



Pillar 3 Disclosure Document of the Beverley Building Society for the year ending 31 December 2016

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1. Introduction

This disclosure document is intended to provide background information on the Society's approach to risk management as related to maintaining and preserving the capital position of the Society. It also provides asset information and capital calculations under Pillar 1, and specifically the Society's risk weighted exposures under the standardised approach credit risk exposure classes. It also provides disclosures in relation to the Remuneration Policy and practices for those staff whose professional activities could have a material impact on the Society's risk profile.

The regulatory framework under which the Society operates comprises principally the Capital Requirements Directive (CRD) and the Capital Requirements Regulations (CRR), collectively referred to as 'CRD IV'. CRD IV requires capital requirements to be determined on the basis of three 'Pillars':

- **Pillar 1: Minimum Capital Requirements** calculated on the standardised approach to credit risk (expressed as 8% of the risk weighted exposure amounts for each of the applicable standardised credit risk exposure classes), and the basic indicator approach to operational risk (determined by reference to the net income of the Society averaged over the previous 3 years).
- **Pillar 2: Additional Capital Requirements** assessed by the Society as appropriate to reflect specific risks not considered to be adequately covered under Pillar 1 ('Pillar 2a' capital requirement) and to protect the Society's capital position under certain stressed conditions ('Pillar 2b' capital requirement). These requirements are evaluated through an Internal Capital Adequacy Assessment Process ('ICAAP'). This involves the assessment of capital that the Board of Directors ('the Board') considers adequate to mitigate the various risks to which the Society is exposed, based on the Society's Risk Appetite Statement, Risk Management Policies, Systems and Controls, and its Corporate Plan.
- **Pillar 3: Disclosure** of key information on risk exposures and approaches to risk management.

The basis of these Pillar 3 disclosures is the latest European standard issued by the Basel Committee on Banking Supervision (BCBS); Basel III/CRD IV. Basel III was constructed after the 2008 financial crisis with the aim of strengthening banks and building societies, in terms of capital adequacy, stress testing and liquidity risk.

CRD IV has an extended period of implementation that started in 2014 and will last until 2019.

Beverley Building Society ('the Society') has an obligation to ensure that Members are protected by a sufficient amount of capital. Internal systems and controls have been designed by the Society, to identify the risks associated with its activities and evaluate the potential losses which may arise under stressed conditions. This risk assessment is used to assist the Board in developing appropriate business strategies, identifying significant risk management performance indicators, and in effective oversight of the effectiveness of systems and controls.

These disclosures reflect the Society's position as of 31 December 2016, and data has been drawn from the Society's Annual Report and Accounts as at that date unless otherwise stated.

The Society has no subsidiaries and operates a simple traditional building society model with no complex treasury operations. At 31 December 2016 the Society was fully funded from retail savings.

The Society prepares its annual accounts in accordance with the Building Societies Act 1986, the Building Societies (Accounts and Related Provisions) Regulations 1998 and Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102") as issued in September 2015. These Pillar 3 disclosures reflect this.

It should be noted that these disclosures do not constitute a Financial Statement and are intended only for the purpose of providing information on the Society's capital requirements and relevant aspects of its risk management framework.

In the event that a user of this document requires further explanation on the disclosures given, application should be made in writing to the Risk Director at Beverley Building Society, 57 Market Place, Beverley, HU17 8AA.

2. Risk appetite

The Society's Risk Appetite Statement, which has been approved by the Board, is summarised as follows:

Prudential

The Society will not knowingly take risk positions which threaten its ability to remain an independent mutual Building Society that is able to continue to provide value to its members on a going concern basis. The Society's Executive Team will conduct its activities in a manner that safeguards the Society's investing members' deposits.

The Society ensures that its internal control mechanisms and administrative and accounting procedures permit the verification of its compliance with rules adopted in accordance with the Capital Adequacy Directive (CAD). The Society closely monitors any changes which may impact on the Society under the final CRD IV rules.

