Market Counterparty Credit & Concentration Risk 21
5.3 Interest Rate Risk in the Banking Book 23
5.4 Liquidity Risk 24
5.4.1 Liquidity Risk 24
5.4.2 Asset Encumbrance 24
5.5 Pension Risk 25
5.6 Operational Risk and Resilience 26
5.7 Cyber Risk 26
5.8 Conduct Risk 26
6 Remuneration 27
7 Contacts 27

Executive Summary

Key metrics	31 December 2021 (£m)	31 December 2020 (£m)
Available Capital		
Common Equity Tier 1 (CET1)	45.218	42.142
Tier 2	0.415	0.433
Total Capital	45.633	42.575
Total Risk Weighted Assets	235.578	213.939
Capital Ratios		
CET1 Ratio	19.19%	19.70%
Total Capital Ratio	19.37%	19.90%
Leverage Ratio		
Leverage Ratio Exposure Measure	700.062	641.706
Leverage Ratio	6.46%	6.57%
Liquidity Coverage Ratio		
Total High Quality Liquid Assets (HQLA)	80.925	82.846
Total Net Cash Outflow	23.814	21.116
Liquidity Coverage Ratio	339.8%	392.3%

1 Overview

1.1 Background

The European Union Capital Requirements Directive (CRD) came into effect on 1 January 2007. This introduced both consistent capital adequacy standards and a common supervisory framework in the European Union (EU).

This was replaced by the Capital Requirements Regulation (CRR, 575/2013) and Capital Requirements Directive (CRD, 2013/36/EU), together known as CRD IV, on 1 January 2014.
CRD V was then published in November 2016.

Following the signing of the EU-UK withdrawal agreement, on 24 January 2020, the Brexit transition period ran until 31 December 2020 during which the UK continued to be subject to EU rules. From 1 January 2021, the Marsden Building Society is regulated under the onshored CRR and associated onshore binding technical standards which were created by the European Union (Withdrawal) Act 2018 and a number of amending statutory instruments.
The CRD consists of three 'Pillars' detailed within the table below:

PILLAR 1	PILLAR 2	PILLAR 3
Minimum Capital Requirements	Supervisory Review Process	Disclosure

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.

1.2 Scope of Application, Basis and Frequency of Disclosures

This document sets out the Pillar 3 Disclosures for Marsden Building Society in accordance with the requirements of Part VIII of the CRR and the Society Pillar 3 Disclosure Policy.

This disclosure document applies only to Marsden Building Society (FRN 206050). All figures within this document are correct as at 31 December 2021 unless otherwise stated. Disclosures are issued on an annual basis, unless more frequent disclosure is deemed warranted by the Board and published in conjunction with the Annual Report and Accounts.

These disclosures have been reviewed by the Society's Board and are published on the Society Website (www.themarsden.co.uk). These disclosures are not subject to external audit except where they are equivalent to those prepared under accounting requirements for inclusion within the Annual Accounts.

1.3 Changes to Disclosure Requirements

The Society continues to develop its disclosures to ensure they are as clear and informative as possible. The CRD set disclosure requirements for Financial Institutions, which are included within this document or the annual report and accounts as appropriate. The form and content of this document will vary at 31 December 2022 to take into account the requirements of the onshored CRR and associated onshore binding technical standards which were created by the European Union (Withdrawal) Act 2018 and a number of amending statutory instruments.

2 Risk Management

2.1 Risk Management Framework

2.1.1 Strategic Overview

The Society defines risk as the possibility that events will occur that adversely affect the achievement of strategy and business objectives.

The Society is committed to managing risk in line with statutory/regulatory requirements, to enable the Board to discharge their obligations under the UK Corporate Governance Code in respect of principal risks, to the extent that member's interests are best served and it is cost effective to do so. The Society seeks to adopt and build on industry best practice wherever possible, and to manage risk in a way that reinforces, and ensures delivery of, the Society's values: making lasting positive impressions, sustainable decision making, passion, teamwork and accountability.

2.1.2 Risk Management Strategic Principles

To effectively manage risk, the Society:

- Sets out a clear statement of risk appetite to provide clear guidance on the level of risk to which the Society is willing to be exposed, aligning this to the business objectives and strategy;
- Implements, where appropriate, limits (for example lending and financial risk limits) to ensure that activities are undertaken within risk appetite;
- Considers opportunities to take risks where this is within appetite and where there is appropriate reward or benefit to members;
- Promotes a risk aware culture. Defining risk management requirements in simple, clear terms and communicating this to all staff;
- Utilises a range of risk treatment options including controls designed to reduce a risk's likelihood and/or consequences, insurance and outsourcing; and
- Includes the management of risk amongst the criteria for assessing performance and setting remuneration for all employees;
- Utilises a range of risk treatment options including controls designed to reduce a risk's likelihood and/or consequences, insurance and outsourcing; and
- Conducts independent assessment of the efficiency and effectiveness of the risk management and control processes adopted; and
- Requires the Board (at least annually) to conduct a review of the effectiveness of the Society's system of internal control and to report to members that it has done so.

2.1.3 Three Lines of Defence Model

All staff are responsible for the management of risk within the Society. Within this, the Society operates an industry best practice "three lines of defence" model:

First Line of Defence:

The first line of defence “owns” the risk and is responsible for:

- The identification, assessment and management of risk within the Society;
- Implementing actions and controls to ensure the effective management of risk on a day-to-day basis;
- Ensuring compliance with the risk management framework and associated policies;
- Ensuring that all activities are undertaken within risk appetite;
- Undertake risk assessments and quality assurance; and
- Implement corrective actions to address deficiencies and any control breakdowns.

