Dominique Bijou - Litigation & Recoveries Agent

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1. Introduction

1 Overview

The disclosures in this document meet the Society's obligations under Pillar 3, which applies to banks and building societies and complements the minimum capital requirements in Pillar 1 and the Society's specific capital requirements in Pillar 2.

1.1 Legislative framework

The Capital Requirements Regulations (CRR) sets out capital requirements and asks institutions to disclose risk management policies, procedures and performance, including the main risks faced by the Society.

The Capital Requirements Directive (CRD) incorporates three main pillars, these are identified as:

- Pillar 1: Minimal regulatory capital requirements that firms are required to meet in relation to credit, market and operational risks;
- Pillar 2: Requires firms to consider additional capital against risks not covered in Pillar 1 through the assessment of capital requirements by the Society through the Internal Capital Adequacy Process (ICAAP) and the Prudential Regulation Authority (PRA) through the Supervisory Review and Evaluation Process (SREP). Pillar 2 capital requirements include capital buffers that can be utilised to absorb losses in the event of stressed conditions; and
- Pillar 3: Requires firms to publicly disclose key information on their capital, risk exposure, risk assessment processes and remuneration arrangements.

1.2 Basis and frequency of disclosures

This document presents The Nottingham's 2022 Pillar 3 disclosures as laid out in the Disclosure (CRR) Part of the PRA's Rulebook. The Society is authorised by the PRA (firm registration number 200785) and regulated by the Financial Conduct Authority (FCA).

The Society meets the criteria for being classified as a 'Small and Non-Complex' institution, therefore the annual disclosure templates have been prepared in accordance with Article 433b of the PRA's Rulebook.

Article 432(2) of the PRA Rulebook on non-material, proprietary or confidential information permits institutions to omit one or more items where those items include information that is regarded as proprietary or confidential. No mandatory disclosures or references have been omitted on this basis with non-applicable reporting left blank.

The Pillar 3 disclosures are based upon the Society's balance sheet at 31 December 2022, unless otherwise stated. Pillar 3 disclosures are issued on a semi-annual basis in conjunction with the publication of the Interim Financial Report or the Annual Report and Accounts and in accordance with regulatory guidelines.

1.3 Scope of application

The disclosure requirements in this document apply to the Nottingham Building Society ("The Nottingham", "the Society"). The principal office of the Society is Nottingham House, 3 Fulforth Street, Nottingham NG1 3DL.

The following company is a special purpose vehicle (SPV) established in connection with the Society's securitisation programme. Although The Nottingham has no direct or indirect ownership interest in this company, it is accounted for as a subsidiary of the Nottingham Building Society; this is because the SPV is principally engaged in providing a source of funding to the Society, which in substance means that the Society is exposed to the rights of variable returns from its involvement in the SPV and it has the ability to affect those returns through its power over the entity.

Name of SPV	Nature of business
Arrow Mortgage Finance No. 1 Limited	Secured Funding Vehicle

There is no significant risk transfer associated with the securitisation and therefore, for the purposes of regulatory capital and Pillar 3 disclosures, the SPV is consolidated and included within the Society's disclosures.

1. Introduction

1.4 Future developments

The Society's business activities and future plans are viewed alongside new future legislation to monitor and manage the impact when implemented. Since the global financial crisis, the Basel Committee on Banking Supervision (BCBS) have been developing the Basel framework to strengthen the regulation, supervision and risk management of banks and building societies. As the UK is a member of the BCBS, Basel 3.1 will take effect in the UK from 1 January 2025.

The Society continues to track and monitor these developments, including the PRA's consultation, CP16/22 – 'Implementation of the Basel 3.1 standards', with significant changes proposed on the standardised approaches covering different exposure types, most notably for credit risk, the credit valuation adjustment ('CVA') and operational risk.

The PRA has defined a simple firm under the PRA's 'Strong & Simple' framework, effective from 1 January 2025, which implements a simpler-regime giving eligible institutions opportunity to choose between being subject to the Basel 3.1 standards or being subject to the Transitional Capital Regime that would be in place until the implementation of a permanent risk-based capital framework. The Society is currently reviewing these proposals and will adopt the appropriate capital regime in due course.

1.5 Location and verification

These disclosures and the Annual Report and Accounts are published on The Nottingham's website (www.thenottingham.com).

The disclosures have been reviewed and approved by the Board, with information being prepared by first line with oversight and review by second line. The disclosures are not subject to an external audit; however, some of the information included within the disclosures also appears in the Society's Annual Report and Accounts for the year ended 31 December 2022, which is subject to an external audit. Information has been sourced from the Society's Risk Policy Framework, other internal policies, including the People and Development Policy, Remuneration Committee reports, Common Reporting (COREP) returns and Financial Reporting (FINREP) returns.

1.6 Macroeconomic environment

Inflationary pressures, the 'cost of living crisis' and return to a higher interest rate environment create a heightened level of uncertainty in the macroeconomic environment. A slower mortgage market and the need to exercise more forbearance is expected, with increased credit losses a possibility. In addition, potential house price reductions as a result of a less active mortgage market and more conservative consumer behaviour could reduce market buoyancy and further increase competition.

The Nottingham has considered the credit losses that may arise from a significant shock to house prices, increased unemployment and any subsequent increase in arrears and defaults, which may arise as a result of the economic uncertainty and affordability squeeze. The Society undertakes regular stress-testing, conducts an annual Internal Capital Adequacy Assessment Process (ICAAP), regularly assesses the levels of provisions held against bad debts and sets a capital appetite requirement at a level that is designed to be more than adequate to absorb credit losses should they arise. The Society maintains a strong capital position relative to its Overall Capital Requirement (OCR).

2. Key metrics

2 Summary of key metrics

The following table demonstrates The Nottingham's key metrics based on the transitional CRD rules basis. Due to the immaterial difference between versions, the final rules basis has not been disclosed.

Template UK KM1: Key metrics template

		31 December 2022	30 June 2022	31 December 2021
	Available own funds (amounts)	**CRD V Transitional**	**CRD V Transitional**	**CRD IV Transitional**
1	Common Equity Tier 1(CET1) capital (£'m)	222.2	200.4	203.5
2	Tier 1 capital (£'m)	222.2	200.4	205.9
3	Total capital (£'m)	246.1	224.3	227.3
	Risk-weighted exposure amounts			
4	Total risk-weighted exposure amount (£'m)	1,324.8	1,236.0	1,233.5
	Capital ratios *(as a percentage of risk-weighted exposure amount)*			
5	Common Equity Tier 1 ratio (%)	16.8	16.2	16.5
6	Tier 1 ratio (%)	16.8	16.2	16.7
7	Total capital ratio (%)	18.6	18.1	18.4
	Additional own funds requirements based on SREP *(as a percentage of risk-weighted exposure)*			
UK 7a	Additional CET1 SREP requirements (%)	0.6	0.8	0.8
UK 7b	Additional AT1 SREP requirements (%)	-	-	-
UK 7c	Additional T2 SREP requirements (%)	-	-	-
UK 7d	Total SREP own funds requirements (%)	8.6	8.8	8.8
	Combined buffer requirements *(as a percentage of risk-weighted exposure amount)*			
8	Capital conservation buffer (%)	2.5	2.5	2.5
UK 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	-	-	-
9	Institution specific countercyclical capital buffer	1.0	-	-
UK 9a	Systemic risk buffer (%)	-	-	-
10	Global Systemically Important Institution buffer (%)	-	-	-
UK 10a	Other Systemically Important Institution buffer (%)	-	-	-
11	Combined buffer requirement (%)	3.5	2.5	2.5
UK 11a	Overall capital requirements (%)	12.1	11.3	11.3
12	CET1 available after meeting the total SREP own funds requirements (%)	8.2	7.4	7.7
	Leverage ratio			
13	Total exposure measure excluding claims on central banks (£'m)	3,575.6	3,413.6	3,391.3
14	Leverage ratio excluding claims on central banks (%)	6.2	5.9	6.1
	Additional leverage ratio disclosure requirements[1]			
UK 14a	Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)			
UK 14b	Leverage ratio including claims on central banks (%)			
UK 14c	Average leverage ratio excluding claims on central banks (%)			
UK 14d	Average leverage ratio including claims on central banks (%)			
UK 14e	Countercyclical leverage ratio buffer (%)			
	Liquidity Coverage Ratio			
15	Total high-quality liquid assets (HQLA) (Weighted value -average) (£'m)	645.3	573.0	512.1
UK16a	Cash outflows - Total weighted value (£'m)	326.5	273.8	267.9
UK16b	Cash inflows - Total weighted value (£'m)	16.0	16.0	18.3
16	Total net cash outflows (adjusted value) (£'m)	310.1	257.5	249.5
17	Liquidity coverage ratio (%)	212	222	206
	Net Stable Funding Ratio[2]			
18	Total available stable funding			
19	Total required stable funding			
20	NSFR ratio (%)			

[1] Additional leverage ratio disclosure is only reportable by globally systematically important institutions and therefore not applicable to the Society.
[2] Net Stable Funding Ratio disclosures, as addressed by the PRA in PS22/21 – Implementation of Basel standards: Final rules and CP3/22 – Occasional Consultation Paper, are applicable from 2023 and therefore this section is currently not reportable.

2. Key metrics

Overview of movements

Own funds

Total capital increased by £18.8 million in 2022 which is primarily as a result of the profit after tax generated by the Society in 2022 of £15.8 million less the losses observed on treasury assets held at fair value through other comprehensive income of £3.3 million (net of deferred tax). Further information can be found within the Annual Report and Accounts in relation to the underlying performance of the Society.

Risk weighted exposure amounts

The risk-weighted exposure amount has increased by £91.3m (7.4%) during 2022 which is primarily due to the growth in off-balance sheet loan commitments. The profitability of the Society in 2022 also resulted in an increase in the exposure amount for operational risk as this is assessed based on the prior three-year historical net income.

Capital ratios

The total capital ratio has increased to 18.6% at 31 December 2022 compared to 18.4% at 31 December 2021 which is primarily attributable to the growth in capital noted above, offset by an increase in the risk weighted exposure amount.

Buffer requirements

The combined buffer requirement has increased due to the increase in the countercyclical buffer rate to 1.0% at 31 December 2022. There has been no change in the capital conservation buffer rate in 2022.

Leverage ratio

The leverage ratio measure excluding claims on central banks has grown to 6.2% at 31 December 2022 which is primarily driven by the growth in the Society's capital resources outlined above.

Liquidity coverage ratio

The average liquidity coverage ratio in 2022 has remained broadly in line with 2021 and the Society continues to comfortably meet the minimum requirement of 100%.

3. Risk management objectives & policies

3 Risk management objective and policies

3.1 Risk statement and principal risks

The Nottingham recognises risk as a natural consequence of its business activities and environment. It endeavours through positive risk strategies, to manage these in a manner that ensures delivery of its strategic objectives and business plan, whilst protecting members' interests, its financial resource and reputation.

The Board is accountable for ensuring that The Nottingham's risk management and controls are fit for purpose. The Board has delegated responsibilities for oversight of risk management and appoints principal risk owners for the nine risk categories. The main risks defined in the Risk Management Framework (RMF) are:

- Market and Interest Rate (section 3.7)
- Operational (section 3.8)
- Liquidity (section 3.9)
- Strategy (section 3.10)
- Legal, Regulatory and Conduct (section 3.11)
- Model Governance (section 3.12)
- Transformation and Change (section 3.13)
- Capital (section 4 and 5)
- Retail Credit (section 6)

These risks, alongside how the Board manage them, are included within the risk management objectives and policies section of this Pillar 3 document and are also considered in detail within the risk management report included within the 2022 Annual Report and Accounts.

3.2 Declaration on the adequacy of risk management arrangements

In accordance with the requirements of CRR article 435(1)(e), The Nottingham's Board are satisfied that the risk management systems in place are adequate with regards to the Society's profile and strategy.

3.3 Risk management framework (RMF)

The RMF describes how the risk is managed at The Nottingham. The Board is responsible for ensuring that an effective framework is in place to promote and embed an effective risk-aware culture that identifies, appropriately mitigates and manages the risks which the Society faces in the course of delivering its strategic objectives.

The Board also has responsibility for setting The Nottingham's risk appetite, which is defined as "the amount of risk that The Nottingham is willing to accept in the pursuit of its objectives". As a mutual, The Nottingham operates a low-risk business model in pursuit of its purpose of '**together we fight for the extra ordinary to own their own home'**.

The RMF includes both current risks and those associated with the implementation of the strategy. The Board annually reviews and approves the risk appetite statement. In pursuing its strategy, the Board ensures that there are appropriate capabilities and resources available, along with sufficient capital strength to succeed. This includes focusing on risk and reward to ensure it is at an acceptable level.

The Nottingham operates a 'three lines of defence' approach to the allocation of responsibilities for risk identification and management. The three lines of defence work together to reduce the likelihood of poor risk management by ensuring comprehensive coverage across each area of the business, as illustrated below:

Three Lines of Defence	Focus	Summary of core responsibilities
First line of defence: Front Line Function	Control	Day to day management and control of risk
Second line of defence: Risk Management	Oversight	Oversight and challenge of first line of defence
Third line of defence: Internal Audit	Assurance	Independent assurance on the effectiveness of risk management controls and methods of the first two lines of defence.

3. Risk management objectives & policies

The Nottingham's RMF is based on the three lines of defence model covering all aspects of risk management as outlined below and is focused on the following:

Culture

The expected behaviours and attitudes that enable consistent identification, discussion and treatment of risk throughout the organisation.

Oversight

An articulation of how each of the three lines of defence interacts to provide comprehensive oversight of risk management activity.