Credit

The Society will only consider new lending when it is Fully Secured on Residential Property (FSRP) and is owner occupied. Currently the Society is lending a maximum of 90% of purchase price or value whichever is the lower.

A maximum loan cap of 4 x income is applied which is in addition to monthly affordability calculation, incorporating a stress of Standard Variable Rate (SVR) + 2.00%.

There is a limited appetite for new interest-only lending, subject to specific tranche limits and criteria agreed by the Board. There is currently no further appetite for buy to let or non-residential (i.e. commercial) lending.

Conduct

The Society's vision is to offer straightforward, value for money products, that are easy to understand, and are supported by an unrivalled level of personal service. In addition, the Society will not offer sales incentives or bonuses to its staff and individual appraisal objectives will not include sales targets thus containing conduct risk at a low level.

Operational

The Society has minimal appetite for operational risk but cannot limit it entirely.

3. Risk management policies and objectives

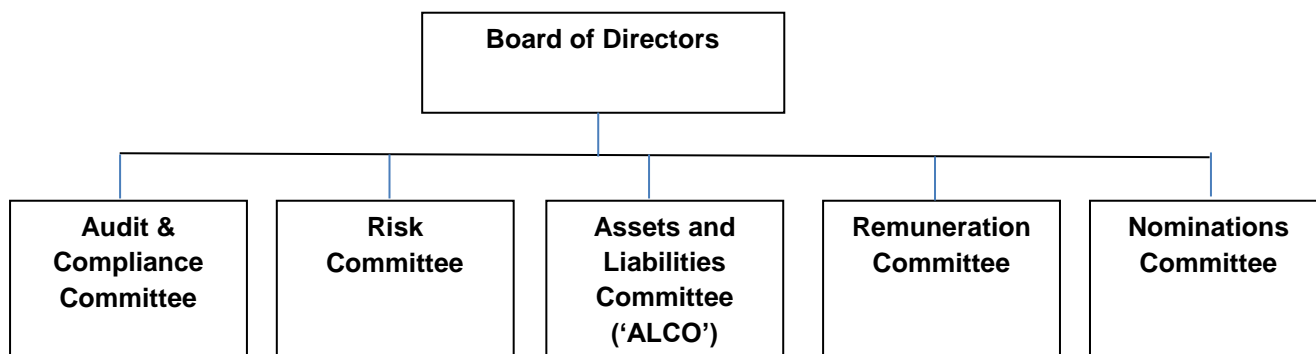
3.1. Risk framework

The Risk Appetite Statement is relevant to all the significant risks facing the Society. This, along with the Corporate Plan sets the parameters for the risk framework which includes:

- Strategy and risk appetite; clearly articulated and approved by the Board;
- Responsibilities; allocation to individuals, Committee Terms of Reference, mandates and reporting lines defined and appropriately segregated;
- Arrangements; documented Policies and Procedures, communicated and applied across the business;
- Monitoring; generation of appropriate management information for first and second line oversight, and the generation of appropriate Reports for governance oversight;
- Internal Audit; independent evaluation of the design, implementation and effectiveness of the Society's systems and controls.

3.2. Governance

The Society's Board and Committee structure is:



The responsibilities of the Board and each of the Board sub-Committees are described in their Terms of Reference, which are published on the Society's website.

3.2.1 The Board

The Board directs and supervises the Society's affairs. The principal functions of the Board are to determine the Society's strategy, to review business performance and to ensure that the necessary financial and business systems and controls and human resources are in place for the management of risk and to safeguard the interests of members.

3.2.2 Audit and Compliance Committee

The Committee, now chaired by Martin Cocker, considers regulatory compliance matters, the adequacy of internal controls, reviews reports from both the Society's internal and external auditors and reviews any changes in accounting policy and practice. Meetings are held at least four times a year and other members of the Committee are Richard Pattinson, Sue Symington and Mike Heenan. Three members of the Committee have recent relevant financial experience.