Second Line of defence:

The second line of defence is comprised of the Society’s Risk and Compliance functions who are responsible for:

- Independent oversight and challenge on the management of risk by the first line.
- Setting and maintaining the risk management framework and associated policies
- Setting out and gaining Board approval for risk appetite and associated limits
- Providing risk reporting to senior management and the Board
- Ensuring compliance with applicable laws and regulations

Third line of defence:

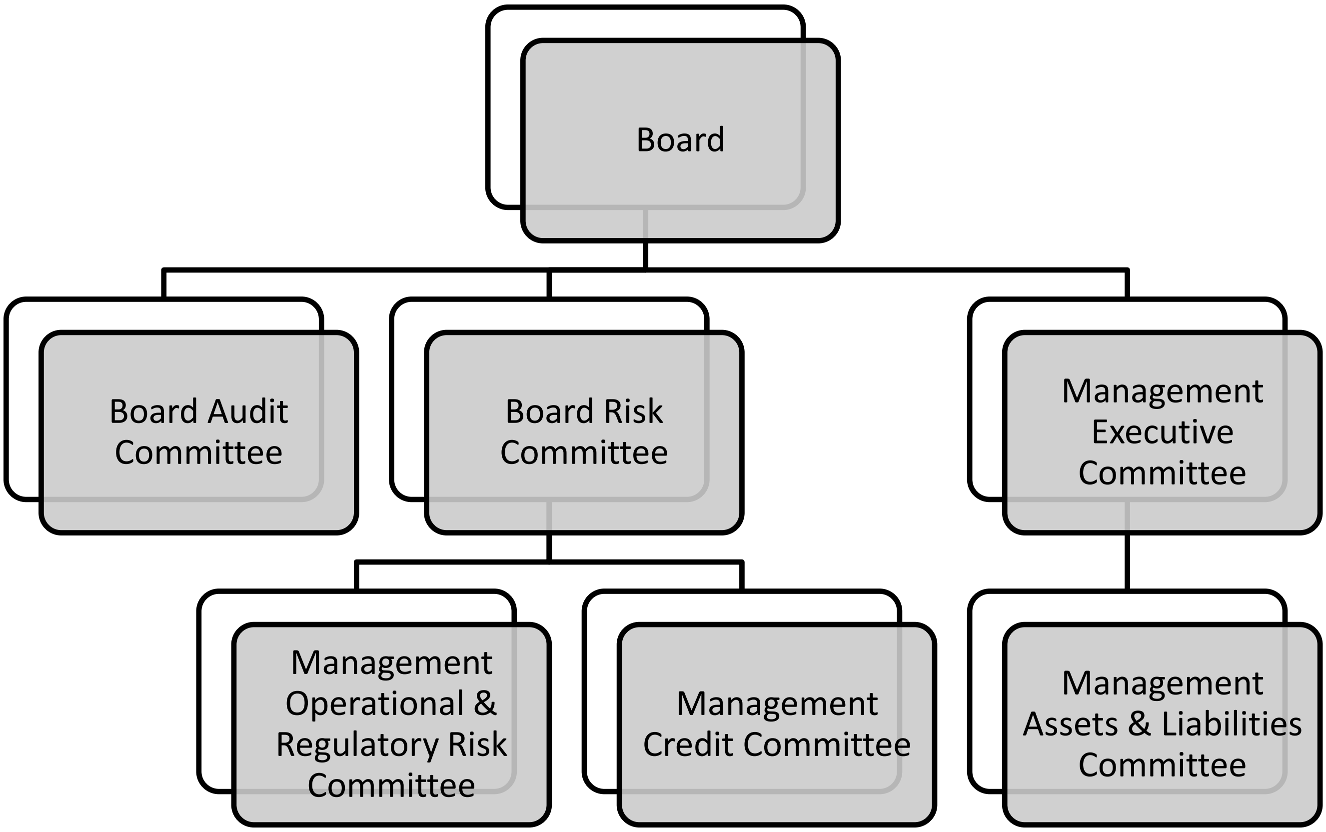
The third line of defence, currently provided by RSM, provides independent assurance to the Board of the adequacy and effectiveness of systems and controls via the Board Audit & Compliance Committee.

2.2 Risk Governance Structure

2.2.1 Board of Directors

The below summary is an overview of the roles and responsibilities of the relevant Board and Management Committees. It is not an exhaustive list of committees or individuals with risk management responsibility, nor are all aspects of each role listed.

The Board of Directors is responsible for overall risk management and internal control, and for reporting on both to members in the annual financial statements. Also responsible for determining which types of risk are acceptable and which are not; defining appetite; fostering an appropriate risk culture; and approving the Internal Capital Adequacy Assessment Process (ICAAP), Individual Liquidity Adequacy Assessment Process (ILAAP) and Recovery Planning. The Board monitors the role of Management in identification, monitoring and review of major risks facing the Society through the following Committee Structure, further details of which are provided below:



2.2.2 Board Committees

2.2.2.1 Board Risk Committee

Responsible for the risk management framework, monitoring and oversight of significant risk positions and advising the Board on overall and local risk appetite. Reviews and recommends to the Board in relation to the Internal Capital Adequacy Assessment Process (ICAAP), Individual Liquidity Adequacy Assessment Process (ILAAP) and Recovery Planning.