Governance

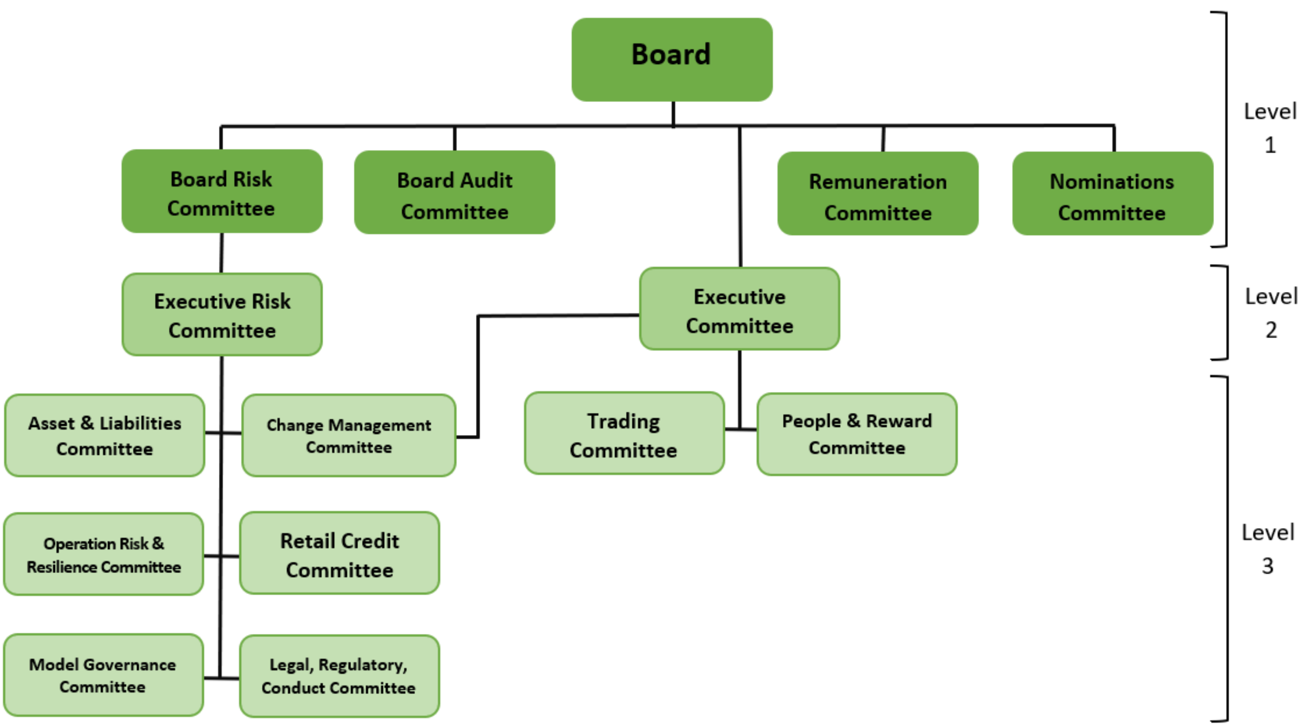
The overarching rules, policies, committee structures, roles and accountabilities by which risk is managed, authority is exercised, and decisions are taken. Governance is further broken down into the following eight components:

No	Focus	Summary of core responsibilities
1	Roles and Responsibilities	Defined roles and responsibilities which clearly articulates how stakeholders interact to provide robust governance.
2	Accountability	Articulation of the delegated authority levels of specific roles, individual accountability and the committee structure put in place to manage risk management.
3	Categorisation	The principal categories of risk to which The Nottingham has the greatest actual or potential exposure.
4	Committee Structure	The implementation of relevant management committees (that actively manage risk within the Society) and oversight committees (whose role is to ensure that management committees are adequately assessing the management risks).
5	Policy and Standards	Documented principles, minimum requirements, roles and accountabilities, including how exceptions are handled.
6	Risk Appetite	The setting, articulation, review, monitoring and approval of thresholds for each category of risk.
7	Methodology	Processes, procedures and tools enabling a consistent approach to identifying, evaluating, treatment and monitoring of risk.
8	Management and Monitoring	Supporting dashboards, reporting and other information that expresses the overall current and future business exposure to risk, including items for management attention.

The Board considers that the risk management arrangements and systems are adequate in relation to the strategy, size and complexity of the Society.

3. Risk management objectives & policies

3.4 Organisation and structure of risk management



The Nottingham's risk committee structure has been designed to support a wide-ranging approach to the identification and management of risk. The Nottingham's governance structure follows two distinct reporting paths. The Executive Committee (ExCo) is responsible for the execution of the Society's strategy, and the Executive Risk Committee (ERC), and has oversight and risk management roles assessing adequacy of risk management where each of the six principal 'management level' risk committees reports to the Board Risk Committee (BRC), through the ERC. It is the responsibility of the BRC to take a society wide view of The Nottingham's overall exposure to risk.

3. Risk management objectives & policies

No	Summary of core responsibilities	Frequency
Board Risk Committee (BRC)	The BRC Is chaired by a Non-Executive Director and is comprised of Non-Executive Directors. It is responsible for principle and key strategic risk identification, management and mitigation.	Quarterly
Board Audit Committee (BAC)	The BAC is chaired by a Non-Executive Director and comprises of Non-Executive Directors. It is responsible for providing support to the Board in its oversight of financial and regulatory reporting and the control environment across the Society.	Quarterly + Adhoc
Executive Committee (ExCo)	The ExCo is chaired by an Executive Director and comprises of all Executive Directors, Executives and relevant senior managers. It is responsible for acting on behalf of the Board in formulating the strategy, the business plan and for organising the Society's assets and resources.	At least monthly
Executive Risk Committee (ERC)	The ERC is chaired by an Executive Director and comprises of all Executive Directors, Executives and relevant senior managers. It is responsible for acting on behalf of the Board and the BRC in the management and oversight of The Nottingham's principal risks.	Minimum 8 times per annum
Retail Credit Committee (RCC)	The RCC is chaired by the Chief Financial Officer and comprises of relevant Executives and senior managers. It is responsible for assisting the ERC and the BRC in the prudent management of The Nottingham's overall retail credit risk with oversight of mortgage lending and reviewing the impact of new lending initiatives.	Monthly
Assets and Liabilities Committee (ALCO)	The ALCO is chaired by the Chief Financial Officer and comprises of Executive Directors and relevant Executives and senior managers. It is responsible for overseeing liquidity risk, market and interest rate risk, wholesale credit risk and its capital sustainability risk.	Monthly
Operational Risk & Resilience Committee (ORRC)	The ORRC is chaired by the Chief Customer Officer and comprises of relevant senior managers. It is responsible for actively overseeing the management of operational risk across The Nottingham.	Monthly
Legal, Regulatory and Conduct Risk Committee (LRC)	The LRC is chaired by the Head of Compliance & DPO and comprises of relevant senior managers. It is responsible for overseeing how the Society conducts its business, ensuring that all customer impacting activities are conducted in a clear, transparent and fair manner, delivering fair outcomes for customers.	Minimum 8 times per annum
Model Governance Committee (MGC)	The MGC is chaired by the Chief Risk Officer & General Counsel and comprises of relevant senior managers. It is responsible for assisting the ERC in the oversight of computer-based models and End User Computing (EUC) applications that are used throughout The Nottingham's strategic and operational activities.	Minimum 4 times per annum
Change Management Committee (CMC)	The CMC is chaired by the Head of Change and comprises of relevant senior managers. It is responsible for the oversight and management of the Transformation and Change risk category to support the effective delivery of the Society's strategy and it reports to the ERC.	Minimum 8 times per annum

3.5 Risk appetite

The Nottingham's overall risk appetite is defined by the Board and documented within the Risk Appetite section of the Board Risk Policy and the detailed risk appetite statements for each of the nine risk categories. The Nottingham's risk appetite needs to reflect the changing economic environment, new business opportunities and evolving strategic objectives.

Secondly, more granular risk policies are approved by the relevant management level risk committees. These risk policies set out the key risks, how they are managed and incorporate further limits and triggers, which are monitored by the individual management level risk committees.

The second line Risk function is responsible for overseeing and monitoring the effectiveness of first line risk management processes including the effective implementation of the RMF.

In addition, the third line of defence reviews the operation of controls during their assessments to provide assurance to the Board that controls are operating as expected or where weaknesses are identified to assist the strengthening of the RMF.

Each risk category is attributed an overall appetite which can be very low, low, moderate or high, and is set in the Board Risk Policy and calculated by reference to a risk assessment matrix of the RMF.

3. Risk management objectives & policies

The Nottingham defines its overall appetite for risk in two ways:

1. Quantitatively, by outlining, in numerical and or financial terms, objective limits for risk taking; and
2. Qualitatively, by outlining in non-numerical terms the basic principles that are adopted by The Nottingham when managing its exposure to risk.

Performance against risk appetite measures and operational limits is reviewed and reported regularly within committee structures.

The Nottingham's strategic objectives and business plan, as approved by the Board, are aligned with its risk appetite. In doing so the risk appetite is consistent with the outcomes of these processes and has been designed to support both the maintenance of The Nottingham's financial position and the achievement of its strategic objectives. This is illustrated in the following diagram:

While the reporting and oversight of audit actions is the responsibility of the BAC, the management and closure of audit actions is undertaken by the ExCo. The risks associated with climate change are considered within the strategy risk category.

The Society does not disclose key ratios and figures relating to its risk appetite, as they are considered to be proprietary information as per article 431 of CRR.

3.6 Risk management strategies

Risk appetite statements, where appropriate, are supported by metrics, which are used to define and measure risk and have associated limits and escalation thresholds. All risk appetite metrics must be readily measurable, reportable and embedded within the management of business functions as appropriate.

The Nottingham has developed processes, procedures and tools to ensure a consistent approach to risk management is adopted across the organisation and the primary risk management processes are detailed below.

The system of record for risks and related information at The Nottingham is the risk management system which is used to capture all risks and KRIs, as well as Risk Acceptances and Risk Events. Detailed procedures and training guides are also held to support the implementation of the processes.

Risk Assessment is the process of identifying, analysing, and evaluating risk to achieve particular objectives within a specific scope or context and takes place at any level of detail. The risk assessment process consists of the following key stages: Identification, Analysis, Evaluation and Treatment.

Risk management and control involves identifying risks and appropriate action must be taken to address those risks using the risk assessment process described above. Valid risk treatment options are as follows:

- Monitor: regular monitoring of risk indicators to ensure that the risk is within stated appetite. Monitoring of risks is the default, minimum treatment for all risks, and will apply to all identified risks.
- Mitigate: creation of an action plan to improve controls to reduce the likelihood and/or the impact of the risk to bring the rating back within appetite. Risk owners are responsible for the implementation of mitigation plans and progress is reviewed by the appropriate risk management committee.
- Accept: on occasions it may not be possible or appropriate to address residual risk that exceeds stated appetite (e.g. due to disproportionate cost to achieve modest reduction in risk or resource constraints resulting in delays to implement mitigation plans). In these situations, formal agreement can be given to operate outside of stated appetite for a prescribed period of time. It should be noted that risk acceptances are not required for metrics or indicators that are outside of tolerance.
- Transfer: implementation of compensating controls to share some or all of the risk with a third party (e.g. via an insurance policy).
- Avoid: removal of the risk altogether by ceasing the activity or materially changing the business environment in some way so as to make the risk no longer valid.

The evaluation of risk must consider the controls in place to mitigate the exposure and to ensure that The Nottingham is operating within the RMF whilst embedding the appropriate strategy and corporate plan to deliver sustainable long-term value to the Society's members.

A consolidated risk profile dashboard is presented to both the ERC and the BRC; it contains a summary of the risk profile for each of the nine risk categories and an overall risk profile rating for The Nottingham.

Risk culture

Risk culture is a foundational aspect of the RMF and is defined as 'the expected behaviours and attitudes that enable consistent identification, discussion and treatment of risk throughout the organisation'.

The Board is responsible for ensuring that appropriate culture and reward systems are in place. The Nottingham's purpose is '**together we fight for the extra ordinary to own their own home'** which is at the heart of The Society's culture with our values embedded into all aspects of work.

Stress testing and planning

The Nottingham uses stress testing and scenario planning to help inform management of the impact from high impact stress events. Stress testing forms an integral part of the corporate planning process to ensure that The Nottingham remains within risk appetite and has sufficient capital and liquid resources to carry out its strategic objectives.

3.7 Market and Interest Rate Risk in the Banking Book

Market risk is the risk of changes to The Nottingham's financial condition caused by fluctuations in values of or income from assets and liabilities due to interest or exchange rates. Differing interest rate characteristics between assets and liabilities, and in particular fixed rate products, expose The Nottingham to the risk of either a reduction in interest income or an increase in interest expense relative to variable rate interest flows. The Nottingham's exposure to exchange rate risk is considered to be negligible as all business is conducted in England and Wales in GBP.

Interest Rate Risk in the Banking Book ('IRRBB') refers to the current or prospective risk to The Nottingham's capital and to its earnings, arising from the impact of adverse movements in interest rates on its banking book. Changes can arise from movements in rates (market risk) and from differences in those changes between different rates (basis risk). The sensitivity to changes in interest rates impact the following activities:

1) Management of the investment of capital and other net non-interest bearing liabilities;
2) Fixed rate savings products;
3) Fixed rate mortgage and treasury lending; and
4) Fixed rate investments.

The Society has adopted the 'Extended' approach to interest rate risk, as defined by the PRA, which aims to undertake hedging of individual transactions within an overall strategy for structural hedging, based on a detailed analysis of the statement of financial position.

Differing interest rate characteristics between assets and liabilities, and in particular fixed rate and market rate products, expose The Nottingham to the risk of reductions in interest income, increases in interest cost and realised or unrealised losses from items held at fair value as interest rates change over time.

The management of balance sheet structure has to combine the competing objectives of delivering a sustainable net interest margin whilst remaining within interest rate risk appetite.

From an interest rate risk viewpoint, a matched balance sheet with a similar mix of administered, fixed and tracker balances, in the savings and mortgage books, would typically represent a low risk "ideal", helping to minimise the impact on income of a rate increase or decrease. Wherever possible we look to match (also known as 'natural' hedging) our fixed and variable assets and liabilities in this way.