3.2.3 Risk Committee

The Risk Committee, chaired by Richard Pattinson, meets at least quarterly. The Committee is responsible for the oversight and challenge of the Society's risk management framework to identify, manage and mitigate key risks faced by the Society. Other members of the Committee are Martin Cocker, Mike Heenan, Janet Bedford (Finance Director), Peter Myers (Chief Executive), Mark Marsden (Risk Director) and Graham Carter (Head of Lending).

3.2.4 Assets and Liabilities Committee

The Assets and Liabilities Committee, chaired by Mike Heenan, meets on a monthly basis to manage the Society's balance sheet in relation to liquidity and net interest margin. It is also responsible for reviewing the Society's policies and counterparty list and ensuring regulatory limits are adhered to. Other members of the committee are Richard Pattinson, Sue Symington, Martin Cocker, Peter Myers (Chief Executive), Janet Bedford (Finance Director), Mark Marsden (Risk Director) and Graham Carter (Head of Lending).

3.2.5 Remuneration Committee

The Remuneration Committee, chaired by Sue Symington, meets at least once a year and independently reviews the remuneration, benefits and contracts of Non-Executive Directors and Executive Directors. The other member of the Committee is Brian Young. Further details can be found in the Directors' Remuneration Report on page 18 of the Society's Annual report and Accounts.

3.2.6 Nominations Committee

The Nominations Committee, chaired by Brian Young, meets at least once a year to review the structure, size and composition of the Board. The Committee also gives consideration to succession planning, taking into account the challenges and opportunities facing the Society and therefore the skills and expertise needed. Other members of the Committee are Peter Myers (Chief Executive) and Sue Symington.

The Board reviews its Governance arrangements, including membership of its sub-Committees, at least annually, taking into account relevant factors from the UK Corporate Governance Code. This ensures the continued competence and appropriate cross over of membership to facilitate the effective management of risk

The Society maintains a comprehensive suite of Policies to support management of specific risks. These include, but are not limited to, policies for Financial Risk, Funding, Liquidity, Lending and Arrears Management. These contain appropriately detailed qualitative and quantitative criteria and limits within which the business is managed and the effectiveness of risk management systems and controls is regularly evaluated. These are reviewed, amended and approved by the Board on a regular basis to ensure they remain relevant and appropriate.

3.3 Risk management structure

The Society operates a 'three lines of defence' model, summarised below:

a) First Line – the operational business

The Board sets out its requirements in Statements and Risk Appetite and Policy, the implementation of which is delegated to the Senior Management Team consisting of:

- Chief Executive
- Finance Director
- Risk Director
- Head of Lending
- Head of Operations

The Executive Team ensures that departmental procedures, individual and team responsibilities, staff training and quality control arrangements reflect the Boards requirements in a transparent, recorded manner. The Executive Team meets weekly and considers the effective implementation of these requirements

b) Second Line – risk & compliance

Supported by a dedicated Compliance Manager, the Risk Director works with the senior management team to ensure that the risk management framework is implemented. This includes providing independent monitoring and challenge to help identify any gaps in the risk control system. Reports are provided to the Executive Team, Board and its sub-Committees on a regular basis.

c) Third Line - internal audit

Internal Audit has been outsourced to RSM, who provide independent assurance that the systems are appropriate and controls effectively applied, and report directly to the Chairman of the Audit and Compliance Committee.

3.4. Risk identification, monitoring and reporting

The Society's Risk Register is the main tool capturing the significant risks (and associated controls) facing the Society and is maintained by the Risk Director, who also ensures that these are communicated to the Board and are reflected in the ICAAP process: The Risk Register is reviewed by the Board twice a year. The Risk

Register records the evaluation of likelihood and potential consequences, inherent and residual risk.

The ALCO, Risk Committee, and the Audit and Compliance Committee monitor risk metrics derived from the ICAAP related to their areas of responsibility. Issues identified are highlighted to the Board. All Board members receive management information in relation to the full suite of ICAAP derived risk metrics derived from the ICAAP.