2.2.2.2 Board, Audit and Compliance Committee

Responsible for ensuring that monitoring of the effectiveness of systems and controls over the whole risk universe, in particular control over significant risks is effective.

2.2.3 Management Committees

2.2.3.1 Executive Committee

The management committee responsible for monitoring and review of strategic risks prior to review at Board.

2.2.3.2 Assets & Liabilities Committee

The management committee responsible for identifying, managing and controlling all of the Society's balance sheet risks and capital management in executing its chosen business strategy. Balance sheet risks are managed by setting limits, monitoring exposures and implementing controls across the dimensions of capital, credit, funding, liquidity and interest rate risk.

2.2.3.3 Credit Risk Committee

Responsible for reviewing changes in the credit risk profile of the Society, discussing and, where appropriate, recommending changes to lending policy.

2.2.3.4 Operational & Regulatory Risk Committee

The management committee responsible for monitoring and review of operational and regulatory risks prior to review at the Board Risk Committee.

2.3 Principal Risk Overview

The table below lists sets out the risks faced by the Society:

Risk	Description	Reference
Strategic (including, competition and concentration risk	Strategic risks are those risks that are most consequential to the organisation's ability to execute its strategies and achieve its business objectives. These are the risk exposures that can ultimately affect member value or the viability of the organisation.	Section 5.1 Page 17
Climate Change	Risks arising from the impacts of climate change, through either long-term shifts in the climate or as a result of transitioning to a low carbon economy.	Section 5.1 Page 17
Credit	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 risk that Market Counterparties will fail to meet their obligations as they fall due and subsequently default resulting in a loss.	Section 5.2 Pages 18-22
Interest Rate	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	Section 5.3 Page 23
Liquidity	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. This includes funding and asset encumbrance risks	Section 5.4 Pages 24-25
Capital	The risk that the Society is holding insufficient levels of capital.	Sections 3 & 4 Pages 11-17
Pension	The risk that the Society will be required to provide additional funds to meet its obligations due to a change in actuarial assumptions	Section 5.5 Page 25
Operational & Business Continuity	The risk of loss resulting from inadequate or failed internal processes and systems. The risk of suffering disruption to business or incurring loss as a result of failure to implement effective controls to enable ongoing operations before and during execution of disaster recovery.	Section 5.6 Page 26
Cyber, Information Security & Information Technology	The risk of i) harm to the Society as a result of breaches of, or attacks on, information systems. Ii) loss of data due to inadequate security arrangements iii) failure to achieve business objectives attributable to the use, ownership, operation, involvement, influence and adoption of IT within the Society including performance/availability, system/project delivery and realisation of benefits/enabling efficiency/enabling access to markets	Section 5.7 Page 26

Conduct	Any action, either by the Society or staff, that leads to customer detriment or has an adverse impact on market stability or effective competition. “The wrong products ending up in the wrong hands and the detriment to people of not being able to get access to the right products”	Section 5.8 Page 26
Financial Crime & Fraud	Risks associated with; i) criminals using the financial system to facilitate illegal activities. For example, money laundering, human trafficking or terrorist financing; ii) either internal or external fraud	Section 5.6 Page 26
People & Resources	The risk of failure to achieve business objectives attributable to key person dependencies, insufficient or inappropriately skilled staff.	Section 5.6 Page 26
Legal & Regulatory	The potential for negative publicity or public perception to have an impact on the Society.	Section 5.6 Page 26
Supply Chain	The risk of not selecting appropriate supply chains in line withcompany values or that suppliers/service providers do not deliver to required standards or timetables.	Section 5.6 Page 26
Model Risk	The potential for adverse consequences to arise as a result ofdecisions based on either incorrect or misused model outputs.	Section 5.6 Page 26

3 Capital Resources

3.1 Regulatory Capital

At 31 December 2021 the Capital Resources of the Society are broken down as follows:

	2021 (£m)	2020 (£m)
Common Equity Tier 1 Capital (CET 1)		
General Reserves	45.322	42.242
Intangible Assets	(0.104)	(0.100)
Total Tier 1	45.218	42.142
Tier 2 Capital		
Collective Impairment Provisions	0.415	0.433
Total Tier 2 Capital	0.415	0.433
Total Tier 1 and Tier 2 Capital (Total Capital)	45.633	42.575

3.2 Reconciliation of Regulatory Capital

	2021 (£m)	2020 (£m)
Total Reserves in the Statement of Financial Position		
General Reserves	45.322	42.242
Total Reserves	45.322	42.242
Intangible Assets	(0.104)	(0.100)
Collective Impairment Provisions	0.415	0.433
Regulatory Capital	45.633	42.575

4 Capital Requirements

4.1 Approach to assessment of adequacy of capital

Internal capital is held to protect the solvency of the Society. Capital is required not only to meet the Society's business requirements, cover unexpected and possible losses but also to ensure that sufficient regulatory capital is available to satisfy the Society's obligations. Accordingly, the Society needs to generate and retain a sufficient profit to add to the General Reserve which becomes the main source of capital. The Society utilises a five year Business Plan, the content of which is reviewed at least annually by the Board, taking account of changes in the business and economic environment. The plan establishes strategic and business objectives. It is an essential part of this process to ensure that the Society has sufficient financial and non- financial resources to meet these objectives.