In addition to matching, there are common financial instruments that are used for market risk management purposes which include derivative financial instruments (derivatives). The objective of The Nottingham in using derivatives is in accordance with the Building Societies Act 1986 and is to limit the extent to which The Nottingham will be affected by changes in interest rates.

The derivative instruments used by The Nottingham in managing its risk exposures are interest rate swaps. These are used to protect The Nottingham from exposures arising principally from fixed rate mortgage lending, fixed rate savings products and fixed rate wholesale funding. An interest rate swap is a contract to exchange one set of interest rate cash flows for another (i.e. from fixed rate to variable rate or vice versa). Such swaps result in the economic exchange of interest rates and no exchange of principal takes place. Instead, interest payments are based on notional principal amounts agreed at inception of the swap. The duration of the interest rate swap is generally short to medium term and their maturity profile reflects the nature of the exposures arising from the underlying business activities.

The Nottingham applies fair value hedging techniques to reduce its exposure to interest rate risk. To minimise the risk of increasing or decreasing interest rates on fixed rate mortgages, savings bonds or funding, the Society deals a fair value interest rate hedge which converts fixed into variable interest to reduce the exposure to interest rate risk.

The Prudential Risk team is responsible for the day-to-day oversight of market risks with the management of interest rate risk based on a full statement of financial position gap analysis. The statement of financial position is subjected to a range of stress tests, including a 2% parallel shift in interest rates on a weekly basis and standardised regulatory stress testing is performed quarterly. The results are measured against the risk appetite for market risk which is currently set at a maximum of 4.0% of capital. In addition, management review interest rate basis risk and its potential impact on earnings. Risk positions are reviewed monthly by the ALCO and reported through to the ERC and BRC.

A Board approved policy statement defines the maximum acceptable level of interest rate risk as well as the steps that may be taken to reduce it. The Nottingham's sensitivity to this measurement (in terms of economic value) when subject to a 2% shift up in interest rate was £5.1m at 31 December 2022 (2021: £0.1m) and when subject to a 2% shift down in interest rate was £(6.1)m at 31 December 2022 (2021: £(0.1)m). The increase in interest rate risk is due to the mismatch between fixed rate assets and liabilities and the stressed outcomes fall within the Society's approved risk appetite.

3.8 Operational risk

The disclosures in this section have been prepared in accordance with the guidance set out in template UK ORA - Qualitative information on operational risk. The Nottingham defines operational risk as the risk of loss resulting from human factors, inadequate or failed internal processes and systems, or from external events. Operational risk exists in every aspect of The Nottingham's business activities. Proactive management of operational risk is essential in helping the Society achieve both short-term operational objectives and longer-term strategic goals.

To ensure the effective monitoring and reporting of risk, all business areas are required to maintain functional risk registers. These documents include an assessment of the key risks faced by each functional area and an evaluation of the controls in place to ensure that risks are managed within risk appetite. The functional risk registers are used by management to document the effective management of both risks and controls within their business areas. These risk registers help management assess the probability and impact of the risks identified, and the effectiveness of mitigating controls.

The Operational Risk & Resilience Committee (ORRC), which comprises executive directors and relevant senior managers, oversees the management of operational risk. In so doing it monitors a range of management information and other reports on The Nottingham's operational risk exposures. It also reviews the results of the operational risk scenario analysis that is performed for the purposes of The Nottingham's Internal Capital Adequacy Assessment Process. The ORRC reports regularly to the ERC and then to the BRC that in turn reports to the Board.

The Nottingham calculates its operational risk requirements using the Basic Indicator Approach with minimum (Pillar 1) capital requirements reported in template UK OV1.

3.9 Liquidity risk

Liquidity risk is the risk that The Nottingham will not have sufficient financial resources available to meet its obligations as they fall due, under either normal business conditions or a stressed environment.

It is The Nottingham's policy that an appropriate amount and mix of liquidity is held in order to:

- Meet obligations as they fall due (including any unexpected adverse cash flow or stressed environment);
- Smooth out the effect of maturity mismatches; and
- Maintain public confidence in a stressed environment.

The monitoring of the liquidity policy is performed regularly as set out in the Board approved risk appetite and policy statements. Compliance with these policies is reported to the ALCO monthly, and also to the ERC and BRC.

The Nottingham maintains a diverse funding base and ensures compliance with applicable regulatory requirements. Defined control limits determine the overall level of liquidity to be maintained. The base level and composition of The Nottingham's liquidity is subject to the PRA's guidance. The Nottingham's Internal Liquidity Adequacy Assessment Process (ILAAP) is reviewed annually and approved by the BRC. The ILAAP forms a central part of The Nottingham's risk management and includes stress testing which analyses a range of severe scenarios to confirm that The Nottingham holds an adequate amount of available liquidity.

Furthermore, The Nottingham has documented within its Recovery and Resolution Plan metrics that would indicate an emerging market-wide or Nottingham-specific stress events. The Plan includes a range of options available to The Nottingham in the event of such a liquidity stress to ensure an adequate level of liquidity is maintained.

The Nottingham is required to be compliant with the Liquidity Coverage Ratio (LCR), which measures the amount of high-quality liquid assets relative to estimated net stressed cash outflows within a 30-day period.

The Nottingham also calculates and monitors the Net Stable Funding Ratio (NSFR), which calculates the Society's available stable funding as a proportion of its required stable funding based on the characteristics of the Society's assets.

3.10 Strategy risk

Strategic risk is the risk that The Nottingham does not have an appropriate strategy and corporate plan to deliver sustainable long-term value to members and/or fails to effectively implement and execute the strategy.

The Nottingham's strategy articulates the long-term goals of the Society through which it can deliver its vision and fulfil its purpose. It is the responsibility of the Board to derive the strategy and ensure that the strategy is aligned to the Society's vision and purpose and reflects any external requirements (such as regulatory or legal requirements). Exposure to risks is an inevitable consequence of The Nottingham performing its business activities. The strategic direction pursued by The Nottingham results in a number of specific strategic risk exposures; these include external threats or those arising from a flawed or poorly implemented strategy.

The ERC and the BRC, acting under delegated authority from the Board, oversees the risks associated with deriving and delivering the strategy, and ensures they are managed to within approved appetites.

Strategic risk includes the risk of unexpected changes in the external environment that have the potential to impact The Nottingham's business model either through the level of demand for the Society's products and services and/or its ability to meet it. The Society looks to mitigate its exposure this risk by having a diverse range of products and services so that its income source is not reliant on one product or one area of its business.

Climate change risk is also captured under Strategic risk and is discussed further in the climate change section below.

The ERC and BRC oversee the detailed evaluation of these risks.

3. Risk management objectives & policies

3.11 Legal, regulatory and conduct risk

Legal risks are the risks associated with the failure to meet the contractual obligations of The Nottingham resulting in financial liability or litigation and risks associated with the failure to put in place appropriate insurance policies to mitigate legal liability.

Regulatory risks are the risk of loss from failure to comply with statutory and regulatory requirements. The Nottingham, being a retailer of mortgage, savings and insurance products, is regulated by the PRA and the FCA and as such must comply with relevant policies. The Nottingham must also comply with the relevant sections of the Building Societies Act 1986 and other legal requirements.

Conduct risk is the risk that The Nottingham does not conduct its business activities in a clear, transparent and fair manner. The Nottingham must ensure it complies with the FCA's Principles of Business (PRIN).

Each business area is responsible for ensuring compliance with all regulatory and legal requirements that impact its area of operations. Oversight of the business is undertaken by the Compliance function. On a quarterly basis, Legal, Regulatory & Conduct Risk Committee (LRC) reviews the Society's performance in this area, covering specific issues that have arisen and ensure that changing regulations are captured through effective horizon scanning.

The LRC, supports the BRC through the ERC by overseeing the manner in which The Nottingham conducts business with its members and customers. It achieves this by ensuring effective governance and control frameworks are in place, maintained and monitored. In addition, the Committee will identify and drive actions to address priorities for improvement that will enable The Nottingham to deliver and sustain self-imposed targets in customer satisfaction and ensuring good customer outcomes.

3.12 Model governance risk

The Nottingham's RMF identifies Model Governance Risk as a principal risk. The objective of the Model Governance Risk Policy (MGRP) is to provide a governance framework to effectively manage model risk at The Nottingham and defines model risk as the potential loss an institution may incur, as a consequence of decisions that could be principally based on the output of models and End-User Computing (EUC) applications, due to errors in the development, implementation or use of such models and applications.

The Nottingham has a low appetite for model governance risk and makes resources available to mitigate model governance risks to an acceptable level primarily within the constraints of cost and the impact to The Nottingham and its customers.

The Nottingham sets limits and thresholds in relation to adherence within key aspects of the model governance framework. The qualitative assessment would take into consideration (but not exclusively) the following:

- Accuracy and completeness of the inventory;
- Severity of any findings raised by second-line Risk in relation to material models and timely remediation by model owners;
- Compliance with approval schedule of the most material models; and
- Consideration of the severity and materiality of risk events logged in latest reporting period.

The Society's Model Governance Framework is primarily overseen by the Model Governance Committee (MGC) with management information provided on a minimum of a quarterly basis to facilitate effective oversight, supported by other governance committees and authorised by the ERC, with key models subject to external development and review by specialist third parties where appropriate.

3.13 Transformation and change risk

Transformation and change risk is the risk that The Nottingham is adversely affected due to the failed or ineffective implementation of change or programmes of change.

The Nottingham's change activity is underpinned by the Project Risk Management framework, which champions clear responsibilities, regular and transparent status reporting and a high level of oversight and scrutiny by members of the Executive team and the Board.

The Change Management Committee (previously known as the Reinvention Committee) is responsible for the oversight and management of this risk category; for which it reports to the ERC. This committee monitors the delivery execution and operational tolerance impact of transformational, large and small business change through the effective control of a portfolio of change activity.

3.14 Other notable risks

3.14.1 Pension obligation risk

Pension obligation risk is the risk that there may be a shortfall with respect to meeting the benefits that are due to members of a defined benefit pension scheme.

The Nottingham operates a contributory defined benefit pension scheme which closed to new members in 1997 and closed to future service accrual in 2009. The membership consists of pensioners and individuals with deferred benefits.

The Nottingham is exposed to the risk that it will need to make further unexpected future contributions to the scheme. The risk may arise from a number of factors including:

- A fall in the discount rate increasing the present value of the scheme's liabilities;
- An increase in life expectancy increasing the present value of scheme liabilities; and
- A fall in equity prices reducing the fair value of the scheme's assets.

The Nottingham holds an additional amount of capital under Pillar 2 in recognition of this risk and uses independent actuarial advice to advise on the risks that may lead to an increase in the deficit. This assessment is reviewed by both ALCO and the Board.

3.14.2 Climate change risk

The Nottingham's Board is ultimately accountable for all climate change related matters. The ExCo is responsible for determining the Society's strategic response to climate change and overseeing day to day management of climate-related activities. The BRC and the ERC are responsible for the oversight of climate-related risks which are considered within the strategy risk category.

The Chief Executive Officer is ultimately responsible for leading the Society's response to climate change. The CEO is supported by functional leads across the business who co-ordinate activities and assess climate change risk, reporting to management and Board committees. Climate change risk is assessed across two main categories:

- Physical risk considers the impact of physical effects of climate change or weather-related events such as flooding; and
- Transitional risk assesses the transition to a low-carbon and climate resilient future such as changes in policy and regulation.

The Nottingham recognises that climate change impacts all areas of the business and in order to capture all of the material touchpoints, climate change is embedded within the Society's enterprise-wide RMF. Climate-related risks are being considered as part of corporate planning scenarios, including the impact on our business and members based on the intended government action plans to become net zero by 2050.

The risk management report and sustainability report included within the Annual Report and Accounts include further disclosures in relation to the Society's response to managing climate-related risks.

4. Capital Resources

4 Capital resources

4.1 Composition of regulatory own funds

One of the objectives of the CRD is to improve the banking sector's ability to absorb shocks arising from financial and/or economic stress. This is achieved through increasing both the quality and quantity of regulatory capital that firms are required to hold.

