IPSWICH
BUILDING SOCIETY

PILLAR 3 DISCLOSURE 2020

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1. Executive summary

1.1. Introduction

Ipswich Building Society is a mid-tier regional building society, ranked 20th in the UK by asset size from a total of 43 societies. The Society attracts deposits from members and other retail customers, using the funding received to offer a range of mortgage products through its extensive broker network and direct mortgage sales team.

The Society operates through nine full service branches and one agency. The Society does not offer unsecured lending or transactional current accounts. Mortgage brokers make significant use of the Society broker portal to administer lending applications.

The Society has clearly defined Values, Vision and Mission Statements which emphasise the importance of member interests, the wider community and the need to support savers and borrowers alike. The Society is in the process of rebranding to the Suffolk Building Society and taking the opportunity to refine mission and values as part of this process.

1.2. Summary key metrics

Tier 1 Capital Ratio
The Society increased Tier 1 capital to £36.5m at the end of the reporting period 30th November 2020 (2019: £34.9m). This represents a Tier 1 capital ratio of 14.5% (2019: 15.0%).

Total Capital Ratio
Society total capital stood at £37.0m (2019: £35.2m). The total capital ratio marginally reduced to 15.0% (2019: 15.1%).

Leverage Ratio (LR)
The Society Leverage Ratio remained at 5.1% (2019: 5.1%). The Society is not required to achieve a minimum regulatory leverage Ratio of 3.25%, which is prescribed to firms with retail deposits exceeding £50 billion.

Liquidity Coverage Ratio (LCR)
The Society's November 2020 Liquidity Coverage Ratio stood at 195% (November 2019: 243%). This measure exceeded the UK regulatory minimum of 100%, implemented with effect from January 2018.

Capital summary
The Society held £15.1m of total capital in excess of Pillar 1 and Pillar 2A capital requirements at November 2020 (2019: £12.2m surplus).

Table 1: Capital summary

	2020 £m	2019 £m
Pillar 1 capital requirement	20.1	18.7
Pillar 2A capital requirement	1.8	4.3
Pillar 1 + Pillar 2A capital requirement	**21.9**	**23.0**
Total own funds	37.0	35.2
Capital exceeding Pillar 1 + Pillar 2A capital requirement	**15.1**	**12.2**

Table 2: Key capital & liquidity metrics

	2020 £m	2019 £m	2018 £m
CAPITAL			
Tier 1 capital	36.5	34.9	33.3
Tier 2 capital	0.5	0.3	4.2
Total capital	37.0	35.2	37.5
Risk weighted assets	250.8	233.3	231.4
Tier 1 capital ratio (%)	**14.5%**	**15.0%**	**14.4%**
Total capital ratio (%)	**14.8%**	**15.1%**	**16.2%**
LEVERAGE			
Leverage ratio exposure measure	716.5	687.7	675.0
Leverage ratio (%)	**5.1%**	**5.1%**	**4.9%**
LIQUIDITY			
High Quality Liquid Assets	102.2	119.9	109.6
Net cash outflows	52.4	49.4	48.7
Liquidity coverage ratio (%)	**195%**	**243%**	**225%**

Chart 1: Tier 1 capital ratio

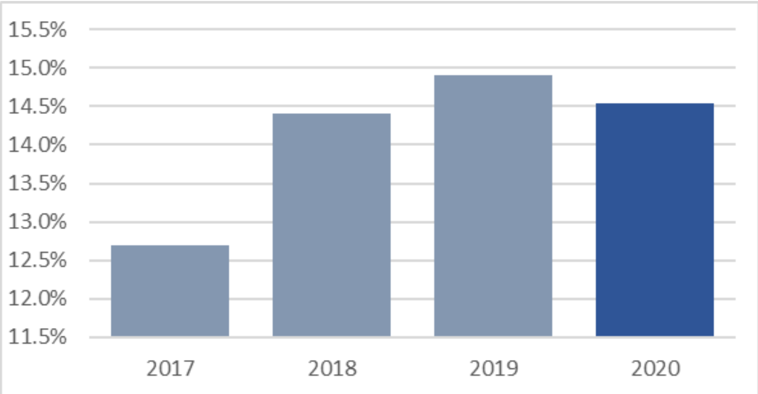


Chart 2: Total capital ratio

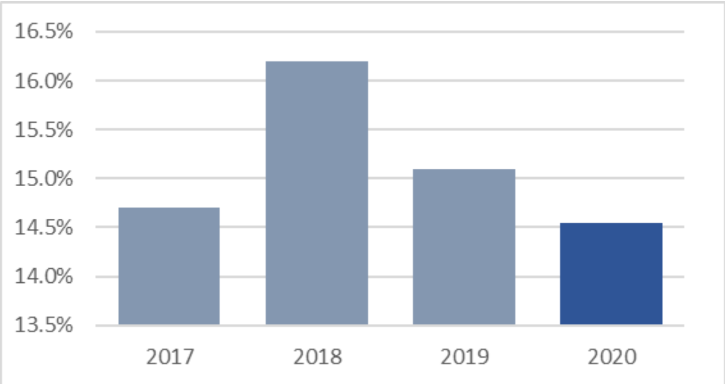


Chart 3: Leverage ratio

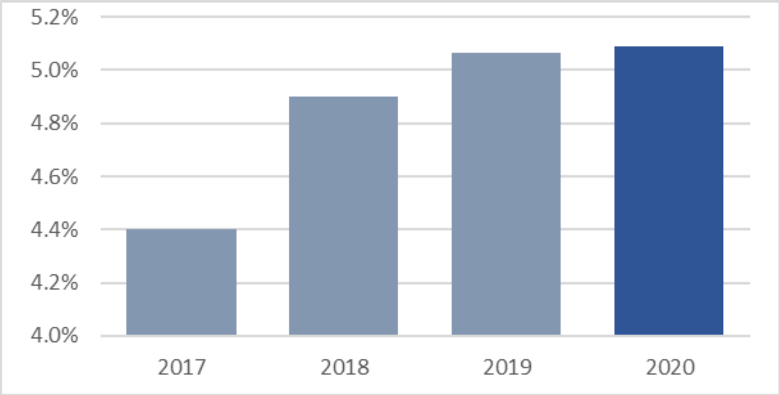
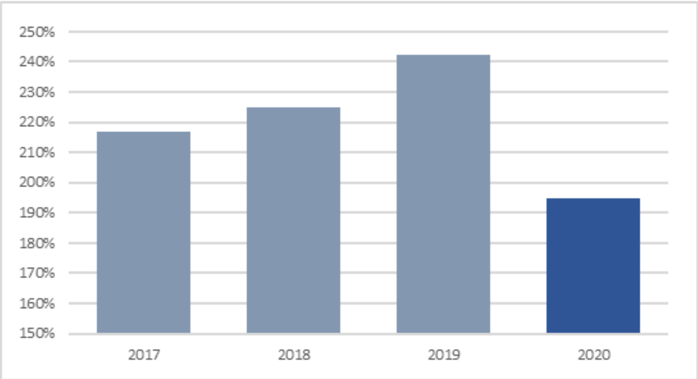