The Society's Internal Capital Adequacy Assessment Process (ICAAP) ensures that the capital resources of the Society are sufficient to support its Business Plan both in normal and stressed conditions. The process reviews objectives and projects the capital requirement for all material risks, both in normal and stressed conditions, over the planning period. This ensures that the potential risk and associated capital requirements are consistent with the capital resources available. The ICAAP is submitted to the Board for approval with the necessary supporting stress testing. Having regard to the projected capital requirement within the ICAAP and any Individual Capital Guidance provided by the Prudential Regulation Authority (PRA), the Board sets an internal limit for the minimum amount of regulatory capital. This limit is in excess of the level required by the PRA providing a further amount of capital above the required level.

4.2 Total Capital Requirement (TCR)

The TCR is set by the Society's regulator as part of the Supervisory Review and Evaluation Process (SREP). The requirement comprises of a variable capital requirement as a proportion of risk weighted assets (RWA's) and a fixed element. The table below sets out the Society's TCR.

All figures £m unless indicated otherwise	2021	2020
Risk Weighted Assets (RWA)		
Credit Risk RWA (£m)	218.029	198.077
Operational Risk RWA (£m)	17.549	15.862
Total Risk Weighted Assets (£m)	235.578	213.939
Capital Requirements		
Pillar 1 Variable Capital Requirement	8.00%	8.00%
Pillar 2 Variable Capital Requirement	0.00%	0.00%
Pillar 2 Fixed Capital Requirement (£m)	0.171	0.167
Total Capital Requirement (TCR) (£m)	19.017	17.282
Capital Resources		
Total Capital Resources (£m)	45.633	42.575
Excess over Capital Requirements (£m)	26.616	25.293

In terms of quality of capital Article 92 of the Capital Requirements Regulations require a Core Tier 1 requirement of 4.5% (56.25%), a Total Tier 1 requirement of 6% (75%) and a Total Capital Ratio of 8% (100%).

The Society is required to hold a minimum of £10.697m in Core Equity Tier 1 Capital (2020: £9.721m), a minimum of £14.263m in Tier 1 Capital (including the minimum CET1 plus £3.566m Tier 1) and a maximum of £4.754m in Tier 2 Capital (2020: £12.962m Tier 1 and £4.320m Tier 2).

Regulatory Capital held by the Society at the balance sheet date was £45.633m of which £45.218m was CET1 and £0.415m Tier 2, well in excess of Individual Capital Guidance (2020: £42.575m of which £42.142m CET1 and £0.433m Tier 2).

4.3 Credit Risk Capital Requirement

The Society adopted the Standardised Approach to calculation of credit risk weightings from 1 January 2008, the Board having reviewed the requirements to implement the Internal Ratings Based approach to credit risk and concluded that the cost to the Society of complying with the requirements currently exceeds any possible benefit.

Credit risk using the standardised approach is assessed using the following formula:

Credit risk capital requirement = exposure value x the risk weight (depending on type of asset, counterparty, maturity, security and LTV) x 8%. The table below shows the minimum capital requirement for credit risk by exposure class.

Exposure Class	Exposure (£m)	Risk Weighted Asset (£m)	Capital (£m)
Statement of Financial Position:			
Treasury Assets			
Central Government/Central Banks	80.933	-	-
Institutions	5.201	1.040	0.083
Derivative asset replacement cost	0.825	0.254	0.020
Total Treasury Assets	**86.859**	**1.294**	**0.103**
Real Estate, Retail and Past Due Assets			
Residential Real Estate - Performing	606.507	212.277	16.982
Retail (Secured by Real Estate Collateral)	0.188	0.141	0.011
Residential Real Estate - Past Due	0.561	0.561	0.045
Commercial Real Estate – Performing	0.799	0.799	0.064
Commercial Real Estate – Past Due	0.000	0.000	0.000
Total Real Estate, Retail and Past Due Assets *1	**608.055**	**213.778**	**17.102**
Other Assets			
Other Items	2.511	2.407	0.193
Total Other Assets	**2.511**	**2.407**	**0.193**
Total Statement of Financial Position	**697.525**	**217.225**	**17.398**
Off Balance Sheet:			
Derivatives credit valuation adjustment	0.345	0.461	0.037
Secured on Real Estate (Pipeline)	21.946	0.089	0.007
Total Off Balance Sheet	**23.116**	**0.460**	**0.044**
Total Exposure Value	**719.816**	**218.029**	**17.442**

*1 Assets are gross of general loss provisions of £0.415m at 31 December 2021

Credit risk, the risk of loss arising from the failure of customers or counterparties to meet their obligations to the Society, is of paramount importance. The total credit risk exposure is £719.816m. This reconciles to the Annual Report and Accounts as follows:

	£m
Exposure Amount as per Basel II	**719.816**
Less:	
Derivatives credit valuation adjustment	(0.345)
Off Balance Sheet Pipeline	(21.946)
Statement of Financial Position exposure as per Basel II	**697.525**
Less:	
General Mortgage Loss Provisions	(0.415)
Total Society Assets as at 31 December 2021	**697.110**

The exposures in each asset class as at 31 December 2021 and average exposures held in each asset class during the financial year is detailed below.