The following table provides a breakdown of capital resources:

Template UK CC1 – Composition of regulatory own funds

		31 December 2022	31 December 2021
		CRD V Transitional	CRD IV Transitional
		£m	£m
Common Equity Tier 1 (CET1) capital: instrument and reserves			
1	Capital instruments and the related share premium accounts	-	-
2	Retained earnings	235.0	219.2
3	Accumulated other comprehensive income (and other reserves)	(3.4)	(0.1)
UK-3a	Funds for general banking risk	-	-
4	Amount of qualifying items referred to in Article 484 (3) CRR and the related share premium accounts subject to phase out from CET1	-	-
5	Minority interests (amount allowed in consolidated CET1)	-	-
UK-5a	Independently reviewed interim profits net of any foreseeable charge or dividend	-	-
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**231.6**	**219.1**
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	(0.7)	(0.3)
8	Intangible assets (net of related tax liability) (negative amount)	(11.1)	(16.7)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount)	-	-
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	-	-
12	Negative amounts resulting from the calculation of expected loss amounts	-	-
13	Any increase in equity that results from securitised assets (negative amount)	-	-
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-	-
15	Defined-benefit pension fund assets (negative amount)	-	-
16	Direct, indirect and synthetic holdings by an institution of own CET1 instruments (negative amount)	-	-
17	Direct, indirect and synthetic holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	-
18	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	-
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	-
UK-20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-	-
UK-20b	of which: qualifying holdings outside the financial sector (negative amount)	-	-
UK-20c	of which: securitisation positions (negative amount)	-	-
UK-20d	of which: free deliveries (negative amount)	-	-
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount)	-	(0.2)
22	Amount exceeding the 17,65% threshold (negative amount)	-	-
23	of which: direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-	-

4. Capital Resources

24	of which: deferred tax assets arising from temporary differences	-	-
25	Losses for the current financial year (negative amount)	-	-
UK-25a	Foreseeable tax charges relating to CET1 items except where the institution suitably adjusts the amount of CET1 items insofar as such tax charges reduce the amount up to which those items may be used to cover risks or losses (negative amount)	-	-
UK-25b	Foreseeable tax charges relating to CET1 items except where the institution suitably adjusts the amount of CET1 items insofar as such tax charges reduce the amount up to which those items may be used to cover risks or losses (negative amount)	-	-
27	Qualifying AT1 deductions that exceed the AT1 items of the institution (negative amount)	-	-
27a	Other regulatory adjustments to CET1 capital (including IFRS 9 transitional adjustments when relevant)	2.4	1.6
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(9.4)**	**(15.6)**
29	**Common Equity Tier 1 (CET1) capital**	**222.2**	**203.5**
Additional Tier 1 (AT1) capital: instruments			
30	Of which the standardised approach	-	-
31	of which: classified as equity under applicable accounting standards	-	-
32	of which: classified as liabilities under applicable accounting standards	-	-
33	Amount of qualifying items referred to in Article 484 (4) CRR and the related share premium accounts subject to phase out from AT1 as described in Article 486(3) CRR	-	2.4
UK-33a	Amount of qualifying items referred to in Article 494a(1) CRR subject to phase out from AT1	-	-
UK-33b	Amount of qualifying items referred to in Article 494b(1) CRR subject to phase out from AT1	-	-
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	-	-
35	of which: instruments issued by subsidiaries subject to phase out	-	-
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	-	**2.4**
Additional Tier 1 (AT1) capital: regulatory adjustments			
37	Direct, indirect and synthetic holdings by an institution of own AT1 instruments (negative amount)	-	-
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	-
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	-
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-	-
41	Empty set in the UK	-	-
42	Qualifying T2 deductions that exceed the T2 items of the institution (negative amount)	-	-
42a	Other regulatory adjustments to AT1 capital	-	-
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	-	-
44	**Additional Tier 1 (AT1) capital**	-	**2.4**
45	**Tier 1 capital (T1 = CET1 + AT1)**	**222.2**	**205.9**
Tier 2 (T2) capital: instruments			
46	Capital instruments and the related share premium accounts	23.9	21.4
47	Amount of qualifying items referred to in Article 484 (5) CRR and the related share premium accounts subject to phase out from T2 as described in Article 486(4) CRR	-	-
UK-47a	Amount of qualifying items referred to in Article 494a (2) CRR subject to phase out from T2	-	-
UK-47b	Amount of qualifying items referred to in Article 494b (2) CRR subject to phase out from T2	-	-
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	-	-
49	of which: instruments issued by subsidiaries subject to phase out	-	-
50	Credit risk adjustments	-	-
51	**Tier 2 (T2) capital before regulatory adjustments**	**23.9**	**21.4**
Tier 2 (T2) capital: regulatory adjustments			
52	Direct, indirect and synthetic holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-	-
53	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	-

4. Capital Resources

54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	-
54a	Empty set in the UK	-	-
55	Direct, indirect and synthetic holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-	-
56	Empty set in the UK	-	-
UK-56a	Qualifying eligible liabilities deductions that exceed the eligible liabilities items of the institution (negative amount)	-	-
UK-56b	Other regulatory adjustments to T2 capital	-	-
57	**Total regulatory adjustments to Tier 2 (T2) capital**	-	-
58	**Tier 2 (T2) capital**	**23.9**	**21.4**
59	**Total capital (TC = T1 + T2)**	**246.1**	**227.3**
60	**Total Risk exposure amount**	**1,324.8**	**1,233.5**
Capital ratios and buffers		**%**	**%**
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	16.8	16.5
62	Tier 1 (as a percentage of total risk exposure amount)	16.8	16.7
63	Total capital (as a percentage of total risk exposure amount)	18.6	18.4
64	Institution CET1 overall capital requirement (CET1 requirement in accordance with Article 92 (1) CRR, plus additional CET1 requirement which the institution is required to hold in accordance with point (a) of Article 104(1) CRD, plus combined buffer requirement in accordance with Article 128(6) CRD) expressed as a percentage of risk exposure amount)	12.1	11.3
65	of which: capital conservation buffer requirement	2.5	2.5
66	of which: countercyclical buffer requirement	1.0	-
67	of which: systemic risk buffer requirement	-	-
UK-67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	-	-
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	12.3	11.0
Amounts below the thresholds for deduction (before risk weighting)			
72	Direct and indirect holdings of own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-	-
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 17.65% thresholds and net of eligible short positions)	-	-
75	Deferred tax assets arising from temporary differences (amount below 17,65% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met)	2.3	1.4
Applicable caps on the inclusion of provisions in Tier 2			
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-	-
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	-	-
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	-	-
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	-	-

1 Rows that are not applicable in the UK, or only applicable between 1 Jan 2014 and 1 Jan 2022 have not been presented.

4. Capital Resources

Summary of Capital Resources

The disclosures in this section have been prepared in accordance with the guidance set out in template UK CCA – Main features of regulatory own fund instruments and eligible liabilities.

Common Equity Tier 1 (CET1) capital

CET1 includes cumulative audited retained earnings and interim profits where they have been independently verified by the external audit firm.

Accumulated comprehensive income relates to the Society's unrealised gains and losses on treasury assets held at FVOCI.

A deduction is made for the prudent valuation on fair valued assets / liabilities and intangible assets continue to be fully deducted from CET 1 capital.

When relevant, deferred tax assets arising from prior year statutory losses and dependent on future profitability are deducted from CET1 in accordance with Article 36 and 38 of the CRR.

Upon implementation of IFRS 9 and as a result of the Covid-19 pandemic, the PRA advised that all financial institutions could make use of the transitional arrangements to introduce gradually the capital impact of IFRS 9. The Society elected to make use of the transitional arrangements outlined in Article 473a ((EU) No 2020/873 (CRR Quick Fix)), with the relief phased out to 31 March 2025. Only the transitional basis has been disclosed as there is no material difference between the final and transitional basis.

Additional Tier 1 capital

Under the CRD rules, Permanent Interest-Bearing Shares (PIBS) no longer contribute towards Tier 1 capital due to their lack of loss absorbency features. They were subject to the transitional rules of the CRD which allowed the instrument to be grandfathered until December 2021. All PIBS are now classified as Tier 2 instruments.

Tier 2(T2) capital

The Society's PIBS instruments are now classified as Tier 2 instruments as they have fully transitioned out of Additional Tier 1 capital.

4. Capital Resources

4.2 Reconciliation of regulatory capital to the balance sheet

Template UK CC2 - Reconciliation of regulatory own funds to balance sheet in the audited financial statements

	Balance Sheet in Financial Statements	Regulatory Exposure	Reference
	2022	2022	
	£m	£m	
ASSETS			
Cash in hand and balances with the Bank of England	290.1	290.1	
Loans and advances to credit institutions	16.0	16.0	
Debt securities	413.2	349.9	
Derivative financial instruments[1]	142.6	32.0	
Loans and advances to customers[2]	2,922.8	3,128.1	
Other assets	4.4	4.4	
Property, plant and equipment	8.3	8.3	
Right of use assets	1.1	1.1	
Intangible assets [3]	11.1	-	
Current tax asset	0.7	0.7	
Deferred tax assets	2.2	2.3	
TOTAL ASSETS	**3,812.5**	**3,832.9**	CR5 Row 17
LIABILITIES			
Shares	3,009.7	-	
Amounts owed to credit institutions	419.0	-	
Amounts owed to other customers	8.4	-	
Debt securities in issue	91.0	-	
Derivative financial instruments	14.4	-	
Other liabilities and accruals	9.3	-	
Lease liabilities	2.2	-	
Retirement benefit obligations	2.9	-	
Subscribed capital	24.0	-	
TOTAL LIABILITIES	**3,580.9**	**-**	
RESERVES			
General reserves	235.0	235.0	CC1 Row 2
Fair value reserves	(3.4)	(3.4)	CC1 Row 3
Total reserves attributable to members of the Society	**231.6**	**231.6**	
TOTAL RESERVES AND LIABILITIES	**3,812.5**		

[1] Derivative financial instruments are valued and presented using the standardised approach to counterparty credit risk post credit conversion factor (CCF).
[2] Loans and advances to customers includes off-balance sheet items post credit conversion factor for undrawn credit commitments on mortgages and other loans not drawn down by 31 December 2022.
[3] Intangible assets have an exposure value of £nil from a regulatory perspective. The Society deducts the intangible assets when calculating Common Equity Tier 1 capital.

4. Capital Resources

4.3 IFRS9 transitional arrangement

The classification, measurement and impairment requirements of IFRS 9 'Financial Instruments' were adopted by the Society from 1 January 2018. The hedge accounting module of IFRS 9 has not been adopted and therefore the Society continues to apply the requirements of IAS 39 to derivative financial instruments.

As per the guidance in EBA Article 473a, regarding transitional relief arrangements for the implementation of IFRS 9 ((EU) No 2020/873 (CRR Quick fix)), the following table discloses the capital, capital ratios and the leverage ratio that The Nottingham would have in the case that it did not apply this Article.

The Society has recognised additional IFRS 9 transitional relief adjustments from 2020 following the additional guidance issued during the year in light of the Covid-19 pandemic.

Template IFRS 9 FL - Comparison of institutions' own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS 9 or analogous ECLs

	2022	2021
Available capital (£m)	£m	£m
Common Equity Tier 1 (CET1) capital	222.2	203.5
CET1 capital as if IFRS 9 transitional arrangements had not been applied	219.8	201.9
Tier 1 capital	222.2	205.9
Tier 1 capital as if IFRS 9 transitional arrangements had not been applied	219.8	204.3
Total capital	246.1	227.3
Total capital as if IFRS 9 transitional arrangements had not been applied	243.7	225.7
Risk-weighted assets (£m)		
Total risk-weighted assets	1,324.8	1,233.5
Total risk-weighted assets as if IFRS 9 transitional arrangements had not been applied	1,324.8	1,233.5
Capital ratios (%)		
Common Equity Tier 1 ratio	16.8%	16.5%
Common Equity Tier 1 ratio as if IFRS 9 transitional arrangements had not been applied	16.6%	16.4%
Tier 1 ratio	16.8%	16.7%
Tier 1 as if IFRS 9 transitional arrangements had not been applied	16.6%	16.6%
Total capital ratio	18.6%	18.4%
Total capital ratio as if IFRS 9 transitional arrangements had not been applied	18.4%	18.3%
Leverage ratio		
Leverage ratio total exposure measure (£m)	3,575.6	3,670.5
Leverage ratio exposure measure as if IFRS 9 transitional arrangements had not been applied (£m)	3,573.2	3,668.9
Leverage ratio[1] (%)	6.2%	5.6%
Leverage ratio[1] as if IFRS 9 transitional arrangements had not been applied (%)	6.2%	5.6%

5. Capital requirements

5 Capital requirements

The disclosures in this section have been prepared in accordance with the guidance set out in template UK OVC – ICAAP information.

5.1 Capital management and reporting

The Nottingham's Capital Adequacy Policy is to maintain a strong capital base to maintain member, creditor and market confidence and to sustain the future development of the business. The Board manages The Nottingham's capital and risk exposures to maintain capital in line with regulatory and legislative requirements. The Nottingham defines Capital Adequacy Risk as 'the risk that the Nottingham does not have sufficient capital or doesn't allocate it effectively'. This includes The Nottingham's ability to manage its capital effectively in a range of business and economic environments. This is subject to regular stress tests to ensure The Nottingham maintains sufficient capital for possible future events.

As a mutual, The Nottingham has no outside shareholders to whom it needs to pay dividends. As such The Nottingham does not have to maximise profitability so long as it maintains an adequate capital position.

The Society considers its overall capital requirement as part of its Internal Capital Adequacy Assessment Process and its capital requirements are also monitored by the PRA.

Minimum capital requirements – Pillar 1

Pillar 1 capital requirements of the CRR prescribes the minimum capital requirement that firms are required to meet credit, market and operational risks.

For regulatory purposes, The Nottingham uses the Standardised Approach (SA) to calculate its credit risk capital requirements. In addition, for internal reporting, The Nottingham operates a similar standard to the Internal Ratings Based (IRB) approach for its retail mortgages, the benefit of which is an enhanced risk management capability.

Under the SA the level of capital required against a given level of exposure to credit risk is calculated as:
Credit risk capital requirement = Exposure value x Risk weighting* x 8%.

* The risk weighting applied will vary depending on whether the asset is retail or wholesale. For retail assets, variables such as loan to value and security will impact the risk weighting. Wholesale assets are dependent on the counterparty, duration and credit rating.

For operational risk, own funds requirements is calculated under the 'basic indicator approach' which is assessed on the prior three-year historical net income multiplied by the appropriate regulatory factors.

5. Capital requirements

Supervisory review process – Pillar 2

The Pillar 2 capital requirements of the CRR introduce entity specific capital requirements that apply in addition to the Pillar 1 minimum capital requirements. At 31 December 2022, the Society's Total Capital Requirements was set at 8.60% (31 December 2021: 8.81%) of risk weighted assets which amounted to £114.0m (31 December 2021 £108.7m).

Pillar 1		Firm specific calculation based on individual firms' risk weighted assets – a minimum of 8%.	Total capital requirements
Pillar 2A		Firm specific calculation for risks not fully captured under Pillar 1.	Total capital requirements
Pillar 2B	**Capital Conservation Buffer (CCoB)**	Used to absorb losses in periods of economic and financial stress. The CCoB was set at 2.5% at 31 December 2022 (2021: 2.5%)	Combined buffer
Pillar 2B	**Countercyclical Capital Buffer (CCyB)**	Set by the Bank of England's (BoE) Financial Policy Committee (FPC) within a range of 0.0% and 2.5%. Used to ensure financial institutions build up capital in favourable economic conditions, which can be utilised in economic downturns. The CCyB was set at 1% at 31 December 2022 (2021: 0.0%)	Combined buffer

Internal Capital Adequacy Assessment Process (ICAAP)

The Board monitors The Nottingham's capital position with the aid the Society's ICAAP which is prepared at the very least on an annual basis. The ICAAP requires The Nottingham to assess its capital adequacy over the planning horizon and determine the level of capital it requires to deliver its strategic objectives and support both current and future potential risks.