3.5. Principle risks faced by the Society

The Risk Appetite Statement defines the boundary of the risks that the Society is willing to assume. The Financial Risk Management, Funding, Liquidity, Lending, Arrears Management and other risk related Policies provide a translation into specific contexts and provide a specific risk management framework in these areas.

The principle risks facing the Society as a result of its normal business activities are outlined below.

3.5.1 Credit Risk

Credit risk is the risk of unexpected loss if a customer or counterparty fails to perform its obligations. As a prime residential mortgage lender, mortgage default is the largest single risk run by the Society. This risk is monitored by the Risk Committee. In addition, credit risk in relation to liquid assets is monitored by the ALCO.

(a) Credit Risk – Mortgages

Credit risk for mortgages, arising from exposures to institutions, retail and commercial customers is assessed via a number of stress tests defined in the Risk Appetite Statement.

All new lending is assessed against a Board approved Lending Policy by experienced staff subjected to a thorough training and competence regime. A full affordability assessment including an appropriate affordability stress test (currently SVR + 2% across all its discounted variable rate products) is completed in all cases, and the separate approvals to Offer and Complete on mortgages enforce 'four eyes' checking, segregation of duties and adherence to Board approved mandates.

The Society lends only on property in England and Wales. All new lending is prime residential to owner occupiers, although the Society does retain some exposure to legacy commercial and buy to let lending. The Society does not accept self-certification of income.

During the year to 31 December 2016 credit losses were £1,272K (2015: £114K, writing off loans previously fully provided). At that date there were 5 (2015: 4)

accounts where forbearance was currently exercised; the balance of these accounts amounted to £1.12M (2015: £1.54M) , or 0.76% (2015: 1.04%) of mortgage balances.

Given the absence of a significant credit loss history the Society models a severe credit risk stress event significantly more severe than that which occurred in 2009.

(b) Credit Risk – Liquidity Counterparties

The Society's Liquidity Policy includes strict criteria for counterparties to ensure that its liquidity investments are both diversified and of a high quality. There are Policy criteria in relation to eligible counterparties, eligible investments, single counterparty exposures and maturity structure. A large proportion of the Society's liquid asset exposure is to the UK Government. The remaining treasury investment portfolio is primarily held in the form of Certificate of Deposits (CDs), maturing in up to one year and placed with institution with a Fitch long term credit rating of A or above. In all cases regardless of credit rating the Society's Finance Director undertakes an appropriate due diligence assessment prior recommending any new counterparty to the Board,

Total liquidity at 31 December 2016 was £43.0M (2015: £34.9M) broken down as follows:

	< 3 Mths £000s	3 Mths to 1 Yr £000s	Total £000s
Bank of England Reserve Account (same day access)	28.040	-	28.040
UK Treasury Gilts	-	-	-
UK Banks/ Building Societies Rated A- or above	2.010	11.041	13,051
Other Banks Rated A- or above on acquisition			
Call Account (Rated BBB+)	1.950	-	1.950
Total	32.000	11.041	43.041

The Society's ALCO monitors counterparty exposures against the limits, and the Board is briefed by the ALCO Chairman on the outcome of that monitoring and on key decisions made by the ALCO, which includes (when applicable) changes to counterparty limits, for Board ratification.

(c) Provisions

Provisions for losses are based upon an appraisal of loans and other assets balances and their carrying value on the Society's Balance Sheet, in accordance with a Board approved Policy on Loss Provisioning.

In relation to mortgages in arrears, assessment of potential loss is based on a full assessment on a case by case basis considering matters such as valuation, anticipated sale price, sale costs, outstanding balance, any mortgage indemnity insurance in place and any other collateral used as security. Where there is a shortfall and the mortgage is three or more months in arrears a specific provision will be applied. For properties in possession or where a Law of Property Act ('LPA') Receiver has been appointed valuations are based on a forecasted cash flow basis, taking account expected income and costs associated with temporarily holding the property for rent pending an eventual sale.