Exposure Class	2021 Total Exposure (£m)	2021 Average Exposure (£m)	2020 Total Exposure (£m)	2020 Average Exposure (£m)
Statement of Financial Position:				
Treasury Assets				
Central Government/Central Banks	80.933	75.748	82.849	82.270
Institutions	5.201	6.646	6.674	6.895
Derivative asset replacement cost	0.825	0.344	0.001	0.000
Total Treasury Assets	**86.959**	**82.738**	**89.524**	**89.165**
Real Estate, Retail and Past Due Assets				
Residential Real Estate - Performing	606.507	586.911	542.293	505.671
Retail (Secured by Real Estate Collateral)	0.188	0.831	1.712	1.738
Residential Real Estate - Past Due	0.561	0.966	1.435	0.903
Commercial Real Estate – Performing	0.799	0.827	0.896	0.973
Commercial Real Estate – Past Due	0.000	0.000	0.000	0.000
Total Real Estate, Retail and Past Due Assets	**608.055**	**589.535**	**546.336**	**509.285**
Other Assets				
Other Items	2.511	2.701	3.124	2.927
Total Other Assets	**2.511**	**2.701**	**3.124**	**2.927**
Total Statement of Financial Position	**697.525**	**674.974**	**638.984**	**601.377**
Off Balance Sheet:				
Derivatives credit valuation adjustment	0.345	0.294	0.205	0.129
Secured on Real Estate (Pipeline)	21.946	22.259	25.061	24.066
Total Off Balance Sheet	**22.291**	**22.553**	**25.266**	**24.195**
Total Exposure Value	**719.816**	**697.527**	**664.250**	**625.572**

4.4 Operational Risk Capital Requirement

The Society uses the Basic Indicator Approach (BIA) for the calculation of capital required to cover Operational Risk under Pillar 1. Operational Risk Capital Requirement = Net Interest and Net Non-interest income over the past three accounting periods x 15% x 8%. The Society's minimum capital requirement for Operational Risk under the basic indicator approach is:

All figures £m unless indicated otherwise	2021	2020
Three years prior	8.648	7.316
Two years prior	9.416	8.648
Prior year	10.014	9.416
Basic Indicator (3 year average)	9.359	8.460
Own funds requirement (15% Basic Indicator)	1.404	1.269
Operational Risk RWA's	17.549	15.862

4.5 Credit Valuation Adjustment (CVA) Capital Requirement

Under the CRR, credit institutions and investment firms are required to hold additional own funds due to CVA risk arising from Over The Counter (OTC) derivatives.

An overview of the CVA capital requirement is detailed below:

All figures £m unless indicated otherwise	2021	2020
All portfolios subject to the standardised method (RWA)	0.461	0.140
CVA Capital Requirement	0.037	0.011

4.6 Capital Buffers

4.6.1 Capital Conservation Buffer (CCB)

The purpose of the CCB Buffer is to ensure firms hold sufficient capital to withstand future shocks without breaching their minimum capital guidance requirements. The CCB is set as a percentage of Total RWA's.

At 31 December 2021 the CCB was 2.5%.

4.6.2 Countercyclical Buffer (CCyB)

The purpose of the CCYB is to limit excessive credit growth in the market or by the individual firm. It is set as a percentage of RWAs. The Institution Specific CCyB is calculated as the weighted average of the buffers in effect in the jurisdictions in which the borrower is resident on the exposure amount. As a result of the Society's exposure to Residential and Buy to Let Lending secured on UK property to UK Expatriates resident outside the UK, this involves a number of jurisdictions where a CCyB rate is set and a number where it is not. In jurisdictions where a CCyB is set a number have reduced the rate to zero in the year due to the global pandemic.

At 31 December 2021 the weighted average CCyB was 0.020% of Total RWA's.

4.7 Leverage Ratio

The CRD framework requires firms to calculate a simple, transparent, non-risk based leverage ratio that is a supplementary measure to the risk-based capital requirements. The ratio is defined as the Capital Measure divided by the Exposure Measure, with this ratio expressed as a percentage.

CRD requires a minimum leverage ratio of 3% and at 31 December 2021 the Society had a leverage ratio of 6.46% (2020: 6.57%).

Table LRSum: Summary Reconciliation of accounting assets and leverage ratio exposures	**2021 (£m)**	**2020 (£m)**
Total assets per the financial statements	697.110	638.550
Adjustments for derivative financial instruments	0.345	0.206
Adjustments for off balance sheet items	2.296	2.617
Adjustments for other assets	0.311	0.333
Leverage ratio total exposure measure	**700.062**	**641.706**

Table LRCom: Leverage ratio common disclosure	**2021 (£m)**	**2020 (£m)**
On balance sheet items (excluding derivatives and SFT's but including collateral)	696.700	638.983
Asset amounts deducted from Tier 1 Capital	(0.104)	(0.100)
Total on balance sheet exposures (excluding derivatives and SFT's)	**696.596**	**638.884**
Replacement cost of derivative transactions	0.825	0.001
Add on amounts for PFE associated with derivative transactions	0.345	0.205
Total derivative exposures	**1.170**	**0.206**
Off balance sheet exposures at gross notional amount		
Adjustments for conversion to credit equivalent amounts		
Total off balance sheet exposures	**2.296**	**2.617**
Tier 1 Capital	**45.218**	**42.142**
Total Exposures	**700.062**	**641.706**
Leverage Ratio	**6.46%**	**6.57%**

Table LRSpl: Split-up of on balance sheet exposures (excluding derivatives)	**2021 (£m)**	**2020 (£m)**
Total on balance sheet exposures (excluding derivatives)	696.700	638.983
Total Trading book exposures	-	-
Total on banking book exposures (excluding derivatives)	**696.700**	**638.983**
Of which:		
Exposures treated as sovereigns	80.933	82.849
Institutions	5.201	6.674
Secured by mortgages on immovable properties	607.494	544.901
Exposures in default	0.561	1.435
Other exposures	2.511	3.124

5 Risk Management Objectives and Policies

5.1 Strategic Risk

Strategic risks are those risks that are most consequential to the organisation's ability to execute its strategies and achieve its business objectives. These are the risk exposures that can ultimately affect member value or the viability of the organisation.