Chart 4: Liquidity coverage ratio



1.3. Risk management declaration

The Society Board considers that the risk management arrangements are adequate with regard to the Society's profile and strategy.

2. Introduction

2.1. Requirements

The Basel Committee on Banking Supervision (BCBS) introduced the Basel ll framework in 2007. This was replaced by the Capital Requirements Directive (CRD) and Capital Requirements Regulation (CRR) from January 2014. The local implementation of the CRD rules and associated guidance are enforced in the UK by the Prudential Regulation Authority (PRA).

In December 2016 the European Banking Authority (EBA) published guidance on Pillar 3 disclosures following revised BCBS requirements which were issued in January 2015. The Society has implemented these changes throughout this document, in accordance with EBA/GL/2016/11 version 2.

This framework seeks to improve the ability of banks and building societies to absorb shocks arising from financial and economic stresses by governing the amount of capital required in order to provide security for shareholders, members and depositors.

The CRD comprises three main elements, or Pillars, as follows:

Pillar 1: Minimum capital requirements
Pillar 2: Firm specific capital requirements
Pillar 3: Disclosure requirements.

Ipswich Building Society has adopted a Pillar 3 Disclosure Reporting Policy. The Policy is approved by the Board and sets out requirements for ensuring the appropriateness of disclosures, including the incorporation of changes to legislation. The policy also covers the verification and frequency of disclosures. This document has been completed in accordance with the Pillar 3 Disclosure Reporting Policy.

Under Pillar 1, the Society has followed the Standardised Approach for credit risk and the Basic Indicator approach for operational risk when calculating minimum capital requirements.

Following the most recent capital annual assessment, the PRA concluded that the Society qualified for the 'refined approach' as set out in paragraphs 5.12A – 5.12B of Supervisory Statement 31/15. Under this approach, the variable P2A requirements are adjusted to reflect the potentially higher credit risk capital allocations relative to the Internal Ratings Based (IRB) approach. In the Societ's case, the current 'credit overs' fully offset other P2A variable add-ons.

Therefore, the Total Capital Requirements (TCR) for the Society are 8% of RWAs plus a fixed add-on for pension risk of £1.83m and a net PRA Buffer of 0%.

2.2. Scope

Pillar 3 disclosures are published on an annual basis, although more frequent disclosures will be made if there is a material change in the nature of the Society's risk profile during any particular year. The Society has no subsidiaries and therefore prepares Pillar 3 disclosures as a solo entity.

2.3. Verification and sign off

All figures and commentaries within this document have been subject to internal review and verification. However, these disclosures are not required to be subject to external verification and have not therefore been externally audited. This disclosure is approved for publication by the Society Board.

Some information in this report is drawn from the audited Annual Report of the Society. The Annual Report is prepared in accordance with FRS102, with recognition and measurement provisions of IAS39 applied. The presentation currency of the annual accounts is Sterling.

2.4. Reporting

This document may be obtained from the Society website at www.ibs.co.uk.

3. Capital resources

3.1. Own funds

Common Equity Tier 1 (CET1) capital incorporates total accounting reserves as stated in the Annual Report. This comprise of retained earnings, revaluation reserves and available for sale reserves. Intangible assets, incorporating capitalised software costs, are deducted from Tier 1 capital in accordance with regulatory requirements.

The Society has Additional Teir 1 (AT1) instruments in issue which cause Tier 1 capital to differ from CET1 capital. The Society Tier 1 capital therefore stood at £36.5m (2019: £34.9m). Tier 2 capital solvency consists of the collective impairment provisions as the remaining subordinated debt was repaid in March 2020.

Table 3: Own funds

		2020 £m	2019 £m
Common Equity Tier 1 (CET1) capital: instruments and reserves			
2	Retained Earnings	36.1	34.7
3	Accumulated other comprehensive income	1.1	1.1
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	37.2	35.8
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
8	Intangible assets	(0.7)	(0.9)
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	(0.7)	(0.9)
29	Common Equity Tier 1 (CET1) capital	36.5	34.9
45	Tier 1 capital (T1 = CET1 + AT1)	36.5	34.9
Tier 2 (T2) capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	0.0	0.0
50	Credit risk adjustments	0.5	0.3
51	Tier 2 (T2) capital before regulatory adjustments	0.5	0.3
58	Tier 2 (T2) capital	0.5	0.3
59	Total own funds (T1 + T2)	37.0	35.2
60	**Total risk weighted assets**	**250.8**	**233.3**
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	14.5%	15.0%
62	Tier 1 (as a percentage of total risk exposure amount)	14.5%	15.0%
63	Total capital (as a percentage of total risk exposure amount)	14.8%	15.1%
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	7.0%	8.0%
65	of which: capital conservation buffer requirement	2.5%	2.5%
66	of which: countercyclical buffer requirement	0.0%	1.0%
68	Common Equity Tier 1 available to meet buffers (as a percent of risk exposure amount)	10.0%	10.4%

3.2. Reconciliation of regulatory capital

A reconciliation of equity attributable to members per the Statement of Financial Position to regulatory capital is provided below (references to statutory account notes detailed in brackets).

Table 4: Reconciliation of regulatory capital

	2020	2019
	£m	£m
Reserves (Statement of Financial Position)	37.2	35.8
Intangible assets (Note 18)	(0.7)	(0.9)
CET1 capital	**36.5**	**34.9**
Collective impairment allowance (Note 16)	0.5	0.3
Tier 2 capital	**0.5**	**0.3**
Regulatory capital	**37.0**	**35.2**

3.3. Capital instruments

The Society had no subordinated debt in issuance at the reporting date.