The collective provision is based on a discounted cashflow of the forecast loss due to mortgages currently within the mortgage portfolio, but not yet subject to specific provision (i.e. less than 3 months in arrears). This calculation is performed on a loan by loan basis, with the assumptions determined by the category of loan.

The movement on provisions in 2016 are set out below:

	Loans fully secured on residential property	Other loans fully secured on land	Total
	£000	£000	£000
At 31 December 2015			
Collective provision	100	116	216
Specific provision	1,227	159	1,386
Total	1,327	275	1,602
Movement during 2016			
Collective provision	(2)	(11)	(13)
Specific provision	(979)	(99)	(1,078)
Total	(981)	(110)	(1,091)
At 31 December 2016			
Collective provision	98	105	203
Specific provision	248	60	308
Total	346	165	511
The total movement in provisions is made up as follows:			
Income and expenditure charge for the year			181
Write-off of loans previously provided			(1,272)
Total			(1,091)

3.5.2 Liquidity Risk

Liquidity risk is the risk that the society is unable to meet its financial obligations as they fall due. Its main liabilities are its retail savings products. Liquidity risk is managed principally by holding an appropriate level of high quality, easily realisable liquid assets (primarily in a Bank of England Reserve Account). The Board has established an appropriate Liquidity Risk Appetite and Policy Statement, supported by a Contingency Funding Plan developed to ensure that, so far as reasonably practicable, the availability of sufficient financial resources to meet liabilities as they fall due under a range of scenarios.

Liquidity levels, and a number of associated lead indicators (e.g. levels of outflows, Liquidity Coverage Ratio and the Net Stable Funding Ratio) are monitored by the Executive team in accordance with a defined framework.

At 31 December 2016 the Society held £43.0m of liquid assets, representing 24.1% of shares and borrowings.

The Society's risk appetite, policies, systems and controls for managing liquidity risk are reviewed by the ALCO at least annually and approved by the Board. This review process includes approval of the Society's Liquidity Policy and Internal Liquidity Adequacy Assessment Process (ILAAP). Stress testing is an important part of the liquidity risk management framework and was performed bi-annually in 2016. The stress scenarios selected are reviewed regularly. A Contingency Funding Plan is in place to ensure that the Society recognises early any indicators that might suggest a developing liquidity crisis, and prompt specific early actions should this be the case.

The Society operates segregated treasury front and back offices. The front and back offices are responsible for adherence on a day-to-day basis to the liquidity limits and the Society's liquidity position is calculated and monitored by the finance department on a daily basis. The treasury front office checks that any new transactions will not result in a breach of a Liquidity Policy limit before agreeing a trade. The treasury back office confirms these before settling the trade.

3.5.3 Conduct and Operational Risk

Conduct risk is the risk to the delivery of fair customer outcomes. Conduct risk can arise through product design, promotion, sale, fulfilment and communications.

Operational risk is the risk of loss due to inadequate or failed internal processes, the actions of people, fraud and financial crime, non-compliance with applicable laws and regulations, or external physical events. The effectiveness of systems and controls for the management of conduct and operational risk is monitored by the Risk Committee. This Committee reviews risk management information including:

- *Key Risk Indicators (KRIs)*: Reflecting the overall Risk Appetite, ICAAP assumptions and policy limits/ requirements, KRIs are reviewed to provide an indication of the operating effectiveness of the systems and controls for the management of conduct and operational risk. Operational performance outside normal limits is reviewed in detail to establish any material issues and confirm the adequacy of management responses to address both direct and root causes.
- *Operational risk incidents* (including operational loss data) are reviewed to identify remedial actions and control enhancements required. 'Near misses' are also considered.
- *Complaints data* is considered to ensure there is no evidence of adverse customer outcomes and/ or deficiencies in the Society's responsiveness to complaints. In addition to reviewing internal complaints data the society reviews experience elsewhere (for example as reported by the Financial Ombudsman Service) with a view to proactive risk reduction.
- *Outstanding internal audit issues* – to ensure appropriate responses are actioned on a timely basis and to direct additional resource if required.
- *Compliance monitoring* results are monitored to ensure that remedial actions are undertaken on a timely basis.
- *Regulator communications* are reviewed for evidence of any concerns in relation to risk governance or conduct risk
- *Training Completion Rates* are monitored to ensure staff are engaged in maintaining competence.
- The *Risk Register* is reviewed at least every six months to ensure it remains up to date and is appropriately reflected in the operational risk capital requirement assessed in the ICAAP.
- *Operational resilience and business continuity* testing results.