The principal strategic risks facing the Society are summarised below:

5.1.1 Economic Environment

Levels of Global and UK activity returned to their pre-COVID-19 levels towards the end of last year. The emergence of the Omicron variant is expected to have depressed activity somewhat in December and January but its economic impact is likely to be limited and of short duration, and UK GDP is expected to recover in February and March such that output returns to its pre-pandemic level once again by the end of the first quarter. Inflation is rising and is expected to increase further as a result of energy and tradeable goods prices. Interest rates are forecast to rise steadily during 2022. This impacts the Society in a number of ways including:

- The prospect of rising interest rates causing an increase in demand for fixed rate mortgage lending and a short term reduction in demand for fixed term deposits resulting in the Society having to depart from its traditional matched funding strategy to increased use of interest rate swaps. This narrows margins and reduces earnings stability.
- Increased risk of loss of margin on the timing of execution of hedge activity, whether through fixed term retail funding or execution of interest rate swaps.
- Increased mortgage repayments and higher outgoings, most notably energy prices, reducing affordability and increasing the risk of mortgage arrears and defaults. Should inflation remain persistent and interest rates rise further in response there is also the risk of a broader downturn, increased unemployment and reductions in house prices.

5.1.2 Competition

Competition in the mortgage and retail savings markets are anticipated to increase, with funding costs rising following closure of the TFSME window and considerable supply into the mortgage market moderating mortgage pricing and volume. This will impact the ability of the Society to grow mortgage assets with headwinds anticipated in achievement of targeted gross lending and retention volumes and margins.

5.1.3 Climate change

The principal emerging strategic risk is Climate Change. The risks to the Society arising from Climate change are recognised in terms of both physical 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. 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 assessment of physical risks is currently relatively benign however transition risks as a result of changes in policy and regulation are anticipated to increase as government policy change is formalised and implements, for example in relation to Minimum EPC ratings for the private rented sector.

5.2 Credit & Concentration Risk

5.2.1 Mortgage Credit & Concentration Risk

The Society is exposed to 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 and Guernsey economies leading to higher unemployment and falling house prices which would result in increased arrears and impairment losses.

Risk control and mitigation is exercised by the following means:

- All mortgage loans are manually 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 COVID-19 on credit portfolios is yet to be seen and the recovery is likely to be uneven across sectors. The Society continues to monitor loan book performance closely.

5.2.1.1 Geographic Concentration Risk

A high level exposure to a single borrower or a particular type of loan may create a concentration risk. The Society's lending portfolio is heavily concentrated on residential mortgages representing a product concentration risk.

The Marsden is a regional Society but ensures that lending is spread across England and Wales to avoid any high level local concentrations. A detailed analysis of lending by region is set out below. The geographic distribution of assets secured by real estate as at 31 December 2021, separated by material industry type and including details of mortgages past due, is detailed below. A loan is past due when it is 3 months or more in arrears.

Loans Secured on Residential Property

Geographical Area	Performing (£000)	Past Due (£000)	Total (£000)
North	17,516	-	17,516
Yorkshire & Humberside	40,057	-	40,057
North West	75,912	108	76,020
East Midlands	33,029	-	33,029
West Midlands	41,100	-	41,100
East Anglia	19,553	-	19,553
South West	62,213	362	62,575
South East	153,060	428	153,488
Greater London	113,094	-	113,094
Wales	25,013	-	25,013
Guernsey	26,149	-	26,149
Total	**606,696**	**898**	**607,594**

Loans Secured on Commercial Real Estate

Geographical Area	Performing (£000)	Past Due (£000)	Total (£000)
Yorkshire & Humberside	320	-	320
North West	479	-	479
Total	**799**	**-**	**799**

5.2.1.2 Maturity Analysis

A residual maturity breakdown of combined exposures to loans secured on real estate and past due loans as at 31 December 2021 is detailed below:

	(£m)
In not more than 3 months	4.584
In more than 3 months but not more than one year	11.358
In more than 1 year but not more than 5 years	95.487
In more than 5 years	497.140
	608.569
Less: provisions	(0.753)
Total	**607.816**

5.2.1.3 Provisioning

Provisions for losses are based upon an appraisal of loans, advances and other assets and provided for on an incurred loss basis.

	Loans Secured on Residential Property (£m)	**Other Loans Fully Secured on Land (£m)**	**Total (£m)**
At 01 January 2021			
Individual Impairment	0.004	0.043	0.047
Collective Impairment	0.429	0.004	0.433
Total	**0.433**	**0.047**	**0.480**
Written Off			
Individual Impairment	(1)	-	(1)
Collective Impairment	-	-	-
Total	**(1)**	**-**	**(1)**
Movement			
Individual Impairment	0.335	(0.043)	0.292
Collective Impairment	(0.022)	0.004	(0.018)
Total	**0.313**	**(0.039)**	**0.274**
At 31 December 2021			
Individual Impairment	0.338	-	0.338
Collective Impairment	0.407	0.008	0.415
Total	**0.745**	**0.008**	**0.753**

Individual provisions of £0.338m have been utilised to adjust downwards the value of the exposure used in capital calculations.