Table 5: Capital instruments main features

Tranche maturity	**01/12/2019**	**16/03/2020**
Issuer	Ipswich Building Society	Ipswich Building Society
Governing laws	UK	UK
Instrument type	Subordinated debt	Subordinated debt
Amount recognised in regulatory capital	£0.0m	£0.0m
Notional amount of instrument	£0.05m	£0.5m
Issue price	£100	£100
Redemption price	£100	£100
Original maturity date	01/12/2019	16/03/2020
Optional call date	-	-
Fixed or floating coupon	Floating	Floating

3.4. Leverage ratio

The Society leverage ratio measures the relationship between Tier 1 capital resources and total assets, adjusted for certain off-balance sheet exposures. With retail deposits less than £50bn, the Society does not have to comply with the Leverage Ratio Part of the PRA Rulebook. The Society's Assets and Liabilities Committee review the current and forward-looking leverage ratio monthly.

At 30 November 2020, the Society maintained its Leverage Ratio at 5.1%. Excessive leverage is mitigated through prudent capital management and carefully controlled supervision of lending.

Table 6: Leverage ratio common disclosure (LRCom)

		2020	2019
		£m	£m
	On balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	696.7	672.5
2	(Asset amounts deducted in determining Tier 1 capital)	(0.7)	(0.6)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**696.0**	**671.9**
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	0.0	0.1
5	Add-on amounts for Potential Future Exposure (PFE) associated with all derivatives transactions (mark-to-market method)	0.9	0.7
11	**Total derivative exposures (sum of lines 4 to 10)**	**0.9**	0.8
	Other off-balance sheet exposures (offered pipeline weighted at 50%)		
17	Off-balance sheet exposures at gross notional amount	38.0	30.1
18	(Adjustments for conversion to credit equivalent amounts)	(19.0)	(15.1)
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	**19.0**	15.0
	Capital and total exposures		
20	Tier 1 capital	36.5	34.9
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**715.9**	687.7
	Leverage ratio		
22	Leverage ratio	5.1%	5.1%
	Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	FULLY PHASED IN	FULLY PHASED IN

Table 7: Reconciliation of leverage ratio exposure measure (LRSum)

		2020 £m	2019 £m
1	Total assets per published financial statements	696.7	672.5
4	Adjustments for derivative financial instruments (mark-to-market method)	0.9	0.7
6	Adjustments for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposure)	19.0	15.0
7	Other adjustments	(0.2)	(0.5)
8	**Leverage ratio total exposure measure**	**716.5**	**687.7**

Table 8: Split of on balance sheet exposures, excluding derivatives (LRSpl)

		2020 £m	2019 £m
EU-1	**Total on-balance sheet exposures, of which:**	**696.0**	**671.9**
EU-3	Banking book exposures, of which:	696.0	671.9
EU-5	Exposures treated as sovereigns	101.7	119.6
EU-7	Institutions	20.8	23.7
EU-8	Secured by mortgages of immovable properties	556.2	510.1
EU-9	Retail exposures	5.2	8.0
EU-11	Exposures in default	4.6	4.5
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	7.4	6.0

4. Capital requirements

4.1. Overview

The Society maintains a strategic planning framework, the details of which are reviewed by the Society's Board at least annually to take account of current and changing economic conditions. The process culminates in the production of a three-year corporate plan with detailed budgets and targets covering the following year's activities.

The corporate plan forms the foundation of the Society's Internal Capital Adequacy Assessment Process (ICAAP). Through the ICAAP review and approval process, the Board assesses the Society's capital requirements under a range of business as usual and stress scenarios. Capital appetites are formed through the ICAAP process with clear metrics for minimum capital requirements.

4.2. Pillar 1 capital

Under the Standardised Approach for credit risk, the Society applies a risk weighting to the value of each exposure class. 8% capital is held against each risk weighted asset.

Under the Basic Indicator approach for operational risk, the Society calculates its average net income over the previous three years. The three-year average net income is multiplied by 15% to generate an own fund requirement.

Table 9: Pillar 1 capital requirements

	Risk weighted assets 2020 £m	Risk Weighted assets 2019 £m	**Minimum capital requirements 2020 £m**	Minimum capital requirements 2019 £m
Credit risk (excl. counterparty credit risk)	**227.4**	209.7	**18.2**	16.8
~Of which Standardised Approach	227.4	209.7	18.2	16.8
Counterparty credit risk	**0.4**	0.4	**0.0**	0.0
~Of which Credit Valuation Adjustment (CVA)	0.4	0.4	0.0	0.0
Operational risk	**22.8**	22.9	**1.8**	1.8
~Of which Basic Indicator approach	22.8	22.9	1.8	1.8
Amounts subject to 250% risk weight	**0.1**	0.4	**0.0**	0.0
TOTAL	**250.8**	233.3	**20.1**	18.6

The Society uses derivative instruments to manage interest rate risk. Counterparty credit risk is the risk that the counterparty to the derivative instrument could default. The risk is managed through careful selection of counterparties and the use of cash collateralisation against contract positions when appropriate. A Pillar 1 capital add-on is calculated to provide for counterparty credit risk.

To calculate interest rate contract exposures for capital purposes, the Society adopts the Mark-to-Market Method prescribed by Article 274 of CRR. Under this method, interest rate contracts with positive market values are assigned a capital add-on based on the residual maturity and notional value of each contract.

4.3. Pillar 2 capital

Pillar 2A capital requirements represent Society specific risks not fully captured under Pillar 1 capital requirements, with Pillar 2B capital requirements representing forward-looking risks to which the Society may become exposed. Pillar 2A risks are assessed through the annual ICAAP internal assessment, with Pillar 2B risks assessed through scenario stress testing.

Following a Supervisory and Evaluation Review Process (SREP), the PRA will assess firm specific requirements. The Society is not required to disclose firm specific Pillar 2 capital requirements.

4.4. Capital conservation buffer

The capital conservation buffer is designed to ensure institutions build capital buffers which can be drawn upon in times of stress. At 30 November 2020, UK firms are required to hold a capital conservation buffer of 2.50%.