The Society seeks to mitigate operational risk by implementing a strong control environment, supported by a culture that encourages staff to engage openly and positively with the Board, senior management and auditors. Operational losses in the last ten years have been consistently a small percentage of the Pillar 1 Operational Risk Capital allocation.

3.5.4 Interest Rate Risk

Interest rate risk in the banking book (IRRBB) is the risk of losses arising from a change in the interest rates. The areas of interest rate risk to which the Society has some exposure is:

- **Repricing Risk** - the mismatch of repricing of assets and liabilities and off balance sheet short and long-term positions.
- **Basis Risk** - the risk of loss arising from assets and liabilities repricing on different interest rate bases. This may arise from holding assets and liabilities that reprice from different floating rate indices.

(a) Re-pricing Risk

Re-pricing Risk for the Society is mainly driven by its fixed rate treasury investments. The Society has no fixed rate lending and limited fixed rate saving products. All new lending in recent years has been on administered rates.

The Society has reduced interest rate risk in the last few years by restricting these treasury investments to maturity of one year or less. ALCO monitors both the actual and forecast risk monthly against its stated risk appetite.

(b) Basis Risk

The Society's balance sheet is priced based on a limited number of interest rate bases.

- Base rate linked assets (tracker mortgages and Bank of England Reserve).
- Fixed interest investments, not offset by fixed rate wholesale funding liabilities and term deposits, but limited in scale.
- Administered rate savings and mortgages.

ALCO monitors basis risk, versus the Boards agreed risk appetite, on a monthly basis based on both actual and forecast data.

3.5.5 Concentration Risk

Concentration risk can arise from the absence of diversification in the Society's business across product and/ or geography. By its very nature, and by strategic choice, the Society limits its product range to simple savings and residential owner occupied mortgages (with legacy commercial and Buy-to-let loans being managed off the balance sheet where possible). The Society limits its activities to England and Wales, and particularly targets the East Riding, the rest of Yorkshire and the Humber. Most retail deposits are derived locally, with some diversification nationally through postal savings and internet based business accounts.

In 2016 the Society had 76% (2015: 72%) of its mortgages concentrated in the Yorkshire area. Whilst the Society acknowledges this represents a concentration in its mortgage book, Yorkshire is large (12000 sq. km) and diverse in terms of industry and commerce.

The Society also considers it has a concentration in buy-to-let mortgages (21% of all mortgages. 2015: 26%), due to its legacy portfolio.

Whilst the Society currently only lends on administered rates, the mortgage portfolio is a combination of base rate tracker and SVR linked mortgages. No further consideration of product risk is considered necessary for capital planning purposes.

The Society's lending is originated on an approximately 50:50 basis between direct and Introduced channels, and no one Introducer provides a volume of business upon which the Society is dependent. While around the time of Mortgage Market Review implementation there was some shrinkage in the number of Introducers active in the market, the forthcoming Mortgage Credit Directive requirements are not expected to cause any material change in the availability of business from such sources.

The Society has a small number of legacy large mortgage exposures (i.e. individual balances valued at >10% capital or circa £1.05m). The status of these accounts is monitored on a monthly basis and customers participate in face to face annual meetings to assess the current position and any relevant financial accounts. No new 'large exposures' are entered into with a maximum new individual customer loan exposure set at £750K.

3.5.6 Pension Risk

The Society has no liability for final salary pensions. Staff pensions are all on a defined contributions basis.