The ICAAP allows The Nottingham to fine tune its capital requirements to ensure that adequate capital is held to not only cover the risks that it is currently facing, but those which it is likely to face in the future, as its business plans and operating environment changes.
The Nottingham's ICAAP has been produced in line with the PRA's regulatory guidance and covers the business activities of the Society.
The Nottingham identifies and manages major sources of risk in each of the following categories:

- Credit and counterparty risk
- Market risk
- Liquidity risk
- Operational risk
- Concentration risk
- Securitisation risk
- Business and strategy risk
- Interest rate risk in the banking book
- Financial risks arising from climate change
- Risk of excessive leverage
- Pension obligation risk

The Nottingham has assessed each of these risks as part of its internal Pillar 2 assessment to identify risks which may not be captured, or fully captured under the Pillar 1 assessment.

The Nottingham undertakes scenario testing on both single and combined scenarios which examine the Society's business plans to test vulnerabilities in the Society's plans and to determine whether planned capital levels are sufficient to withstand severe but reasonable stresses over a five-year planning horizon.

5. Capital requirements

The ICAAP assessment is reviewed by the ALCO and ERC prior to being approved by the Board, with the most recent ICAAP approved by the Board in April 2022. The Society continues to be strongly capitalised and maintains its capital substantially above current regulatory requirements.

Capital reporting

Capital adequacy is reporting to the PRA on a quarterly basis through the Common Reporting (COREP) returns and capital adequacy is monitored monthly through ALCO and reported at each board meeting.

5.2 Capital buffers

These are additional amounts of capital to be kept aside to ensure that in the event of stressed conditions, the Society remains well capitalised and meets its stressed capital requirements. The capital buffer comprises the Capital Conservation Buffer (CCoB), Countercyclical Buffer (CCyB), the buffer for globally systemically important institutions(G-SIIs) and other systemically important institutions buffer(O-SIIs buffer).

Regulation (EU) 2015/1555 requires disclosure information relevant for the calculation of the countercyclical capital buffer as at 31 December 2022, which is presented below.

All credit exposures relevant to the calculation of the countercyclical buffer are geographically distributed within the UK.

Template UK CCyB2: Amount of institution-specific countercyclical capital buffer

		a	a
		2022	2021
1	Total risk exposure amount	1,324.8	1,233.5m
2	Institution specific countercyclical buffer rate	1.00%	0.00%
3	Institution specific countercyclical buffer requirements	£13.2m	£0.0m

The BoE Financial Policy Committee has announced that the CCyB for UK financial institutions will increase to 2.0% with binding effect from 5 July 2023.

5. Capital requirements

5.3 Overview of risk-weighted exposure amounts

The Society's minimum capital requirement under Pillar 1 is the total sum of its credit, market and operational risk capital requirements. The total capital requirement is derived by multiplying the corresponding risk weighted asset exposure by 8%. The Society does not have a trading book and only undertakes transactions in GBP.

Template UK OV1 – Overview of risk weighted assets

		Risk weighted exposure amount (RWEAs)		Total own funds requirements
		a	b	c
		2022	2021	2022
		£m	£m	£m
1	Credit risk (excluding CCR)	1,191.6	1,136.4	95.3
2	Of which the standardised approach	1,191.6	1,136.4	95.3
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	20.5	9.8	1.7
7	Of which the standardised approach	7.0	3.2	0.6
8	Of which internal model method (IMM)	-	-	-
UK 8a	Of which exposures to a CCP	0.1	0.6	-
UK-8b	Of which credit valuation adjustment - CVA	13.4	6.0	1.1
9	Of which other CCR	-	-	-
15	Settlement risk	-	-	-
16	Securitisation exposures in the non-trading book (after the cap)	6.3	6.1	0.5
17	Of which SEC-IRBA approach	-	-	-
18	Of which SEC-ERBA (including IAA)	6.3	6.1	0.5
19	Of which SEC-SA approach	-	-	-
UK 19a	Of which 1250%/ deduction	-	-	-
20	Position, foreign exchange and commodities risks (Market risk)	-	-	-
21	Of which the standardised approach	-	-	-
22	Of which IMA	-	-	-
UK 22a	Large exposures	-	-	-
23	Operational risk	106.3	81.2	8.5
UK 23a	Of which basic indicator approach	106.3	81.2	8.5
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)	5.8	3.4	0.5
29	**Total**	**1,324.8**	**1,233.5**	**106.0**

The Credit Valuation Adjustment (CVA) is the market value of counterparty credit risk. A capital requirement is recorded on an actual basis for CVA on the derivatives with the exposure value of these derivatives included in the Pillar 1 requirements.

6. Credit risk and credit risk mitigation (CRM)

6 Credit risk and credit risk mitigation

The disclosures in this section have been prepared in accordance with the guidance set out in template UK OVA – Institution risk management approach.

Loans and advances to customers – retail mortgages

Exposure to retail credit risk is limited to the provision of loans secured on property within the UK. The Society originates its own mortgages through the use of intermediaries which makes up the vast majority of the Society's loans and advances to customers. In addition, the Society has entered into a forward flow agreement with a fintech mortgage provider where the Society purchases the beneficial interest in the cash flows from the mortgages originated whilst the third party retains the legal charge.

All mortgage loan applications are assessed with reference to the Society's retail credit risk appetite statement and lending policy, which includes assessing applicants for potential fraud risk, which is approved by the Board. When deciding on the overall risk appetite that the Society wishes to adopt, both numerical and non-numerical considerations are taken into account, along with data on the current UK economic climate, portfolio information derived from the Society's rating system and competitor activity. The Risk Appetite statement must comply with all of the prevailing regulatory policy and framework.

The lending portfolio is monitored by the RCC to ensure that it remains in line with the stated risk appetite of the Society, including adherence to the lending principles, policies and lending limits. Credit risk management information is comprehensive and is circulated to the RCC on a monthly basis to ensure that the portfolio remains within the Society's risk appetite.

It is the Society's policy to ensure good customer outcomes and lend responsibly by ensuring at the outset that the customer can meet the mortgage repayments. This is achieved by obtaining specific information from the customer concerning income and expenditure but also external credit reference agency data.

The retail mortgage business unit operates on a national basis, with the aim that the distribution of the Society's residential mortgage portfolio is to follow the population distribution within England and Wales.

Secured business lending credit risk

The Nottingham's Commercial lending policy is used to manage the level of credit risk emanating from secured business lending and is monitored by the RCC. Secured Business Loans (SBL) are primarily made available to Small and Medium sized enterprises for either owner occupied or investment property purposes and includes limited company buy-to-let loans. Loans are also only granted against the 'bricks and mortar' valuation of the property and not against working capital or other assets such as machinery.

Wholesale lending

Wholesale credit risk is reported by ALCO through to the ERC and the BRC. A board approved policy statement restricts the level of risk by placing limits on the amount of exposure that can be taken in relation to one counterparty or a group of counterparties, and to industry sectors. Each counterparty must meet the minimum investment criteria with a number of factors considered when determining credit worthiness. Counterparty credit limits are reviewed by ALCO on an annual basis as a minimum with any changes recommended to ERC for approval.

The Nottingham's Liquidity Risk policy determines the amounts, products and counterparties under which wholesale lending can be undertaken, with only sterling denominated lending permitted. Alongside lending to the UK Government and Central Bank, limits are in place with a number of UK building societies and specific UK and overseas banks as well as multilateral development banks. Each counterparty must meet the minimum investment criteria as set out in the Liquidity Risk policy or be specifically approved by the BRC. In addition, investments in Residential Mortgage-Backed Securities (RMBS) and Covered Bonds are permitted in instances where they meet the Board approved minimum investment criteria.

6. Credit risk and credit risk mitigation (CRM)

The disclosures in this section have been prepared in accordance with the guidance set out in template UK CRA – General qualitative information about credit risk.

Risk statement on how the business model translates into the components of the institutions credit risk profile

Credit risk is the risk that a financial loss arises from the failure of a customer or counterparty to meet their contractual obligations. The Nottingham manages the level of credit risk it undertakes by applying various control disciplines, the objectives of which are to maintain asset quality in line with the stated risk appetite.

As a building society, this is most likely to arise through the inability of borrowers to repay their mortgage commitments (retail credit risk) or through the failure of a treasury counterparty (wholesale credit risk).

The criteria and approach used for defining the credit risk management policy and for setting credit risk limits

ALCO is responsible for managing treasury activity and recommends limits on treasury counterparties and financial instrument types for approval by the Society's Board within regulatory guidelines.

The Board manages the Society's Retail Credit Risk Policy and Treasury Policy to maintain capital in line with regulatory requirements which includes monitoring of:

- **Lending and business decisions** - the Society uses application scorecards to help it assess whether mortgage applications fit within its appetite for credit risk. Once loan funds have been advanced, behavioural scorecards are used to review the ongoing risk profile of both the lending portfolios and individual customers. In addition, for residential and buy-to-let mortgages property, values are updated on a quarterly basis.
- **Pricing** - pricing models are utilised for all mortgage product launches. The models include an allowance for expected loss estimates and capital utilisation enabling the calculation of a risk adjusted return on capital.
- **Concentration risk** - the design of retail products takes into account the overall mix of products to ensure that exposure to concentration risk remains within permitted parameters.
- **Counterparty risk** - wholesale lending is only carried out with approved counterparties in line with the Society's lending criteria and is subject to a range of limits. The limits are monitored daily to ensure the Society remains within risk appetite.

The structure and organisation of the credit risk management and control function

The Board is ultimately responsible for establishing the credit risk appetite and approving the lending policy on an annual or intra-year basis where appropriate. The Board, via the BRC delegates responsibility for retail credit risk management to the ERC and receives notification of any retail credit risk metrics that are outside of risk appetite, along with details of mitigation plans to return to within appetite. The RCC is authorised by the ERC to take all the necessary decisions for the prudent and profitable management of The Nottingham's mortgage portfolio within the terms of the Retail Credit Risk Policy, approved by the BRC.

The Society's exposure to residential and commercial credit risk is delegated and managed by a Credit Risk function which is responsible for ensuring that a lending portfolio is produced which optimises the balance between risk and reward through the application and monitoring of credit policy which are aligned to the stated risk appetite. The Credit Risk function provides regular reports to RCC which monitors lending against risk appetite limits and escalate breaches through the Society's risk committees.

The relationships between credit risk management, risk control, compliance and internal audit functions

Please refer to Section 3 for information regarding the credit risk management.

6. Credit risk and credit risk mitigation (CRM)

6.1 Credit quality of assets

The disclosures in this section have been prepared in accordance with the guidance set out in template UK CRB - Additional disclosure related to the credit quality of assets.

Definition of 'past-due' and 'impaired'

The Society defines loans past-due as loans on which a payment has not been made as of its due date.

The Society defines impaired loans as loans where there is objective evidence that an impairment event has occurred, meaning that the Society does not expect to collect all the contractual cash flows or expect to collect them later than they are contractually due.

The Society's definition of default under Article 178 of the CRR is consistent with its definition of 'credit-impaired' under IFRS 9, with all exposures which are more than 90 days past due considered to be impaired.

Methods used for determining general and specific credit risk adjustments

The Society applies IFRS 9 'Financial instruments' to calculate loss provisions on its mortgage assets.

Under IFRS 9, the Society assesses on a forward-looking basis the Expected Credit Losses (ECL) associated with its mortgage assets carried at amortised cost and the exposure arising from loan commitments. The allowance is based on the ECLs associated with the probability of default and the measurement of ECL reflects:

- An unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- Stage 1: A financial instrument that is not credit-impaired on initial recognition and its credit risk has not significantly increased since origination. ECL is measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months.
- Stage 2: If a significant increase in credit risk (SICR) since initial recognition is identified, the financial asset is moved to 'Stage 2' but is not yet deemed to be credit impaired. The definition of a significant increase in credit risk is detailed below. ECL for Stage 2 assets are measured based on expected credit losses on a lifetime basis.
- Stage 3: If the financial asset is credit-impaired, it is moved to 'Stage 3'. The definition of credit-impaired and default is outlined below. ECL for Stage 3 assets is also measured on expected credit losses on a lifetime basis.

Forward-looking information is taken into account in the measurement of ECL with its use of economic assumptions such as unemployment rates and house price indices.

The Society has no purchased or originated credit impaired assets and has not applied any simplified approaches.

It is the Society's policy to consider a financial instrument as 'cured' and therefore reclassified out of Stage 3 when none of the default criteria have been present for at least twelve consecutive months for forbearance defaults and nine months for any other defaults. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated position, at the time of the cure, and whether there has been a significant increase in credit risk compared to initial recognition.

The Society considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following criteria has been met:

Financial Instrument	Definition of significant increase in credit risk
Loans and advances to customers – Retail	• Over 30 days past due on contractual repayments; • Change in PD exceeds relative threshold of 100% and absolute threshold of 0.5%; or • In forbearance.
Loans and advances to customers – Secured Business Lending	• Over 30 days past due on contractual repayments; • Change in PD exceeds relative threshold of 100% and absolute threshold of 0.5%; or • In forbearance.

6. Credit risk and credit risk mitigation (CRM)

ECL Calculation – Loans and advances to customers

The calculation of ECL incorporates forward-looking information. Forecasts of economic variables are provided by a reputable third party on a regular basis and provide the best estimate view of the economy over the next five years. After five years, to project the economic variables out for the full remaining lifetime, a mean reversion approach is used to obtain long-run averages. In addition to the base economic scenario forecast, other possible scenarios along with scenario weightings are created, of which management have applied four (2021: four) scenarios in the model calculations to align with wider market practices.