4.5. Countercyclical buffer

The Financial Policy Committee sets the countercyclical capital buffer applicable to UK credit exposures. A rate of 0% is currently applicable to UK exposures at November 2020.
The Financial Policy Committee is updating its guidance on the path for the UK countercyclical capital buffer rate. It now expects this rate to remain at 0% until at least 2021 Q4. Due to the usual 12-month implementation lag, any subsequent increase is not expected to take effect until 2022 Q4 at the earliest. The eventual pace of return to a standard 2% UK countercyclical capital buffer rate will depend on banks' ability to rebuild capital while continuing to support households and businesses
The Society is not exposed to credit risk outside of the UK so does not apply countercyclical buffers for non-UK jurisdictions.

Table 10: Countercyclical capital buffer

2020	General credit exposures		Own funds requirements			
	Exposure value for SA £m	Exposure value for IRB £m	Of which: General credit exposures £m	Total £m	Own fund requirement weights Weighting	Countercyclical capital buffer rate %
UK	716.5	-	21.9	21.9	0.0	0.0%
Total	**716.5**	**-**	**21.9**	**21.9**	**0.0**	**0.0%**

4.6. Other capital buffers

The Society is not a globally systemically important institution (G-SII) and hence does not meet the criteria for additional buffers to be applied. Additionally, the Society is not subject to the systemic risk buffer (SRB), which became applicable to ring fenced banks and large building societies from January 2019.

The Banking Act provides for a modified insolvency regime for building societies. As such, the Society's Minimum Requirement for own funds and Eligible Liabilities (MREL) is set equal to regulatory capital requirements, meaning no additional capital is required.

5. Risk management

5.1. Enterprise Risk Management Framework (ERMF)

The Society has implemented an Enterprise Risk Management Framework to ensure risk is understood, managed, reported and appropriate business decisions made to deliver the corporate plan. The ERMF is embedded throughout the Society and ensures the business operates with a generative risk management culture.

The following elements are considered key attributes of the ERMF:

- Risk Appetites – levels of risk the Board is willing to take to achieve Society objectives
- Risk Strategy – how the Society will manage risks within agreed Risk Appetites
- Control Environment - a risk operating model based on three lines of defence
- Risk Management Information - monthly reporting dashboards
- Incident Reporting – a tool for recording and escalating risk incidents arising
- Risk Assessments – a formalised risk and control assessment methodology
- Horizon Scanning – forward identification of potential risks.

5.2. Risk appetites

Risk appetites quantify the level of risk the Board is willing to accept in achieving the objectives of the Society. Principle risk types are defined as Level 1 risks and ownership is assigned to a nominated member of the Society's Senior Management Team.

Table 11: Level 1 risk appetites

Risk appetite objective	Level 1 risk
Financial risk To manage profit volatility within defined parameters with capital and liquidity at levels that allow the Society to operate effectively in both normal and stressed conditions.	-Capital -Liquidity and funding -Interest rate risk on the banking book -Wholesale credit risk -Financial reporting
Retail credit risk To manage and control credit risk within defined limits and exposures and to underwrite more complex mortgages for our customers that fit with our underwriting expertise.	-Model Risk and End-User Developed Applications -Lending quality -Concentration Risk -Problem debt management -Credit monitoring
Operational risk To develop and maintain cost effective and robust systems, infrastructure and processes to deliver the corporate strategy. To have the right number of skilled and motivated people in place. To retain and develop the best talent.	-People -Information security & records management -Systems (including Change Management) Information -3rd party suppliers (including Brokers) Management -Climate change
Conduct risk To deliver good customer outcomes consistent with the Society vision. The Society foundations are in the delivery of compliant products, processes and systems which determine customer interactions and how customers are treated. The Society will seek full compliance with appropriate regulations.	-Fraud -Product design -Mortgage Sales -Savings Sales -Post sales savings -Post sales mortgages -Governance and culture -Legal Risk -Financial crime -Compliance oversight

Each risk appetite statement is supported by Board agreed metrics which include rationales, triggers and limits. Risk appetite measures are both forward and backward looking, allowing trends to be assessed and potential movements outside of appetite to be identified.

5.3. Control environment

The control environment represents the way the Society manages risks on a day to day basis. Policies and procedures ensure the Society operates in a way that is consistent with agreed risk appetites.

The Society has implemented a three line of defence model. Business units are responsible for the first line of defence (FLOD), ensuring policies and procedures are adhered to. Business units ensure risks are managed within appetite, with controls assessed for both adequacy and effectiveness. Second line of defence (SLOD) testing is completed by the Risk & Compliance Team, ensuring adequate and appropriate challenge is provided to first line of defence reviews. Third line of defence measures represent reviews undertaken independent of the Society, such as external audit.

5.4. Risk Culture

Risk culture describes the attitudes, behaviours and norms displayed by Society employees and non-executive directors. The Society strives to operate with a generative risk management culture, with risks proactively identified and assessed before they materialise.

The Society undergoes regular assessments to provide a qualitative review of the prevailing risk culture. The outcomes of such assessments are reported to the Board for review and determination of any subsequent actions to be implemented.

5.5. Risk committee structure

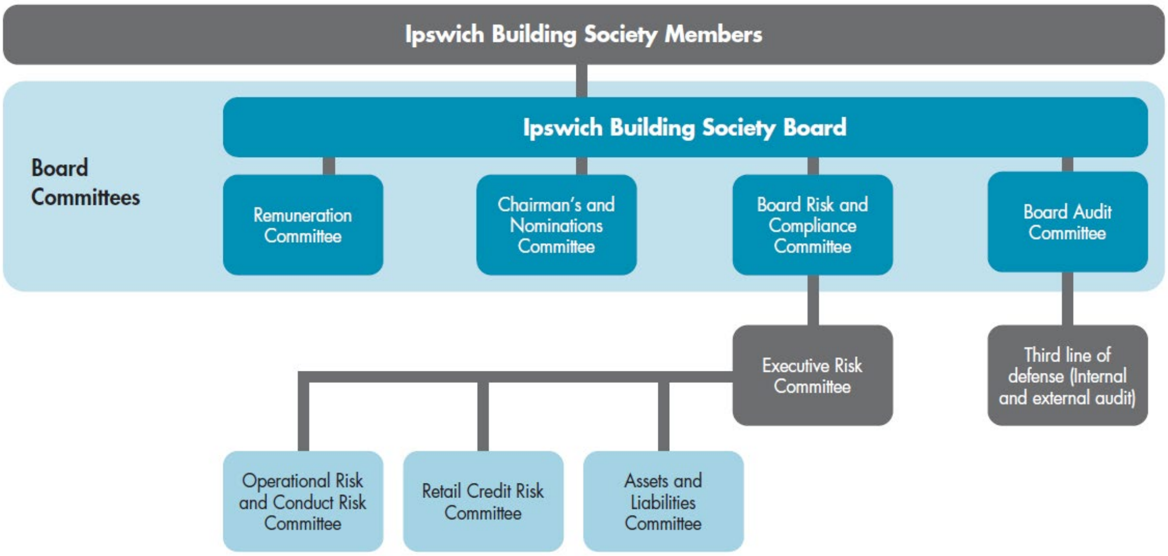
The Society operates with a three-tier committee structure. The Board is responsible for assessing principal risks facing the Society and setting risk appetites. The Board therefore acts as the most senior risk committee. The Board Risk & Compliance Committee and Audit Committee report directly to the Board on risk related matters.