3.5.7 Strategic Risk

Strategic risk is the risk of loss arising from poor strategic business decisions (arising from inadequate identification and evaluation of strategic options), their improper execution, or a lack of responsiveness to industry changes.

The Society recognises that ineffective strategic risk management can result in an interplay between poor business performance and maintaining an inappropriate risk profile. Consequently it undertakes an appropriate process of identification and evaluation of strategic options, with particular focus on the availability (including the maintenance of) adequate capital and other resources throughout the planning horizon. The results of this evaluation are reflected in the corporate plan, annual work plans and budgets.

The Board has concluded that there is no requirement for additional capital to be allocated against Strategic Risk.

4. Capital Resources

4.1 Capital Resources at 31 December 2016

The following table summarises the Society's available capital resources at December 2016:

Capital Resources	£000's
General Reserves (Core Equity Tier 1)	9,627
Revaluation Reserve	559
Less: Intangible Assets Adjustment	(46)
Tier 1 Capital	10,140
Subordinated debt	420
Eligible General Provisions	115
Tier 2 Capital	535
Total Regulatory Capital	10,675

The Society held £10.7m capital at December 2016, which is equivalent to 184% of the Pillar 1 requirement (see 4.2.4 below).

The Tier 2 subordinated debt (gross value £2,750K, see Notes 22 to 2016 Annual Report & Accounts) is being amortised for capital purposes, in line with the latest CRD IV regulations.

4.2 Capital Adequacy

4.2.1 Integration with the Corporate Planning Cycle

The Society recognises that capital, and the risk management framework, are both enablers and constraints to the business. This is reflected in the consideration of the resources and capabilities available when identifying and evaluating strategic options. The three year Strategic Plan, reviewed annually, is accompanied by appropriate capital forecasts and is evaluated against the ICAAP prior to adoption. That review includes reconsideration of the ongoing validity of material assumptions, stress tests and scenarios to ensure that any necessary amendments to the Society's financial risk management framework forecasts are progressed in a timely manner.

4.2.2 Process for Generating the ICAAP Document

The ICAAP document is reviewed annually as an iterative process, with review points whereby the Board consider, advise, challenge and if satisfied approve the boundaries of the assessment and key assumptions/ methodologies to be deployed.

4.2.3 Impact on Policies, Contingency Funding Plan, Recovery Plan

The process of refreshing the ICAAP includes an appropriate review of key risk appetite, policy statements and management information suite to ensure internal consistency and maintain the 'line of sight' to facilitate Board oversight of their continued application and the continued validity of the ICAAP.

4.2.4 Summary of Pillar 1 Capital Requirement

The Society's calculations of its Pillar 1 capital requirement are set out below:

(a) Credit Risk

The Society uses the Standardised Approach to calculate its Pillar 1 credit risk capital requirement.

In December 2016, the Society had £72.7m of Risk Weighted Assets (RWA) which resulted in a Pillar 1 credit risk regulatory requirement of £5.8m. The Pillar 1 credit risk requirement is based on 8% of the risk weighted assets.

The majority of the Pillar 1 **requirement** is due to the mortgage book (84% of total), as shown below.

Total RWA and Pillar 1 Requirement at Dec 2016

	RWA £m	Pillar 1 £m	% Total
Mortgage Assets	60.6	4.9	84
Liquid Assets	6.3	0.5	9
Other Assets	1.6	0.1	2
Operational RWA	4.2	0.3	5
TOTAL	72.7	5.8	100

A breakdown of the components of the mortgage and liquid assets risk weighted calculations is as follows:

Mortgage Portfolio: Risk Weighted Assets at Dec 2016					
Risk Weighted Asset %	35%	75%	100%	150%	Total
	£m	£m	£m	£m	£m
FSRP <80% LTV	122.2	-	-	-	122.2
FSRP portion loan > 80% LTV	11.6	1.4	-	-	13.0
Arrears and Possession – portion loan <80%	-	-	4.0	-	4.0
Arrears and Possession – portion loan >80%	-	-	-	0.8	0.8
FSOL loans	-	-	7.4	-	7.4
TOTAL LENDING £m	133.8	1.4	11.4	0.8	147.4
Lending RWA £m	46.8	1.0	11.4	1.2	60.4
% Total	77	2	19	2	100