The ECL models are driven by three key components:

- **Probability of Default (PD):** The PD model takes attributes of the mortgage accounts on the portfolio (for example, origination vintage and time on book) and adjusts for the impacts of a range of independently sourced forward-looking macroeconomic scenarios to produce a vector detailing the likelihood of an account defaulting in a given month within the expected behavioural lifetime. The model outputs are scaled against a number of internal risk grades which are determined using the Society's behavioural scoring models. These behavioural scoring models contain a combination of internal and externally derived data to rank the mortgage accounts by risk, mortgages are then allocated into groups of accounts with comparable expected performance.
- **Exposure at Default (EAD):** The EAD model predicts the loan exposure of each mortgage account at a future default date. The model takes into account balance amortisation and accrued interest from missed payments given expected changes in the repayment terms of the mortgage; for example interest rates may move in a manner consistent with the macroeconomic scenarios. The calculation produces a vector to represent the expected EAD at each potential point of default along the vector from the reporting date up to the expected behavioural lifetime; and
- **Loss Given Default (LGD):** The LGD model calculates the likely loss on asset disposal that the Society would suffer if a default were to occur in any given month over the expected behavioural lifetime of the mortgage account. LGD takes into account the EAD in comparison to the value expected to be recovered through the sale of an asset, given the macroeconomic scenario specific trend in property price indices. The expectation of loss is then scaled to reflect the likelihood of a mortgage account reaching default, progressing on to sale of the asset.

Additional post model adjustments have been applied at 31 December 2022 to reflect that the level of variability in the actual outcomes that may occur remains significantly wider than in recent history, with forecasts signalling a worsening outlook compared to 31 December 2021. Post model adjustments have been applied to address the following: i) Impact to future Property Values, ii) Potential for Interest Rate shock, iii) Worsening Future Recovery profile of Assets and iv) Cost of Living & Inflationary impact.

ECL Calculation – Treasury Assets

Under IFRS 9, the Society assesses on a forward-looking basis the ECL associated with its financial assets carried at amortised cost and FVOCI. This includes the Society's treasury assets.

The Society reviews the external credit ratings of its liquid assets at each reporting date. Those assets, which are of investment grade or higher, are considered to have low credit risk and therefore are assumed to have not had a significant increase in credit risk since initial recognition; this includes the Society's debt security portfolio. The Society's policy to allow only high quality, senior secured exposures to Residential Mortgage-Backed Securities (RMBS) and Covered Bonds ensures continued receipt of contractual cash flows in stressed scenarios. For all other wholesale liquidity balances, a simple model calculates the ECL allowance, based on externally provided 12-month Probability of Default (PD) rates for individual counterparties.

All of the Society's treasury assets are classified as Stage 1 for the ECL calculation under IFRS 9. The Society does not have any expected credit loss allowance held against its liquidity portfolio as at 31 December 2022 (2021: £nil) as the Stage 1 ECL calculated is immaterial to the financial statements.

6.2 Credit risk mitigation techniques

The disclosures in this section have been prepared in accordance with the guidance set out in template UK CRC - Qualitative disclosure requirements related to CRM techniques.

Ultimately, In the event of a default, the primary source of collateral for mitigating credit risk is the borrower's underlying property. The Nottingham takes a first charge on all mortgage lending and the collateral is supported by an appropriate form of valuation using either an independent firm of valuers or an Automated Valuation Model (AVM).

6. Credit risk and credit risk mitigation (CRM)

The Nottingham insures its residential mortgage book against losses using a Mortgage Indemnity Guarantee (MIG) insurance. MIG insurance is taken on all purchases where the loan to value (LTV) exceeds 80%. However, for prudence, no credit risk mitigation benefits have been taken from this insurance when assessing its Pillar 1 capital requirements.

As a regional building society, The Nottingham is exposed to Retail credit concentration risk. This includes the potential for geographical and product concentrations in terms of both its mortgage book and wholesale activities. The Nottingham has geographic concentration risk as it is regionally based in the East Midlands and domiciled in the UK, acquiring all of its current business from England and Wales. Geographic concentration risk is monitored by observing the spread of The Nottingham's exposure by region and the impact of house price changes during various economic scenarios. The risk is monitored on an ongoing basis by the RCC.

In addition to retail credit risks, The Nottingham is also exposed to credit risk through its treasury function. This arises from counterparties who may be unable to repay loans and other financial instruments that the Treasury team holds as part of its liquidity portfolio. A regular assessment of investment quality is undertaken by the Treasury Risk team which is reported monthly to the ALCO.

Under the European Securities & Market Authority (ESMA) regulations it has become mandatory for all eligible derivate instrument transactions to be centrally cleared once an institution’s exposure exceed a prescribed threshold. The Nottingham centrally clears all eligible derivatives. As such the vast majority of The Nottingham’s derivatives are fully collateralised with a central clearing member, and therefore mitigating counterparty credit risk.

The Nottingham’s prudent approach to wholesale lending creates a potential source of concentration risk if, for example, there is a general tightening of credit conditions. Minimum acceptable credit ratings are approved by the BRC with ALCO reviewing details of changes to counterparty ratings on a monthly basis. The Liquidity Risk policy sets out the amounts, products and counterparties under which liquid assets can be held with a control framework set to monitor these.

Funding concentration risk is reduced by maintaining a range of controls to ensure there is sufficient diversification across both wholesale and retail, including on a combined basis. Treasury monitors large exposures on a daily basis and reports any exceptions to policy to ALCO. Limits are monitored on an ongoing basis and are formally reviewed at least once a year as part of the overall review of the Liquidity Risk policy

6.3 Standardised approach to credit risk

The disclosures in this section have been prepared in accordance with the guidance set out in template CRD – Qualitative disclosure requirements related to the standardised model.

The primary source for obtaining information on counterparties’ creditworthiness is External Credit Assessment Institutions (ECAIs). There have been no changes to the ECAIs during the year and the Society continues to use two ECAIs to assign credit quality steps for short and long-term investments; namely Moody’s Investors Service (Moody’s) and Fitch Group (Fitch). Unrated counterparties may be approved by the BRC.

Credit ratings are reviewed regularly, and a list of relevant changes provided to ALCO. Where ratings fall below the standard minimum criteria for a counterparty limit, management will propose action for managing the exposure, which will be escalated through ALCO and the ERC to the BRC. In addition to credit ratings, The Nottingham may also consider other factors when determining credit worthiness, such as capital adequacy, financial performance, non-performing loans and key market metrics.

The ECAIs are used for the relevant exposure classes: Central Bank, Institutions and securitisations. ECAI ratings are mapped to ‘credit quality steps’, following the standardised association published by the EBA. Risk weighting which corresponds with the relevant quality steps are assigned to exposures depending on the class and residual maturity of the asset.

6. Credit risk and credit risk mitigation (CRM)

Template UK CR4 – Standardised approach– Credit risk exposure and credit risk mitigation

The standardised exposure on our on and off-balance sheet credit risk (excluding counterparty credit risk) has been presented below on two different basis, both pre Credit Conversion Factors (CCF) and Credit Risk Mitigation (CRM) and post CCF and CRM.

	At 31 December 2022	Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWAs and RWAs density	
		On-balance-sheet exposures	Off-balance-sheet exposures	On-balance-sheet exposures	Off-balance-sheet amount	RWAs	RWAs density (%)
		a	b	c	d	e	f
	Exposure classes	£m	£m	£m	£m	£m	%
1	Central governments or central banks	415.7	-	415.7	-	-	-
2	Regional government or local authorities	-	-	-	-	-	-
3	Public sector entities	-	-	-	-	-	-
4	Multilateral development banks	106.0	-	106.0	-	-	-
5	International organisations	-	-	-	-	-	-
6	Institutions	16.0	-	16.0	-	4.5	28.3
7	Corporates	0.1	8.0	0.1	1.6	1.7	99.2
8	Retail	9.9	14.3	9.2	2.9	9.1	75.0
9	Secured by mortgages on immovable property	3,021.4	437.2	3,017.2	91.3	1,129.7	36.3
10	Exposures in default	4.7	-	4.7	-	4.7	100.0
11	Exposures associated with particularly high risk	0.7	-	0.7	-	1.0	150.0
12	Covered bonds	117.2	-	117.2	-	11.7	10.0
13	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
14	Collective investment undertakings	-	-	-	-	-	-
15	Equity	-	-	-	-	-	-
16	Other items	26.9	-	26.9	-	29.2	108.7
17	**Total**	**3,718.6**	**459.5**	**3,713.7**	**95.8**	**1,191.6**	**31.3**

[1] RWAs density(%) is expressed as a percentage of RWAs over exposures post CCF and CRM.

6. Credit risk and credit risk mitigation (CRM)

	At 31 December 2021	Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWAs and RWAs density	
		On-balance-sheet exposures	Off-balance-sheet exposures	On-balance-sheet exposures	Off-balance-sheet amount	RWAs	RWAs density (%)
		a	b	c	d	e	f
	Exposure classes	£m	£m	£m	£m	£m	%
1	Central governments or central banks	324.2	-	324.2	-	-	-
2	Regional government or local authorities	-	-	-	-	-	-
3	Public sector entities	-	-	-	-	-	-
4	Multilateral development banks	104.7	-	104.7	-	-	-
5	International organisations	-	-	-	-	-	-
6	Institutions	10.3	-	10.3	-	3.4	32.8
7	Corporates	0.1	-	-	-	-	-
8	Retail	7.4	2.5	7.9	0.5	5.8	76.2
9	Secured by mortgages on immovable property	3,019.0	117.4	3,016.4	24.7	1,096.1	36.0
10	Exposures in default	4.4	-	4.3	-	4.3	100.0
11	Exposures associated with particularly high risk	1.2	-	1.2	-	1.4	114.3
12	Covered bonds	54.5	-	54.5	-	5.5	10.0
13	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
14	Collective investment undertakings	-	-	-	-	-	-
15	Equity	-	-	-	-	-	-
16	Other items	19.4	-	19.3	-	19.9	103.1
17	**Total**	**3,545.2**	**119.9**	**3,542.2**	**25.2**	**1,136.4**	**31.9**

6. Credit risk and credit risk mitigation (CRM)

Template UK CR5 – Standardised approach – exposures by asset classes and risk weights

The UK CR5 standardised approach table presents credit risk exposures categorised by standardised exposure class and risk weight. Exposures with no rating available are classified as 'unrated' and are disclosed in the final column.

	At 31 December 2022	Risk weight															Total	Of which unrated
		0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Others		
		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q
	Exposure classes	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
1	Central governments or central banks	420.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	420.7	-
2	Regional government or local authorities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3	Public sector entities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4	Multilateral development banks	106.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	106.0	-
5	International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	Institutions	-	4.3	-	-	11.6	-	18.4	-	-	-	-	-	-	-	-	34.3	-
7	Corporates	-	-	-	-	-	-	-	-	-	1.7	-	-	-	-	-	1.7	1.7
8	Retail	-	-	-	-	-	-	-	-	12.1	-	-	-	-	-	-	12.1	12.1
9	Secured by mortgages on immovable property	-	-	-	-	-	3,007.5	-	-	-	101.1	-	-	-	-	-	3,108.6	3,108.6
10	Exposures in default	-	-	-	-	-	-	-	-	-	4.7	-	-	-	-	-	4.7	4.7
11	Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	0.7	-	-	-	-	0.7	0.7
12	Covered bonds	-	-	-	117.2	-	-	-	-	-	-	-	-	-	-	-	117.2	-
13	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14	Collective investment undertakings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15	Equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
16	Other items	1.1	-	-	-	-	-	-	-	-	23.5	-	2.3	-	-	-	26.9	26.9
17	**Total**	**527.8**	**4.3**	**-**	**117.2**	**11.6**	**3,007.5**	**18.4**	**-**	**12.1**	**131.0**	**0.7**	**2.3**	**-**	**-**	**-**	**3,832.9**	**3,154.7**

6. Credit risk and credit risk mitigation (CRM)

	At 31 December 2021	Risk weight															Total	Of which unrated
		0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Others		
		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q
	Exposure classes	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
1	Central governments or central banks	324.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	324.2	-
2	Regional government or local authorities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3	Public sector entities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4	Multilateral development banks	104.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	104.7	-
5	International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	Institutions	-	-	-	-	5.9	-	10.9	-	-	-	-	-	-	-	-	16.8	-
7	Corporates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	Retail	-	-	-	-	-	-	-	-	7.8	-	-	-	-	-	-	7.8	7.8
9	Secured by mortgages on immovable property	-	-	-	-	-	2,937.2	-	-	-	103.8	-	-	-	-	-	3,041.0	3,041.0
10	Exposures in default	-	-	-	-	-	-	-	-	-	4.3	-	-	-	-	-	4.3	4.3
11	Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	1.2	-	-	-	-	1.2	1.2
12	Covered bonds	-	-	-	54.5	-	-	-	-	-	-	-	-	-	-	-	54.5	-
13	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14	Collective investment undertakings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15	Equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
16	Other items	1.5	30.5	-	-	-	-	-	-	-	16.5	-	1.4	-	-	-	49.9	49.9
17	**Total**	**430.4**	**30.5**	**-**	**54.5**	**5.9**	**2,937.2**	**10.9**	**-**	**7.8**	**124.6**	**1.2**	**1.4**	**-**	**-**	**-**	**3,604.4**	**3,104.2**

7. Leverage ratio

7 Leverage ratio

The leverage ratio has been calculated in accordance with the UK's Leverage Ratio Framework which came into effect from 1 January 2022. The CRD V 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 leverage ratio is the relation between Tier 1 capital and the total exposures (on and off-balance sheet exposures), without taking into effect any risk weighting and intends to represent a 'backstop' measure.

At 31 December 2022, the Nottingham had a leverage ratio excluding claims on central banks of 6.2% (2021: 6.1%), well above the 3.25% regulatory minimum based on the transitional rules and 6.2% under the final CRD V rules basis. As the Society's retail deposits are less than £50bn, it does not have a regulatory minimum requirement for leverage under the UK framework but has internal limits which would be breached prior to the regulatory minimum.

8. Securitisation

8 Securitisation

8.1 Securitisation exposures in the banking book

The disclosures in this section have been prepared in accordance with the guidance set out in template UK SECA – Qualitative disclosure requirements related to securitisation exposures.