The Board Risk & Compliance Committee act as a second line of defence to the Society's risk management framework. The Committee assists the Board in fulfilling its oversight responsibilities by receiving regular reports from management committees. This enables the Committee to assess the risks involved in the Society's business and to consider the principal risks identified by Management and determine if they are appropriate. The Committee is responsible for ensuring the Society complies with the Board's risk appetite and reviews the Society's future risk strategy for economic, capital, liquidity, credit, reputational, conduct and operational risk profiles. This Committee convened on five occasions in the 2019/20 reporting period.

The Audit Committee oversees all internal and external audit related matters. The Committee reviews the Society's financial reporting arrangements and assesses the effectiveness of its internal controls and risk management framework. The Committee makes recommendations to the Board and reports on its activities. Minutes of the meetings are circulated to the Board of Directors, along with a report from the Chairman of the Audit Committee highlighting key issues for Board review. This Committee convened on five occasions in the 2019/20 reporting period.

In addition to the Board committees, the Executive Risk Committee monitor and oversee the Society's risk profile in accordance with the ERMF and Board risk appetite. The Executive Risk Committee report to the Board Risk & Compliance Committee. The Committee is part of the Society's second line of defence. The Committee supports the Board Risk & Compliance Committee by providing oversight of the adequacy of the Society's application and embedding of ERMF tools and processes. This Committee convened on ten occasions in the 2019/20 reporting period.

Chart 5: Committee structure



6. Retail credit risk

6.1. Overview

Retail credit risk is the risk that the Society lends money to retail customers in the form of mortgage loans secured against properties which cannot be fully recovered in the event of borrower default. Retail credit risk is carefully managed through manual underwriting in line with Society policies and procedures.

Retail credit risk is monitored by the Society Retail Credit Risk Committee, which reports directly to the Executive Risk Committee monthly. Clearly defined and quantifiable risk appetite triggers and limits are in place to manage retail credit risk on a forward-looking basis.

6.2. Exposures

The Society regards exposures as past due if agreed payments are three months or more in arrears. Arrears of mortgage repayments are closely monitored by senior management. The indexed security values of past due loans reflect the value of properties adjusted to reflect changes in the regional house price index over time. The Society's past due loans are all secured on residential properties.

Table 12: Retail credit risk

Geographical region	Past due exposure balance	Indexed security value of past due loans	Performing balance	Total balance
	£m	£m	£m	£m
East of England	1.5	4.4	186.4	**187.9**
East Midlands	0.4	0.9	20.8	**21.2**
West Midlands	0.2	0.6	25.6	**25.8**
Greater London	1.3	4.3	110.7	**112.0**
North East	-	-	6.4	**6.4**
North West	0.2	0.4	32.6	**32.8**
South East	0.9	1.7	97.6	**98.5**
South West	0.0	0.2	50.5	**50.6**
Wales	0.3	0.5	10.3	**10.6**
Yorkshire & Humberside	0.1	0.2	20.3	**20.4**
Total Mortgages	**4.8**	**13.0**	**561.2**	**566.1**

6.3. Maturity analysis

A maturity analysis of loan types is detailed based on contractual amounts outstanding. A residual maturity analysis of all loans and advances to customers is provided in Note 15 of the 2020 Annual Report.

This maturity analysis assumes that loans and advances run for their full agreed term. In practice, mortgage loans seldom continue to the agreed maturity date and, therefore, the actual repayment profile is likely to be different from that detailed.

Table 13: Maturity analysis

	Total balance £m	Total arrears balance £m	Specific loss provision £m	Maturity 0-3m £m	Maturity 3-12m £m	Maturity 1-5yrs £m	Maturity >5yrs £m
Non-performing loans							
Shared ownership	**1.0**	**0.1**	-	-	-	0.0	1.0
Buy to let	**0.3**	**0.0**	-	0.1	-	-	0.2
Prime residential	**3.5**	**0.3**	0.0	0.3	0.0	0.6	2.6
Self-build	**-**	**-**	-	-	-	-	-
Total Past Due	**4.8**	**0.4**	**0.0**	**0.4**	**0.0**	**0.6**	**3.8**
Performing loans	**561.2**	**0.0**	0.0	2.4	3.3	33.2	522.3
Total Loans	**566.1**	**0.4**	**0.0**	**2.8**	**3.3**	**33.8**	**526.2**

6.4. Credit risk adjustments

The Society's accounting policy in relation to impairment allowances on loans and advances to customers is stated in Note 1 of the 2020 Annual Report. Full details of the movements on impairment allowances on loans and advances to customers are provided in Note 16 of the 2020 Annual Report.

For capital adequacy purposes, collective impairment allowances are regarded as an addition to Tier 2 capital.

Table 14: Impairment allowance on loans and advances to mortgage customers

	B/forward November 2019 £m	Written off £m	Recovered £m	Charge / (release) £m	C/forward November 2020 £m
Collective	0.3	-	-	0.2	**0.5**
Individual	0.0	(0.0)	-	0.0	**0.0**
Total	**0.3**	**(0.0)**	**-**	**0.2**	**0.5**

7. Liquidity risk

7.1. Overview

The Society's management of liquidity aims to ensure sufficient liquid assets, both in amount and quality, are maintained to cover anticipated cash flows under stressed operating conditions. This will ensure the Society is able to meet all its financial obligations even during times of distress. This is quantified through the Internal Liquidity Adequacy Assessment Process (ILAAP) and is further verified through reverse stress testing of various adverse scenarios which may impact the Society.