At each reporting date, the Society assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is ‘impaired’ when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired include:

- significant financial difficulty of the borrower or issuer;
- default or delinquency by a borrower;

- breach of contract or terms;
- the restructuring of a loan or advance by the Society on terms that the Society would not consider otherwise, including forbearance granted to the borrower or issuer;
- indications that a borrower or issuer will enter bankruptcy;
- observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuer in the Society, or economic conditions that correlate with defaults in the Society; or
- Any other information discovered during regular review suggesting a risk of loss in the short to medium term.

The Society considers evidence of impairment for loans and advances at both a specific asset and a collective level. All individually significant loans and advances are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances that are not individually significant are collectively assessed for impairment by grouping together loans and advances with similar risk characteristics.

In assessing collective impairment, the Society uses relevant peer group experience for comparable groups of assets due to the lack of a material amount of historical trends of probability of default, the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than is suggested by peer group experience. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. In considering expected future cashflow, account is taken of any discount required against the value of the security at the statement of financial position date thought necessary to achieve as sale, anticipated foreclosure timing, anticipated realisation costs and amounts recoverable under mortgage indemnity policies.

Loans and advances in the statement of financial position are shown net of provisions, individual and collective. The charge or credit to the income statement comprises the movement in the provisions together with the losses written off in the year.

5.2.2 Market Counterparty Credit & Concentration Risk

The Society is exposed to the risk that Market Counterparties will fail to meet their obligations as they fall due and subsequently default resulting in a loss. Credit risk arises primarily from the lending of liquid assets, entering into interest rate swaps with or insuring risks with financial institutions.

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.

Risk control and mitigation is exercised by the following means:

- Liquidity invested according to a Board approved policy and risk appetite
- A significant majority of liquidity is invested with the Bank of England and UK Government Treasury Bills
- Limited short term deposits with approved Bank and Building Society counterparties domiciled and authorised in the UK

5.2.2.1 External Credit Assessment Institutions (ECAI's)

The Society has nominated Fitch Ratings as its External Credit Assessment Institution (ECAI).

Fitch Ratings are applied to the following standardised credit risk exposure classes:

- Central Government/Central Banks
- Regional Governments/Local Authorities
- Institutions

A summary of the credit risk exposure at 31 December 2021 associated with each of the six credit quality steps is detailed below:

Credit Quality Step	Fitch Rating	Central Government/ Central Banks (£m)	Regional Government/ Local Authorities (£m)	Institutions (£m)	Total (£m)
1	AAA to AA-	80.933	-	1.162	82.095
2	A+ to A-	-	-	5.209	5.209
3	BBB+ to BBB-	-	-	-	-
4	BB+ to BB-	-	-	-	-
5	B+ to B-	-	-	-	-
6	CCC+ and below	-	-	-	-
Unrated	-	-	-	-	-
Total		**80.933**	**-**	**6.371**	**87.304**

The Society has no credit quality exposures within credit quality steps 3 to 6. Unrated exposures are limited to unrated UK building societies.

5.2.2.2 Geographic Concentration Risk

The distribution of Treasury Assets by exposure class as at 31 December 2021 is detailed below:

Geographical Area	Central Government/ Central Banks (£m)	Regional Government/ Local Authorities (£m)	Institutions (£m)	Total (£m)
United Kingdom	80.933	-	6.371	87.304
European Union (excl .UK)	-	-	-	-
Non European Union	-	-	-	-
Total	**80.933**	**-**	**6.371**	**87.304**

5.2.2.3 Maturity Analysis

A residual maturity breakdown of exposures to Credit Institutions as at 31 December 2021 is detailed below:

	(£m)
Repayable on Demand	5.201
In not more than 3 months	-
In more than 3 months but not more than one year	0.077
In more then one year but less than five years	1.093
Total	**6.371**

5.3 Interest Rate Risk in the Banking Book

IRRBB 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 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, mainly 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 to deviate from plan due to the timing of the interest rate hedge.

Risk control and mitigation is exercised by the following means:

- 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
- 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

The Society ensures compliance with risk appetite through monitoring interest rate risk exposure by the Management Assets and Liabilities Committee across Economic Value, Earnings and Basis Risk. In addition to this a range of variations in different interest rate bases outside the control of the Society are stressed, including SONIA and Bank Rate Exposures. Balance sheet composition is also monitored to determine the extent to which the Society maintains control over the level of interest rates across the balance sheet through administered rate mortgages and savings balances.

The following is an analysis of the Society's sensitivity to an increase or decrease in market rates assuming no non-parallel movement in yield curves, deviation from base behavioural prepayment assumptions and a constant financial position.

Sensitivity of reported reserves to +200bps interest rate movement (economic value)	2021 £000	2020 £000
At 31 December	**(488)**	**(306)**
Average for the period	**(329)**	**(86)**
Maximum for the period	**135**	**309**
Minimum for the period	**(636)**	**(564)**

Sensitivity of projected net interest income to +100bps interest rate movement (earnings)	2021 £000	2020 £000
At 31 December	**256**	**466**
Average for the period	**364**	**457**
Maximum for the period	**627**	**576**
Minimum for the period	**206**	**368**

The Society only deals with products denominated in sterling so is not directly affected by currency risk. Society products are also only interest orientated products so are not exposed to other pricing risks.