Originated Securitisation

The Society has securitised a number of mortgage loans by pooling them together and transferring the beneficial interest of the loans to a Special Purpose Vehicle (SPV), Arrow Mortgage Finance No.1 Limited (Arrow 1).

The Society has a bilateral securitisation facility to raise wholesale funding and provide funding diversification. Securitisation funding forms a balanced portion of the Society's wholesale funding, which helps generate liquidity from illiquid asset types i.e. residential mortgage loans. The legal title to the mortgages remains with the Society and would only transfer to the SPV in limited circumstances, including the insolvency of the Society.

The Society's role in relation to the Arrow 1 securitisation transaction is one of originator, seller, administrator, cash manager and the subordinated loan provider. To raise funds for the purchase of loans underpinning the transaction, a senior secured loan note was issued by the SPV to the third party investor. Interest and principal received from the underlying assets is used to fund the payment of senior note interest and principal. Any residual income after paying the interest and principal and any fees and other operating costs is distributed to the Society. The subordinated loan disclosed below was provided by the Society to Arrow 1.

The position on originated securitisations at 31 December 2022 is detailed below.

Securitisation company	Issue date	Gross assets securitised £m	Senior Note £m	Subordinated Loan £m	Underlying assets past due and impaired £m
Arrow 1	August 2022	112.2	91.0	26.6	-

Purchased Securitisation

The Society invests in residential mortgage-backed securities (RMBS) as part of its overall investment strategy to maintain a diverse and liquid portfolio. Purchases and retention of RMBS are undertaken within a clearly defined Liquidity Risk Policy. All residential mortgage-backed securities are monitored on a regular basis and if the credit rating deteriorates below AAA level the position is reviewed. The Society has neither issued nor invested in re-securitisation assets. The valuation process of our investments in securitisation exposures primarily focuses on quotations from third parties and observed market trades.

The EU Securitisation Regulation (the Securitisation Regulation) sets out the framework and rules for 'Simple, transparent and standardised' (STS) securitisation transaction. Investment in RMBS transactions receive preferential capital treatment if the securitisation special purpose entity (SSPEs) meets the due diligence, risk retention, transparent obligations criteria and design as an STS. At 31 December 2022, all of the Society's securitisation holdings were STS-compliant. The Society's exposure to purchased securitisation positions amounted to £63.3m at 31 December 2022 (2021: £61.5m) and no purchased securitisation positions were past due or impaired.

Treatment and approach to calculation of risk-weighted exposure amounts

Residential mortgages have been pledged by the Society in order to raise wholesale funding. The pledged mortgages remain on the balance sheet of the Society, as it has retained substantially all the risks and rewards of ownership. These assets are held at amortised cost. Arrow 1 is fully consolidated into the Society's consolidated accounts in accordance with IFRS 10. The transfer of mortgage loans to the securitisation company is not treated as a sale by the Society (as originator).

With regards to originated mortgages underpinning the securitisation, there has been no transfer of significant credit risk. The Society does not calculate specific risk weighted exposure amounts for any positions it holds in the securitisation. Capital requirements continue to calculated in line with the Society's other mortgage assets and are risk weighted alongside the Society's own mortgage assets using the Standardised Approach. At 31 December 2022, there are no assets awaiting securitisation (2021: none).

The Society applies the External Ratings Based Approach (SEC-ERBA) to calculate its capital requirement for purchased securitisation. As the Society only invests in AAA RMBS which are STS-compliant it applies the credit quality steps of 1 which is allocated to 10%. External credit ratings for the application of SEC-ERBA are sourced from Moody's and Fitch.

8. Securitisation

Template UK SEC1 – Securitisation exposures in the banking book

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		Institution acts as originator							Institution acts as sponsor			Institution acts as investor				
		Traditional				Synthetic		Sub-total	Traditional		Synthetic	Sub-total	Traditional		Synthetic	Sub-total
		STS		Non-STS					STS	Non-STS			STS	Non-STS		
			of which SRT		of which SRT		of which SRT									
1	**Total exposures**	**-**	**-**	**-**	**-**	**112.2**	**-**	**112.2**	**-**	**-**	**-**	**-**	**-**	**-**	**63.3**	**63.3**
2	Retail (total)	-	-	-	-	112.2	-	112.2	-	-	-	-	-	-	63.3	63.3
3	residential mortgage	-	-	-	-	112.2	-	112.2	-	-	-	-	-	-	63.3	63.3
4	credit card	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5	other retail exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	Wholesale (total)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	loans to corporates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	commercial mortgage	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	lease and receivables	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	other wholesale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

9. Asset Encumbrance

9 Asset encumbrance

The disclosures in this section have been prepared in accordance with the guidance set out in template UK AE4 – Accompanying narrative information.

Asset encumbrance occurs from a legal perspective when there is a claim against a property by another party. From a financial perspective, such claims have traditionally taken the form of security interest such as pledges given by a borrower to a lender. In other words, giving collateral encumbers assets.

The majority of The Nottingham's encumbrance is driven by secured financing activities, which include transactions in repo, derivatives, and securitisations. The Society maintains a level of asset encumbrance in line with the scale and scope of its operations.

A proportion of wholesale funding is provided on a secured basis where, generally, the collateral provided is in the form of mortgage pools. This means that both the credit quality and amount of mortgages have a direct impact on the amount of funding available to The Nottingham. The majority of this secured funding is in the form of TFSME drawings with the Bank of England.

Having unencumbered mortgage pools also provides The Nottingham with access to the operations that fall within the Bank of England's Sterling Monetary Framework (e.g. Indexed Long-Term Repo (ILTR)); therefore these unencumbered pools are a source of liquidity. As well as providing collateral to the Bank of England, mortgage pools are also used to collateralise secured funding obtained from market counterparties.

The levels of asset encumbrance are monitored via control limits and triggers, which are forecast as part of the financial planning process.

9. Asset Encumbrance

9.1 Encumbered and unencumbered assets

Template UK AE1 - Encumbered and unencumbered assets

The asset encumbrance disclosure templates reported under this section are calculated using the median of the end-of-period values for each of the four quarters in the year. These median figures are therefore not directly comparable with the Encumbrances assets section within the Annual Report and Accounts.

At 31 December 2022		Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
			of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
		010	030	040	050	060	080	090	100
010	**Assets of the reporting institution**	**546.3**	**-**			**3,237.0**	**-**		
030	Equity instruments	-	-	-	-	-	-	-	-
040	Debt securities	4.7		4.7	-	381.8	-	381.8	-
050	of which: covered bonds	-		-	-	-	-	-	-
060	of which: securitisations	-	-	-	-	-	-	-	-
070	of which: issued by general governments	4.7	-	4.7	-	107.6	-	107.6	-
080	of which: issued by financial corporations	-	-	-	-	274.2	-	274.2	-
090	of which: issued by non-financial corporations	-	-	-	-	-	-	-	-
120	Other assets	541.1	-			2,698.7	-		

10. Remuneration Policy

10 Remuneration policy

The disclosures in this section have been prepared in accordance with the guidance set out in template UK REMA – Remuneration Policy.

Information relating to the bodies that overseas remuneration

The Society's Remuneration Committee (RemCo) is responsible for overseeing matters related to remuneration. The Committee comprises a minimum of three non-executive directors (one of which acts as the Chair of the Committee) and the Chief Executive, Chief People Officer, Senior Legal Counsel & Company Secretary attend. There were four meetings held by the RemCo in 2022 and no advice was sought from external consultants during the year in relation to the remuneration framework.

The Committee has delegated authority from the Board for setting remuneration for the Society's Chair, executive directors, and material risk takers in accordance with the Principles and Provisions of the UK Corporate Governance Code ("Code") and other Remuneration Code staff in line with the PRA's Remuneration Code and to make recommendations to the Board on the Society's Remuneration Policy. The Board itself determines the remuneration of the non-executive directors. The Committee reviews the design of all remuneration and incentive plans. For any such plans, the Committee determines each year whether awards will be made; and if so, the overall amount of such an award, the individual awards for executive directors, senior managers and material risk takers and the performance targets used. The Remuneration Policy applies to the entirety of The Nottingham's workforce.

Information relating to the design and structure of the remuneration system for identified staff

The Remuneration Policy is there to ensure that remuneration should be sufficient to attract, reward, retain and motivate high quality leaders and employees to run The Nottingham successfully, delivering value for our members whilst avoiding paying more than is necessary for this purpose in line with our mutual ethos. The Remuneration Policy is compiled by the Chief People Officer with input from the ExCo and is reviewed and approved by the RemCo and Board. The RemCo reviews the Society's Remuneration Policy annually, there were no material changes made in 2022.

Further details regarding the Remuneration Policy and the role of RemCo are set out in the Directors Remuneration Report in the 2022 Annual Report and Accounts which is published on The Nottingham's website (www.thenottingham.com).

Information on how the institution ensures that staff in internal control functions are remunerated appropriately

The individual performance objectives for Control Function employees are linked to delivering the objectives of the Control Function, ensuring the variable remuneration of these individuals is independent from the businesses they oversee. Pay decisions for the Head of Internal Audit are made by the Chair of the BAC and this role does not participate in the Annual Bonus Plan. Pay and bonus recommendations for the Chief Risk Officer & General Counsel are made by the CEO with reference to the Chair of the BRC. Remuneration for senior staff in Control Functions is directly overseen by the RemCo. In all cases, remuneration packages are set based upon market data and recognising the specific skills which an employee brings to their role in order to attract and retain appropriately qualified and experienced staff, rewarding fairly whilst not compromising on independence.

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

The Society does not operate guaranteed variable remuneration. The Society's severance policy was developed by the People & Development Team and ensures all individuals are treated fairly and consistently throughout the process, in line with appropriate legislative requirements and any relevant ACAS guidance. Any employee with less than 12 months' service will not receive a redundancy payment. The Nottingham will make an enhanced lump sum redundancy payment to each redundant employee who has completed at least 12 months service. The minimum redundancy payment will be 6 weeks' pay, to include employees with between 12 and 24 months' service who are not covered by the statutory calculator. For employees who have completed at least 2 years' service, the basis of this calculation will normally be 2 x statutory redundancy payment. The maximum number of years' service available for calculation is 20 years. Severance payments for material risk takers are approved by RemCo.

10. Remuneration Policy

Fixed pay	
Basic salary	Basic salary is set with reference to grade, market benchmarking and performance driven. Grade is determined using the Willis Towers Watson global grading framework and salaries for roles are determined by using functional external market benchmark data.
Pensions	The Society contributes up to a maximum of 16% of salary or paid as cash allowance (dependent upon age of joining and period of time in the scheme) for members of the Society's Personal Pension Plan. The pension benefits relating to the Executive Directors are outlined in the 2022 Annual Report and Accounts.
Benefits	Benefits in kind include the provision of a car allowance, private medical insurance and death in service benefits.
Variable pay	
Bonus	Material risk takers participate in one discretionary bonus scheme, the Annual Bonus Plan. The bonus plan is based upon a modular scorecard approach derived from the Society's strategic goals and includes an assessment of effective risk management.

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

Material risk takers are defined by the Regulator as 'staff whose activities have a material impact on the firm's risk profile', this includes staff that perform significant influence functions, senior managers and risk takers, including executive and non-executive directors.

Template UK REM5 sets out the quantitative remuneration for code staff in relation to their services for The Nottingham for the year ended 31 December 2022.

Information relating to the ways in which current and future risks are taken into account in the remuneration processes.

The potential risk implications of remuneration is managed in a number of ways, including the core design of the Annual Bonus Plan and through risk management assessment for executive variable pay. The bonus scorecard is assessed by RemCo under delegated authority from the Board, against the overarching risk appetite set by the BRC. The 'safe and secure' objective assesses key risk metrics against the following measurements: Member, Physical, Data, People and Digital.

Additionally, the Chief Risk Officer & General Counsel compiles a risk management assessment prior to the release of payments under the Executive Bonus Plan. This details risk performance in relation to the following factors:

- A satisfactory individual performance rating, including compliance with the Senior Manager's Regime Conduct Rules where appropriate.
- Capital and Liquidity requirements are maintained within the BRC's approved Board Risk Appetite, in line with the Society's Risk and Governance Framework.

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

Performance criteria in the Annual Bonus Plan is assessed against financial adequacy (level of profit), progress against strategic objectives (key business metrics) and individual performance (as measured in the end of year performance review). This determines individual bonuses to be paid and underperformance in relation to any of these measurements can reduce variable pay (including reducing to zero).

As a mutual, the Society does not issue shares on the London Stock Exchange. For this reason, the annual performance pay cannot be based upon Share Option Schemes or Share Incentive plans. The Nottingham operates an Annual Bonus Plan and does not have any instrument-related remuneration scheme in operation. The Society is a level three firm (with assets less than £15bn) and is therefore not subject to the rules on retained shares or other instruments and deferral of variable pay.

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

The Executive Team Annual Bonus Plan includes deferral, malus and clawback provisions which can be applied in relation to performance assessments. For the Executive Team level there is a 3-year deferral of 50% of the annual bonus plan payment. The deferred element is paid in one payment and prior to release of the deferred payment, RemCo will review the threshold criteria and relevant strategic objectives to ensure these have all been met. The Society may, in its absolute discretion, at any time prior to payment of the deferred element (or during such longer period as may be required in order for the Society to comply with regulatory requirements applicable to it) reduce (including reducing to zero) the amount of the deferred element; and/or impose further conditions on the future payment of the deferred element. The Society may, in its absolute discretion, at any time prior to the seventh anniversary of the date on which the deferred element was paid to the Participant require the Participant to repay to the Society some or all of the bonus payments already paid to them under the Plan in any circumstances in which the Society considers it appropriate.