7.2. Liquidity coverage ratio

The Society's Liquidity Coverage Ratio was 195% at 30 November 2020. This ratio is derived by dividing high quality liquid assets held by the forecast of 30-day net cash outflows under a stress scenario.

A minimum regulatory LCR requirement of 100% is applicable from January 2018. The Society LCR has been significantly above the minimum requirement since implementation and is expected to remain above requirements throughout the three-year corporate plan.

Table 15: Quarterly LCR*

Quarter Ended	December 2019 £m	March 2020 £m	June 2020 £m	September 2020 £m	**November 2020 £m**
Liquidity buffer	120.9	123.4	121.4	116.0	**111.3**
Total net cash outflows	50.2	50.7	51.0	51.6	**50.3**
Liquidity Coverage Ratio	241%	243%	238%	225%	**221%**

*The Society LCR ratio is stated on a quarterly basis using an average of the liquidity buffer and net cash outflows over the preceding 12 months in accordance with European Banking Authority Guidelines (EBA/GL/2017/01). The Society is not considered systemically important and therefore is only required to report summary LCR information.

8. Interest rate risk

8.1. Overview

Interest rate risk is the risk the Society is exposed to movements in interest rates paid to savers and received from borrowers. Where practical, the Society seeks to naturally hedge interest rate risk by matching fixed rate saving product maturities to fixed term mortgage lending. Where natural hedging cannot be achieved, interest rate swaps are used to manage interest rate exposures.

The main activities undertaken by the Society which give rise to interest rate risk are:

- Management of the investment of capital and other non interest-bearing liabilities
- Issue of fixed rate savings products
- Fixed rate mortgage lending
- Fixed rate treasury investing
- Timing differences between asset, liability and swap maturities

The Society has adopted the Matched approach to interest rate risk as defined by the PRA, operating within the exemptions permitted within section 9A of the Building Societies Act 1986. The Matched approach aims to use standard hedging instruments to manage the interest rate risks associated with offering fixed rate retail products. Standard instruments include interest rate swaps.

Interest rate risk management is undertaken by the Society Treasury Team, who report directly to the Finance Director. The Society's interest rate risk management includes a regular review of the products used for hedging purposes by senior management, supported by monthly review by the ALCO and the Board. In addition, interest rate gap and basis risk analysis are performed monthly and presented to the ALCO and Board for review.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Society's financial assets and financial liabilities to various standard and non-standard interest rate scenarios. Interest rate sensitivity is calculated using a discounted cash flow analysis based on immediate 200 basis point parallel shifts in interest rates.

Interest rate risk exposures, such as basis risk (the risk of loss arising from changes in the relationship between interest rates which have similar but not identical characteristics; for example SONIA and Bank of England Base Rate) and prepayment risk (the risk of loss arising from early repayments of fixed rate mortgages and loans) are monitored closely and reported monthly to the ALCO.

Table 16: Interest rate risk

	<3 months £m	>3 months <1 year £m	>1 year <5 years £m	>5 years £m	Non - interest bearing £m	**Total £m**
Total assets after derivatives	578.8	84.6	224.4	0.0	10.9	898.7
Total liabilities after derivatives	468.7	127.8	253.5	5.0	43.7	898.7
Off-balance sheet exposures	(15.6)	0.2	15.5	0.0	0.00	0.00
Total interest rate sensitivity gap	**94.5**	**(43.0)**	**(13.7)**	**(5.0)**	**(32.8)**	**0.0**
Sensitivity to general reserves						
Parallel shift of +2%	(0.4)	0.2	(0.4)	0.5	-	(0.1)
Parallel shift of -2%	0.4	(0.2)	0.4	(0.5)	-	0.1

9. Wholesale credit risk

9.1. Overview

The Society has exposures to banks and building societies through its treasury portfolio. These exposures are held for liquidity management purposes. Treasury activity is controlled by the Society Treasury Policy, which clearly details approved counterparties and exposure limits. Management monitor exposure limits daily, reporting exposures to the ALCO monthly.

The Society has nominated Fitch as its external credit rating agency. Fitch ratings of treasury counterparties are used to determine credit quality steps (CQS) applicable to portfolio holdings. In turn, credit quality steps determine the weighting to be applied to exposures to calculate risk weightings for each treasury portfolio asset.

Unrated investments in peer building societies are assigned a credit assessed based on a financial analysis of each institution, in line with a documented policy.

Table 17: Risk weightings by credit quality step

Credit quality step	**CQS 1**	**CQS 2**	**CQS 3**	**CQS 4**	**CQS 5**	**CQS 6**	**Unrated**
Fitch's long-term rating	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to BB-**	**B+ to B-**	**<= CCC+**	**-**
Exposure class							
Sovereign	0%	20%	50%	100%	100%	150%	-
Corporates	20%	50%	100%	100%	150%	150%	-
Institutions (<3 months to maturity)	20%	20%	20%	50%	50%	150%	20%
Institutions (>3 months to maturity)	20%	50%	50%	100%	100%	150%	50%

Table 18: Treasury risk weightings

	CQS1	**CQS2**	**CQS3**	**Unrated**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Exposures subject to 0% risk weighting	101.7	-	-	-	101.7
Exposures subject to 20% risk weighting	-	5.8	-	-	5.8
Exposures subject to 50% risk weighting	-	11.0	-	5.0	16.0
Exposures subject to 100% risk weighting	-	-	-	-	-
Total exposure	**101.7**	**16.7**	**-**	**5.0**	**123.5**
Risk weighted asset value	**-**	**6.6**	**-**	**2.5**	**9.1**

10. Operational risk

10.1. Overview

Operational risk is the risk that customers or staff suffer detriment from inadequate policies and procedures, or failure caused by the Society not operating in accordance with agreed polices and guidelines. Operational risks also arise from external sources, such as through fraud from unconnected parties. The Society is highly protective of its customers and staff and as such, the Board have a minimal appetite for operational risk.