5.4 Liquidity Risk

5.4.1 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. These obligations include share and deposit balances and mortgage lending commitments.

Risk control and mitigation is exercised by the following means:

- Continuous forecasting of cashflow requirements and assessment of retail and wholesale funding risk, in particular the characteristics of the 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 sections of the Financial Risk Management Policy and Board Risk Appetite
- Periodic stress testing is performed to ensure obligations can be met in both normal and stressed circumstances.

The Liquidity Coverage ratio is a measure designed to ensure a common reporting standard for banks and building societies under the European Capital Requirements Regulation (CRR) and a key component of liquidity regulation under CRD.

The measure is designed to ensure that banks and building societies have sufficient high quality unencumbered liquid assets to meet a stressed liabilities outflow over a 30 day time horizon.

High Quality Assets are stocks of assets which can quickly be converted into cash within the market and have an appropriate reduction in value under the measure to recognise realisation and the qualifying stock is known as the Liquidity Buffer.

The table below sets out the Society’s average quarterly Liquidity Coverage Ratio for the 12month period ending 31 December 2021.

Liquidity Coverage Ratio %	31-Mar-21 (£m)	30-Jun-21 (£m)	30-Sep-21 (£m)	31-Dec-21 (£m)
Liquidity Buffer	78.505	71.159	72.877	77.549
Total Net Cash Outflows	25.694	21.202	22.441	21.011
Liquidity Coverage Ratio %	305.5%	335.6%	324.7%	369.1%

5.4.2 Asset Encumbrance

Asset encumbrance is the risk that unsecured creditors are unable to benefit from liquidation of encumbered assets in the event of insolvency and encumbered assets are not available to secure emergency liquidity in case of an unforeseen stress event

The Society has pledged part of its loan book as collateral with the Bank of England, in order to participate in the both the Sterling Monetary Framework and other schemes such as the Term Funding Scheme with additional incentives for SMEs (TFSME). These schemes provide the Society with an additional source of funding. Although the loans remain fully owned and administered by the Society they are classified as encumbered.

Details of encumbered and unencumbered assets and sources of encumbrance using median values of quarterly data during the 12 months preceding 31 December 2021 and, as a result, may differ from other information provided in this disclosure.

Overview of Encumbered and Unencumbered Assets	Encumbered Assets		Unencumbered Assets	
	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets of the Reporting Institution	89.457	-	591.204	-
Loans on demand	-	-	76.909	-
Equity Instruments	-	-	-	-
Debt securities	-	-	-	
Loans and advances other than on demand	89.407	-	511.221	-
Other Assets	0.050	-	3.074	-

Sources of Encumbrance	Matching Liabilities, contingent liabilities or securities lent	Assets and collateral received encumbered
Carrying amount of selected financial liabilities	61.428	89.457

5.5 Pension Risk

The Society contributes to a defined contribution group personal pension scheme which is open to contracted employees over eighteen years of age. The Scheme is funded separately through a life assurance company and the funding is independent of the Society's finances. The Society's contributions are charged against profits in the year in which they are made.

The Society pays to certain pensioners amounts outside of the Society pension scheme. The cost of these pensions is provided for in the provision for liabilities.

5.6 Operational Risk and Resilience

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The scope of operational risks includes legal and regulatory, financial crime, business continuity, information technology & security, people and resources, process, supply chain and model risk.

Operational resilience is the Society's ability to maintain important business services in the event of experiencing adverse external or internal events.

With COVID19 operational risk has increased as the Society has moved much of the Principal Office staff to working from home.

Risk control and mitigation is exercised by the following means:

- The Society has processes and procedures in place to manage operational losses, and the effectiveness of these controls are managed through the Operational and Regulatory 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 how working and changes to working practice additional controls have been implemented to manage risk.

5.7 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.

Risk control and mitigation is exercised by the following means:

- 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'.

5.8 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, to ensure that the systems and controls in place both prevent and detect misconduct and to ensure that all staff adhere to the FCA's conduct rules at all times.

Risk control and mitigation is exercised by the following means:

- 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.

6 Remuneration

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

The Society seeks to ensure that its remuneration decisions are in line with its business strategy and long term objectives, and consistent with the Society's current financial condition and future prospects. It also seeks to establish an appropriate balance between the fixed and variable elements of remuneration. The level of variable remuneration 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. Guaranteed incentive payments do not form part of any remuneration package and all incentive schemes are non-contractual.

Information concerning the mandate of the Board People, Remuneration and Conduct Committee (PRCC) and the decision-making process it uses in determining the remuneration policy for the executive directors and the rest of the Senior Management Team (SMT), and, information on the link between pay and performance, is contained in the Directors' Remuneration Report in the Society's Annual Report and Accounts 2021.

The PRCC has determined the individuals performing roles designated as being code staff at 31 December 2022. The following table sets out the aggregate quantitative remuneration for the code staff for the period 1 January 2021 to 31 December 2021 and the number of beneficiaries.

Staff Type	Number	Fixed Remuneration	Variable Remuneration	Total Remuneration
Non-executive Directors	7	202,217	-	202,217
Executive Directors	2	428,306	51,323	479,629
Other Senior Managers	7	709,407	36,695	746,102
Total	16	1,339,930	88,018	1,427,948

In the case of the Executive Directors and other senior managers, fixed remuneration includes pension contributions made by the Society on behalf of the employees, and the value of taxable benefits.

7 Contacts

Should you have any questions please contact:

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