10. Remuneration Policy

10.1 Remuneration award for the financial year

Template UK REM1 - Remuneration award 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	7	3	14	1
2		Total fixed remuneration (£000)	423	889	1,742	38
3		Of which: cash-based	423	889	1,742	38
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	-	-	-	-
9	Variable remuneration	Number of identified staff	-	3	8	1
10		Total variable remuneration (£000)	-	228	282	2
11		Of which: cash-based	-	228	282	2
12		Of which: deferred	-	114	120	-
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 (2 + 10)		423	1,117	2,024	40

10. Remuneration Policy

10.2 Deferred remuneration

Template UK REM3 – Deferred remuneration		a	b	c	d	e	f	g	h
		Total amount of deferred remuneration awarded for previous performance periods	Of which due to vest in the financial year	Of which vesting in subsequent financial years	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years	Total amount of adjustment during the financial year due to ex post implicit adjustments (i.e. changes of value of deferred remuneration due to the changes of prices of instruments)	Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year	Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods
1	MB Supervisory function	-	-	-	-	-	-	-	-
2	Cash-Based	-	-	-	-	-	-	-	-
3	Shares or equivalent ownership interests	-	-	-	-	-	-	-	-
4	Share-linked instruments or equivalent non-cash instruments	-	-	-	-	-	-	-	-
5	Other instruments	-	-	-	-	-	-	-	-
6	Other forms	-	-	-	-	-	-	-	-
7	MB Management function	342	194	148	-	-	-	194	-
8	Cash-based	342	194	148	-	-	-	194	-
9	Shares or equivalent ownership interests	-	-	-	-	-	-	-	-
10	Share-linked instruments or equivalent non-cash instruments	-	-	-	-	-	-	-	-
11	Other instruments	-	-	-	-	-	-	-	-
12	Other forms	-	-	-	-	-	-	-	-
13	Other senior management	99	-	99	-	-	-	-	-
14	Cash-based	99	-	99	-	-	-	-	-
15	Shares or equivalent ownership interests	-	-	-	-	-	-	-	-
16	Share-linked instruments or equivalent non-cash instruments	-	-	-	-	-	-	-	-
17	Other instruments	-	-	-	-	-	-	-	-
18	Other forms					-	-	-	-
19	Other identified staff	-	-	-	-	-	-	-	-
20	Cash-based	-	-	-	-	-	-	-	-
21	Shares or equivalent ownership interests	-	-	-	-	-	-	-	-
22	Share-linked instruments or equivalent non-cash instruments	-	-	-	-	-	-	-	-
23	Other instruments	-	-	-	-	-	-	-	-
24	Other forms	-	-	-	-	-	-	-	-
25	Total amount	441	194	247	-	-	-	194	-

10. Remuneration Policy

10.3 Remuneration of staff whose professional activities have a material impact on institutions' risk profile

Template UK REM5 - Remuneration of staff whose professional activities have a material impact on institutions' risk profile

		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**										**25**
2	Of which: member of the MB	7	3	10							
3	Of which: other senior management				-	3	-	10	1	-	
4	Of which: other identified staff				-	-	-	1	-	-	
5	**Total remuneration of identified staff (£000)**	**423**	**1,117**	**1,540**	**-**	**569**	**-**	**1,342**	**153**	**-**	
6	Of which: variable remuneration	-	228	228	-	49	-	234	-	-	
7	Of which: fixed remuneration	423	889	1,312	-	520	-	1,108	153	-	

Template 'UK REM2 - *Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff)'* has not been presented as there were no individuals that received special payments during the financial year.

Template 'UK REM4 - *Remuneration of 1 million EUR or more per year'* has not been presented as there were no individuals that were remunerated EUR 1 million or greater during the financial year.

11. Attestation

11 Attestation

The Directors confirm that, to the best of their knowledge, the Pillar 3 disclosure document for 31 December 2022 complies with the Disclosure (CRR) Part of the PRA Rulebook and has been prepared in accordance with internal control processes and policies.

Signed on behalf of the Board by

Peter O'Donnell
Chair of Audit Committee

Paul Astruc
Chief Financial Officer

02 March 2023

12. Contacts

12 Contacts

If you would like further information regarding this document please contact:

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NG1 3DL

Appendix 1 - Glossary

13 Appendix 1 - Glossary

Set out below are the definitions of the terms used within the Pillar 3 disclosure report to assist the reader and to facilitate comparison with other financial institutions:

Term	Definition
Arrears	A customer is in arrears when they are behind in meeting their contractual obligations with the result that an outstanding loan payment is overdue. The value of the arrears is the value of any payments that have been missed.
Basel III	Basel III sets out the details of strengthened global regulatory standards on bank capital adequacy and liquidity.
Buy-to-let loans (BTL)	Buy-to-let loans are those loans which are offered to customers buying residential property specifically to let out and generate a rental income.
Capital Requirements Directive (CRD V)	CRD V is made up of the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD), outlining the capital requirements framework and introduced liquidity requirements, which regulators use when supervising firms.
Common Equity Tier 1 capital (CET1)	CET1 capital consists of internally generated capital from retained profits, other reserves less intangible assets and other regulatory deductions. CET1 capital is fully loss absorbing.
Common Equity Tier 1 ratio	Common Equity Tier 1 capital as a percentage of risk weighted assets.
Capital Conservation Buffer (CCoB)	A buffer to be held by all financial institutions which can be drawn down in times of stress.
Counter Cyclical buffer (CCyB)	An additional capital buffer to prevent excessive growth in domestic economies.
Counterparty credit risk	Counterparty credit risk is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows.
Credit conversion factor (CCF)	The CCF converts an off-balance sheet exposure to its credit exposure equivalent by applying a percentage which varies depending on exposure type.
Credit Quality Steps	A credit quality assessment scale as set out in CRR Articles 111 - 141 (Risk weights under the Standardised Approach to credit risk).
Credit risk	This is the risk that a customer or counterparty fails to meet their contractual obligations.
Debt securities	Assets representing certificates of indebtedness of credit institutions, public bodies or other undertakings excluding those issued by central banks.
Derivative financial instruments	A derivative financial instrument is a contract between two parties whose value is based on an underlying price or index rate it is linked to, such as interest rates, exchange rates or stock market indices. The Society uses derivative financial instruments to hedge its exposure to interest rate risk.
Expected Credit Loss (ECL)	The present value of all cash shortfalls over the expected life of the financial instrument. The term is used for accounting for impairment provisions under the new IFRS 9 standard.
Exposure	The maximum loss a financial institution might suffer if a borrower, counterparty or group fails to meet their obligations.
External Credit Assessment Institution (ECAI)	An ECAI (e.g. Moody's, Standard and Poor's, Fitch) is an institution that assigns credit ratings to issuers of certain types of debt obligations as well as the debt instruments themselves.
Fair value	Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
Fair value through other comprehensive income (FVOCI)	Financial assets held at fair value on the balance sheet with changes in fair value being recognised through other comprehensive income.
Financial Conduct Authority (FCA)	The statutory body responsible for conduct of business regulation and supervision of UK authorised firms.
General Reserves	The accumulation of the Society's historic and current year profits which is the main component of Common Equity Tier 1 capital.
IFRS 9	IFRS 9 'Financial Instruments' is the accounting standard applicable from 1 Jan 2018, which includes requirements for the classification and measurement of financial instruments, impairment of financial assets and hedge accounting.
Impairment	The term impairment is usually associated with a long-lived asset that has a fair market value less than the historical cost (or book value) of the asset.
Impaired loans	Loans where there is objective evidence that an impairment event has occurred, meaning that the Society does not expect to collect all the contractual cash flows or expect to collect them later than they are contractually due. Where applicable for disclosure purposes a loan is classified as impaired if it is categorised as Stage 3 under IFRS 9.
Interest rate risk	The risk of loss due to a change in market interest rates. Interest rate risk can have an impact on Society's mortgages and savings products.
Internal Capital Adequacy Assessment Process (ICAAP)	The Society's own assessment of the levels of capital that it needs to hold in respect of its regulatory capital requirements for risks it faces under a business as usual scenario including stress events.

Appendix 1 - Glossary

Internal Liquidity Adequacy Assessment Process (ILAAP)	The Society's own assessment of the liquidity resources it requires in order to remain within the risk tolerances it has set. This will include an evaluation of potential stresses based on multiple market environments.
Leverage Ratio	The ratio of Tier 1 capital divided by the total exposures, which includes on and off-balance sheet items.
Liquid Assets	Total of cash in hand, loans and advances to credit institutions, and debt securities.
Liquidity Resources	Assets held in order to manage liquidity risk. Liquidity resources comprise cash and balances with the Bank of England, UK Government securities and multilateral development banks, other securities and bank deposits and Bank of England approved mortgage portfolios.
Loan to value ratio (LTV)	LTV expresses the amount of a mortgage as a percentage of the value of the property.
Market risk	The risk that movements in market risk factors, including foreign exchange rates, interest rates, credit spreads and customer-driven factors will create potential losses or decrease the value of the Society balance sheet.
MB Management function	The body that sets the Society's strategy, objectives and overall direction, and which oversee and monitors management decision-making. This includes Executive Directors.
MB Supervisory function	The body acting in its role as overseeing and monitoring decision-making. This includes Non-Executive Directors.
Member	A person who has a share investment or a mortgage loan with the Society.
Minimum capital requirement	The minimum amount of regulatory capital that a financial institution must hold to meet the Basel III Pillar 1 requirements for credit, market and operational risk.
Multilateral Development Banks	A multilateral development bank is an international financial institution chartered by two or more countries for the purpose of encouraging economic development.
Operational risk	The risk of loss arising from inadequate or failed internal processes, people and systems, or from external events.
Other identified staff	Natural persons (excluding Non-Executive Directors, Executive Directors, Executives and relevant senior managers) whose professional activities have a material impact on the Society's risk profile. This includes other material risk takers.
Other items	Other assets not included in other definitions.
Other senior management	Natural persons who exercise executive functions within the Society and who are responsible and accountable to the management body, for the day-to-day management of the Society. This includes both Executive and relevant senior managers.
Past due items	Loans which are 90 days or more in arrears.
Permanent Interest Bearing Shares (PIBS)/ Subscribed Capital	Unsecured, deferred shares of the Society which rank behind the claims of all depositors, payables and investing members of the Society. PIBS are also known as subscribed capital.
Pillar 1	The parts of CRD V which set out the minimum capital requirements for credit, market and operational risk.
Pillar 2	Those aspects of CRD V which set out the process by which the Society should review its overall capital adequacy, and the processes under which the regulators / supervisors evaluate how well financial institutions are assessing their risks and take appropriate actions in response to the institutions' assessments.
Pillar 3	The part of CRD V governing the production of this document. It sets out information disclosures relating to risks, the amount of capital required to cover these risks, and the approach to risk management.
Probability of default (PD)	A component of the IFRS 9 expected credit loss calculation. An estimate of the probability that a borrower will default on their credit obligation over a fixed time period. A 12-month ECL uses a 12 month PD, whilst a lifetime ECL uses the estimated PD over the remaining contractual life of the loan.
Prudential Regulation Authority (PRA)	The statutory body responsible for the prudential supervision of banks, building societies, insurers and small number of significant investment firms in the UK. The PRA is a subsidiary of the Bank of England.
Residential Loans	Loans that are loaned to individuals rather than institutions and are secured against residential property.
Retail	The portion of any residential mortgage exposure above 80% LTV, as per CRR Article 125.
Risk appetite	The articulation of the level of risk that the Society is willing to accept (or not accept) in order to safeguard the interests of the Society's members whilst also achieving business objectives.
Risk weighted assets (RWA)	The value of assets, after adjustment, under the relevant capital rules to reflect the degree of risk they represent.
Secured Business Lending (SBL)	Loans secured on commercial property which is only made available to Small and Medium Enterprises and includes limited company buy-to-let lending.

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Secured by Mortgages on Residential Property	Residential mortgages where LTV is less than or equal to 80%, as per CRR Article 125.
Securitisation	The process by which a group of assets (usually mortgage loans) is aggregated into a pool which is used to back the issuance of new securities. A company transfers assets to a special purpose vehicle which secures funding backed by those assets. The Society has established a securitisation structure (using residential mortgages as assets) as part of its funding activities.
Shares	Funds deposited by a person in a retail savings account with the Society. Such funds are recorded as liabilities for the Society.
Significant increase in credit risk (SICR)	A significant increase in credit risk on a financial asset is judged to have occurred when an assessment, using quantitative and qualitative factors, identifies at a reporting date that the credit risk has moved significantly since the last asset was originally recognised.
Special Purpose Vehicle	A legal entity (usually a limited company) created to fulfil narrow, specific or temporary objectives. In the context of the Society, the SPV is used in relation to securitisation activities.
Stage 1	A component of the IFRS 9 expected credit loss calculation. Stage 1 assets are assets which have not experienced a significant increase in credit risk since the asset was originally recognised on the balance sheet. 12 month ECL are recognised as the impairment provision for all financial assets on initial recognition. Interest revenue is the EIR on the gross carrying amount.
Stage 2	A component of the IFRS 9 expected credit loss calculation. Stage 2 assets have experienced a significant increase in credit risk since initial recognition. Lifetime ECL is recognised as an impairment provision. Interest revenue is calculated using the EIR based on the gross carrying amount.
Stage 3	A component of the IFRS 9 expected credit loss calculation. Stage 3 assets are identified as in default and considered credit impaired. Lifetime ECL is also recognised as an impairment provision. Interest revenue is calculated using the EIR based on the net carrying amount.
Standardised Approach	The basic method used to calculate capital requirements for credit risk. In this approach the risk weighting used in the capital calculation is determined by specified percentages.
Term Funding Scheme (TFS) Term Funding with additional incentives for SMEs (TFSME)	Schemes launched by the Bank of England and HM Treasury, which provides funding to participating banks and building societies with the aim of stimulating lending within the economy.
Tier 1 capital	A component of regulatory capital, it comprises CET1 and AT1.
Tier 1 ratio	Tier 1 capital as a percentage of risk weighted assets.
Tier 2 capital	Comprises the collective impairment allowance (for exposures treated on a Standardised basis), less certain regulatory deductions.
Total Capital Requirement (TCR)	The total amount of capital the regulator requires the Society to hold, which is made up of Pillar 1 and Pillar 2A capital.
Wholesale funding	Amounts owed to credit institutions, amounts owed to other customers and debt securities in issue.

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