10.2. Framework

The Society has fully embedded an enterprise-wide risk management framework (ERMF) which helps guard against operational risk arising. The ERMF introduces a range of operating policies and procedures which have been impact assessed to ensure the Society is operating in line with Board appetite.

All operational risk events are recorded and continually assessed to identify trends arising, where mitigating action can then be taken. Where customers or staff are found to have suffered detriment, the Society acts swiftly to ensure appropriate redress is provided.

The Society guards against the following level 1 operational risk categories:

- Fraud
- Employee risk "People Risk"
- Information security and records management
- Systems
- Third party supplier / provider
- Data quality and modelling

The Society operates with a generative risk management culture. This means the Society is proactive in identifying opportunities for risks to arise and ensures appropriate actions are taken in advance. In recent years, the Society has implemented operational risk scenario workshops. These workshops consider how events with varying probability of occurrence may play out and provide staff with appropriate foresight to manage situations and minimise operational risk in the future. These are also used to determine a range of extreme but plausible operational risk scenarios with the impact of those scenarios assessed as part of the ICAAP.

10.3. Operational risk governance

The Society operates a three lines of defence model. This means responsibility for guarding against operational risk events arising lies with operational business areas. Business areas are therefore responsible for identifying operational risks pertinent to their activities.

Second line of defence is performed by the Risk and Compliance Team, which provides oversight of the operational risk framework. The Risk and Compliance Team have a direct reporting line to the Executive Risk Committee and are responsible for ensuring the quality of the ERMF.

11. Other risks

11.1. Pension risk

Pension risk is defined as the risk that the value of defined benefit pension scheme assets will be insufficient to meet the estimated liabilities. The Society has funding obligations to one defined benefit pension scheme which is closed to new accruals. A schedule of obligations has been agreed between the Society the Trustees where a funding shortfall existed as a result of the November 2018 triennial review. The shortfall is due to be met by November 2022.

11.2. Conduct risk

Conduct risk arises when a firm's behaviour results in inappropriate or poor outcomes for customers. The Society's culture is based upon ensuring that each member has a right to expect that his or her relationship with the Society will be conducted in a fair and consistent manner. The Society recognises members as the owners with individual requirements and expectations, and this approach is demonstrated within the conduct risk framework.

11.3. Compliance and legal risk

Compliance and legal regulatory risk is the risk that the Society breaches a regulatory or legal requirement. As a result, the Society has policies and procedures in place to ensure compliance with the regulations that affect the business. The volume and complexity of compliance with these regulatory issues may impact the Society's ability to compete and grow. The Board will continue to monitor regulatory changes to ensure that the Society continues to meet all its regulatory requirements.

11.4. Financial crime risk

Financial crime risk is the risk that the Society or members are targeted by criminals seeking to benefit from the proceeds of crime, commit fraud or fund acts of terrorism. The Society conducts an annual risk assessment of its exposure to financial crime and has introduced a series of financial crime procedures.

11.5. Cybercrime risk

Cybercrime risk is the risk that a criminal uses technology in order to exploit the Society's systems, for the purposes of causing harm to either the Society itself or members. The Society combats cybercrime by operating internal controls and collaborating with external technology specialists to monitor the Society's systems. Cybercrime risk is increasing and those seeking to commit cyber based crimes are finding new ways to exploit systems every day. The Society takes the risk of cybercrime very seriously and a working group is in place to monitor and address emerging cybercrime threats.

11.6. Climate risk

In accordance with policy statement PS11/19, the Society carried out an assessment to determine its exposure to physical risks and transitional risks of climate change. Physical risks arise as a result of increasing frequency and severity of extreme weather events. Transitional risks arise as the UK moves towards a low carbon economy, with changes introduced to building energy efficiency standards and rapid technological evolution in areas such as transport.

Following this risk assessment, Management have adopted a proportionate response to climate change which is reflective of the nature, scale and complexity of the Society. A 2019 risk assessment was conducted with the following three key risk themes identified:

Viability of operating model
Severe weather event impacts business continuity including branch network, offices, infrastructure, processes and staff. Failure to take advantage of new opportunities presented by new construction techniques.

Fall in property valuations
Fall in value of properties providing security against mortgage loans following increasing flood and extreme weather risk. Tightening energy efficiency standards result in a fall in the performance of the Society BTL mortgage book if landlords are unable to let properties. Wider book implications if standards move to residential properties resulting in potential fall in market values of houses which are insufficiently energy efficient.

Increasing customer probability of default
Increasing default rates due to pressures on household finances resulting from adverse impacts of transition to a low carbon economy. Increasing frequency of severe weather events resulting in sustained damage to national infrastructure and also individual properties impacting on economic growth, employment and inflation could result in increased probabilities of default.

12. Remuneration

12.1. Material Risk Takers

The following disclosures are made in accordance with Article 450 of the CRR. For the purpose of this article, individuals filling the following positions during 2019/20 were considered to be Material Risk Takers (MRTs) within the Society:

- Non-Executive Directors
- Chief Executive
- Finance Director
- Operations Director
- Chief Commercial Officer
- General Manager (Risk and Compliance)

12.2. Remuneration Committee

The Society Remuneration Committee performs the duties set out in the Committee Terms of Reference. The Terms of Reference are reviewed and approved by the Board of Directors annually.

The Committee's main role is to approve the remuneration and incentive schemes for the Society's Executive and senior management.

The Remuneration Committee ensures that the Society Remuneration Policy is:

- Consistent with and promotes sound and effective risk management and does not encourage risk-taking that exceeds the level of tolerated risk of the Society;
- In line with the Society's business strategy, objectives, values and long-term interests;
- Constructed to include measures to avoid conflicts of interest;
- Adopted and regularly reviewed by the Society Board; and
- Subject at least annually, to independent review for compliance with policies and procedures adopted by the Society Board.

The Remuneration Committee consists of four Non-Executive Directors. The Chief Executive attends by invitation only but takes no part in the discussion of his own salary. Three Remuneration Committee meetings were held in the year ended 30 November 2020.

Annually, the Executive Team together with the Chairman are responsible for setting the Non-Executive Directors fees. The Board, with the exception of the Chairman, agree the Chairman's fee on an annual basis.

12.3. Remuneration policy

The Society's policy is to reward Directors according to their expertise, experience and overall contribution to the successful performance of the Society and reflects their roles and responsibilities within the Society. The Executive Directors' benefit package is designed to motivate decision making in the long-term interests of the Society and members as a whole.