Liquid Assets: Risk Weighted Assets at Dec 2016				
Risk Weighted Asset %	0%	20%	50%	Total*
	£m	£m	£m	£m
Cash and Buffer Eligible Assets	28.0	-	-	28.0
Certificate of Deposits (credit rated Fitch A+-BBB-), maturing in < 3 months	-	4.0	-	4.0
Certificate of Deposits (credit rated Fitch A+-BBB-), maturing in > 3 months	-	-	11.0	11.0
Total Liquid Assets £m	28.0	4.0	11.0	43.0
Liquid Assets RWA £m	-	0.8	5.5	6.3

* Including capitalised interest

(b) Operational Risk

The operational risk capital requirement is calculated under the Basic Indicator Approach as 15% of the three year average of the Society's annual gross income. Gross income is represented by net interest, investment and fee income.

In December 2016 the Society had a Pillar 1 operational risk regulatory requirement of £0.35m, this calculation is summarised below:

Metric	£m
2014 Gross Income	2.44
2015 Gross Income	2.32
2016 Gross Income	2.18
Average Gross Income over last 3 years	2.31
Pillar 1 Capital Requirement for Operational Risk 15% of Average Gross Income over last 3 years	0.35

4.2.5 Leverage Ratio

An additional non-risk based minimum leverage ratio is to be introduced from 1 January 2018 to supplement the risk based capital requirements derived from the ICAAP. This ratio shows Tier 1 capital as a proportion of on and off balance sheet assets. It does not distinguish between credit quality of loans and acts as a primary constraint to excessive lending in proportion to the Society's capital base. The minimum leverage ratio must be 3%. At the end of December 2016 the Society's leverage ratio was 5.29%.

5. **Remuneration Code**

The Board of Beverley Building Society is committed to ensuring that it adheres to the Remuneration Code, thus ensuring that the Society has risk-focused remuneration policies, which are consistent with and promote effective risk management and do not expose the Society to excessive risk. This is done in a manner which is appropriate to the Society's size, internal organisation and the nature, scope and the complexity of its activities.

The Society's Remuneration Committee ensures that its remuneration policy is consistent with the risk appetite of the Society. It promotes sound and effective risk management and will not encourage any excessive risk taking. This is to be done by ensuring that no members of staff receive a bonus for the achievement of quantitative targets for the amount of business written.

The remuneration of both Non-Executive and Executive Directors and other members of senior management are determined by the Remuneration Committee, which consists only of Non-Executive directors, details of whom are in the Annual Report and Accounts.

In setting remuneration, the Committee takes account of fees and salaries payable and other benefits provided by Building Societies that are similar in size and complexity to the Beverley, and other organisations as are believed relevant.

Remuneration Code Staff

The Board have determined that the three Executive Directors (Chief Executive, Finance Director and Risk Director) and two other executives are designated as being subject to the Remuneration Code, as set out in SYSC 19.

It is believed that other members of staff could not materially affect the risk profile of the Society in the way that the staff identified above could, as they report directly into them or are constrained in their actions by their operating mandates as defined in the Society's documented procedures and policies.

Non-Executive & Executive Directors

Information regarding the mandate of the Remuneration Committee and the decision making process it uses in determining the remuneration policy for directors is contained in the Directors' Remuneration Report in the Society's Annual Report and Accounts.

Other Executives

The Remuneration Committee is also responsible for determining the terms and conditions of other members of the executive team after consultation with the Chief Executive. These are as follows:

- Head of Lending
- Head of Operations

Remuneration

Aggregate information on the remuneration of code staff for 2016 is given below:

	2015 £'000	2016 £'000
Fixed remuneration	431	440
Variable remuneration	0	0
Total	431	440