A performance-related pay scheme operated during the year for MRTs, excluding Non-Executive Directors. This was carefully designed to encourage achievement of targets that maintain the financial strength and integrity of the Society, the embedding of the Society's risk management framework and to recognise performance factors that contributed to the Society's overall business and member objectives.

There are three main elements of remuneration for Society employees:

- Base salary
- Benefits (pension, car and healthcare)
- Variable pay.

The level of fees payable to Non-Executive Directors is assessed using information from comparable organisations (building societies of a similar size). Remuneration comprises a basic fee with a supplementary payment for holding the position of Chairman of a Committee, Deputy Chairman or Senior Independent Director. This fee reflects the additional responsibilities and time commitments of these positions.

Fees for Non-Executive Directors are not pensionable and Non-Executive Directors do not take part in any incentive scheme or receive any other benefits. Non-Executive Directors do not have employment contracts with the Society.

At least one third of performance related pay for MRTs is deferred for three years to ensure consistent performance is delivered over the longer term. As part of the process the Remuneration Committee sets targets and assesses whether any payment should be made prior to recommendation for Board approval.

No signing on or severance payments were made to MRT staff during the reporting period.

Table 19: Material Risk Taker remuneration

	Base Salary	**Variable pay**		**Benefits**	**Fees**	**Total**
		Paid	**Deferred**			
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
2020						
Non-Executive Directors	-	-	-	-	194	**194**
R Norrington (Chief Executive)	176	18	9	60	-	**263**
P Johnson (Finance Director)	64	6	3	17	-	**89**
I Brighton (Operations Director)	109	6	12	30	-	**156**
T Slater (Finance Director) *	60	-	-	21	-	**81**
Other Material Risk Takers	119	13	7	31	-	**170**
Total	**528**	**43**	**31**	**159**	**194**	**953**
2019						
Non-Executive Directors	-	-	-	-	190	**190**
R Norrington (Chief Executive)	173	24	12	60	-	**269**
T Slater (Finance Director)*	119	-	-	41	-	**160**
I Brighton (Operations Director)	104	14	7	30	-	**155**
Other Material Risk Takers	139	17	8	41	**-**	**205**
Total	**535**	**55**	**28**	**172**	**190**	**979**

* T. Slater resigned in November 2019. Under the rules of the Performance Related Pay Scheme no payment is due when an employee has given notice. He left the Society on 28 May 2020

Table 20: Deferred remuneration

	Deferred remuneration
	£000
Brought forward as at 01/12/2019	78
Granted in year	30
Paid in year	(28)
Released in year	-
Carried forward as at 30/11/2020	**80**

12.4. Board appointments

Recruitment to the Society Board is determined by the Society's Board Recruitment Policy. This policy requires that in selecting suitable candidates to be Members of the Board the Society will evaluate the balance of skills, experience, independence, knowledge and diversity.

The Society aims to maintain a balance on its Board committees and is aware of the advantages that this may bring. Candidates for Directorships are assessed based on their skills and expertise. Applicants are sought from varied geographical, social, economic, environmental, business and cultural backgrounds.

Table 21: Society directors

Name	Occupation	Date of appointment	Other directorships
A Harris *MBA, FCII*	Non-Executive Director	01/07/2011	Stonebridge International Insurance Ltd Cornerstone International Holdings Ltd The Prince Henry's High School Academy Trust PHHS Trading Company Limited
E Lenc	Non-Executive Director	01/10/2019	-
S Hill *MA, FCA*	Non-Executive Director	01/04/2020	Trustee, Place2Be Trustee of the Ipswich Building Society Pension and Life Assurance Scheme Place2Be Trading Limited Yealand Administration Limited
S A Liddell *BSc, FCA*	Non-Executive Director	30/11/2017	Samsung Fire and Marine Insurance Company of Europe Limited Co-opted member of the Investment Committee and the Finance and Audit Committee of the Seckford Foundation
S J K Reid *MA*	Non-Executive Director	01/11/2016	Wyelands Bank PLC
F Ryder *FRSA*	Company Director	25/10/2018	Norfolk Chamber of Commerce and Industry TCD Media Limited Trustee of Norwich Film Festival
R H B Norrington *MA (Hons)*	Chief Executive Officer	30/11/2016	-
P Johnson *FCCA*	Finance Director	26/11/2020	-
I Brighton *CeMAP, CeRGI, CeRCC, CeRCH, AdvCeMAP*	Operations Director	01/05/2018	Trustee of the Ipswich Building Society Charitable Foundation

13. Asset encumbrance

Asset encumbrance represents a scenario where an institution holds legal title to the assets of an alternate entity. The Society is subject to asset encumbrance through its participation in the Bank of England Term Funding Scheme and through the collateralisation of certain derivative arrangements.

The following template disclosures are completed in accordance with EBA guidance EBA/RTS/2017/03.

Template A: Encumbered and unencumbered assets *(Average values)*

	Carrying amount of encumbered assets £m	Fair value of encumbered assets £m	Carrying amount of unencumbered assets £m	Fair value of unencumbered assets £m
Assets of the reporting institution	**73.6**		**611.1**	
Equity instruments	-	-	-	-
Debt securities	-	-	17.3	17.3
Other assets	73.6		593.8	

Template B: Collateral received

The Society does not meet the criteria which requires institutions to report encumbrance Template B (collateral received).

Template C: Sources of encumbrance

	Matching liabilities, contingent liabilities or securities lent £m	Assets, collateral received and own debt securities issues other than covered bonds and ABSs encumbered £m
Carrying amount of selected financial liabilities*	30.0	73.6

*Figures represent the mean encumbered assets and collateral received against financial liabilities. For the purpose of analysing this table, selected financial liabilities represent drawings under the Bank of England Term Funding Scheme

Template D: Accompanying narrative information

£30.0m of funding drawn under the Bank of England Term Funding Scheme remains outstanding, collateralised by the encumbrance of a pool of residential mortgages. The carrying value of the encumbered mortgage pool was £65.6m at 30 November 2020.

The Society has access to the Bank of England Discount Window Facility (DWF). The Society has pre-positioned one pool of mortgages to provide collateral to support any future drawings. The value of pre-positioned mortgage pool was £93.3m at 30 November 2020.