The Cambridge Building Society

Pillar 3 Disclosure

31st December 2023

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THE CAMBRIDGE
Building Society

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1 Introduction

1.1 Purpose

This document forms the Pillar 3 disclosures for the Cambridge Building Society ('The Cambridge', 'the Society'). The purpose of this document is to provide members and other stakeholders with background information on the Society's approach to risk management and the maintenance of its capital resources. As such, it includes details of:

- the Society's high-level risk appetite statement, approach to risk management, its policies and objectives
- the governance structure of the Board and Board Committees
- own funds information (or capital resources)
- regulatory capital requirements, and
- compliance with the UK Capital Requirements Regulation.

1.2 Coverage

This disclosure document applies to the Society which has no subsidiary entities.

The information presented is based on the Society's Annual Report & Accounts as at 31st December 2023, but may differ where regulatory requirements deviate between the reports, for example as a result of including exposures that are not recorded on the balance sheet. Consistent with regulatory reporting for capital adequacy purposes, the Society's positions from the Accounts have been used.

1.3 Regulatory Requirements

This document has been prepared in accordance with the Disclosure (CRR) part of the Prudential Regulation Authority (PRA) Rulebook, which contains revised requirements applicable from 1 January 2022, following the UK implementation of the remaining provisions of Capital Requirements Regulation II (CRR II).

The UK Capital Requirements Regulation, as reflected in the Disclosure (CRR) part of the PRA Rulebook, sets out what the Society must disclose in regard to its capital requirements, risk management policies, procedures, and performance, including the main risks faced by the Society and the governance of those risks. These disclosure requirements are usually referred to as "Pillar 3", being the third pillar of the three-pillar approach for prudential banking regulation.

- Pillar 1 - Minimum capital requirements, on a risk-based approach
- Pillar 2 - Assessment of the adequacy of capital requirements and the risk management system
- Pillar 3 - Disclosure

The Cambridge meets the criteria for being defined as a 'small and non-complex' institution as per Article 433b of the PRA Rulebook which allows for simplified reporting. Therefore, the Society has made disclosures on that basis. In the disclosures below, where data items are not required or not relevant for the Society, these have been excluded from the tables to improve readability.

Under FRS 102, the loan provisions are referred to as Individual Provision and Collective Provision. CRR, however refers to these provisions as Specific Credit Risk Adjustment and General Credit Risk Adjustment. For reasons of consistency, CRR terminology is used for referring to the loan provisions throughout this document, except where specific reference is made to financial accounting policies and processes.

2 Disclosure of Risk Management Objectives and Policies

2.1 Introduction

This section contains reporting in line with the following articles set out in the Disclosure Part of the PRA Rulebook:

- Article 435 (1)
- Article 435 (1) (a)
- Article 435 (1) (e)
- Article 435 (1) (f)
- Table UK OVA of Annex III
- Table UK OVB of Annex III
- Table UK ORA of Annex XXXI

2.2 Risk Management

The Society's approach to risk management, governance, process and methodologies follows the three lines of defence model. All customer facing teams and support functions form the first line of defence and are responsible for the identification and assessment of risk and controls.

The Risk Management function is led by the Chief Risk Officer, and its responsibility is to oversee and challenge the risks being managed by the first line, provide guidance and direction and develop the Risk Management Framework. The Risk Management Function is involved in overseeing risks from across the Society, including credit risk, operational risk and liquidity risk. The second line is also responsible for working with the rest of the business to develop the Society's Risk Appetite and monitor exposures relative to its risk appetite limits.

The third line of defence is Internal Audit, outsourced to Deloitte, who provide independent and objective assurance on the appropriateness and effectiveness of internal controls.

2.3 Risk Management Framework

The Risk Management Framework has been developed to allow the Cambridge to capture all risks across the Society and provides a framework for them to be aggregated in a meaningful way. This allows all stakeholders within the Society, from the Board to the individual risk owners, to review risk on a level of detail that is relevant to their role.

The Risk Management Framework operates on two key levels.

- Level 1 aggregates risks across the Society to the highest level, they are owned by members of the Executive.
- Level 2 allows a disaggregation of Level 1 to allow the Risk Committee to see where the risks in the Society lie. Executives will own these or delegate to an appropriate colleague.

As at 31st December 2023, six Level 1 risks have been identified, for which descriptions are given in Table 1 below.

Table 1: Description of the most significant risks faced by the Society, aggregated into Level 1 Risks.

Level 1 Risk	Description
Business Strategy	Risks arising from changes in the business environment (political, economic, social and technological), or from the effectiveness of decisions and actions relating to the strategic response to those changes.
Prudential Risk	Risks that can reduce the adequacy of the Society's financial resources and balance sheet.
Retail Credit Risk	The risk of loss as a result of a mortgage borrower defaulting or failing to meet their obligations to repay their loans
Operational Risk	The risks arising from inadequate or failed internal processes, people and systems, or from external events such as a failure of a third party.
Conduct Risk	The risks arising from inappropriate culture, products, governance and processes.

The Society's view on risk management is founded on its business strategy, and covers all risks identified in the Risk Management Framework. The Society quantifies its Risk Appetite and measures it through a series of metrics in its Consolidated Statement of Risk Appetite. The Society summarises its appetite for risk in the following statement:

The Society's purpose is to help people have a home. In delivering our purpose, we aim to optimise customer, team member and community outcomes over the long term, managing our financial and non-financial resources to remain resilient and grow sustainably.

Recognising our 175-year heritage as a member owned business, and our ambition to be here for members today and in the future, The Society has a generally cautious attitude to risk.

Our Risk Appetite is therefore calibrated prudently to support the Society's operations. The metrics that follow, structured according to our risk taxonomy, comprise the Society's Consolidated Statement of Risk Appetite.

The Society has adopted the five-step risk management lifecycle (identify, assess, control, monitor and report), supported by a defined risk assessment methodology, the RCSA (Risk and Control Self-Assessment.

The Risk Management Framework is supported by a number of Policies, which are reviewed annually reviewed and approved at the governance forum.

Existing risk scores are formally reviewed by the risk owner in order to:

- assess whether a risk is still relevant to the Society's business;
- assess whether any new risks have emerged;
- assess whether the risk assessment score accurately reflects of the level of risk to the business; and
- identify any new or improved controls that have been implemented to mitigate the risk.

The Society also captures and records risk incidents and near misses. These are reported to the Executive-led Operational and Conduct Risk Committee and Board Risk Committee.

Further, event data is analysed for trends in controls' failures that can be addressed through improving the design or operation of the controls.

2.4 Principle Risks and Uncertainties

The most significant individual risks faced by the Society, together with mitigating actions, are set out in this section.

2.4.1 Economic Risk

Description: The risk that adverse movements in macroeconomic trends have detrimental effects on the Society's anticipated returns and business strategy.

Mitigating actions: The Society monitors economic conditions at the ALCO and Mortgage Credit Committee. The Risk Committee and Board also receive updates on the economic environment's impact on the Society's risk profile, business operations and strategic plan.

Commentary: While the economy has weathered the pandemic and energy price shock better than many economic commentators predicted, the economic outlook for 2024 remains uncertain. Through 2023, the Bank of England has continued to raise base rate from 3.5% to 5.25% to reduce inflation. While CPIH inflation has fallen since the peak of 11.1% in 2022, the latest OBR forecast sees it remaining above the 2% target until the first half of 2025 with real household disposable income being 3.5% lower in 2024-25 than before the pandemic.

The OBR's forecast sees the unemployment rate increasing during 2024 before peaking at 4.6% in 2025 and house prices falling by 4.7% during 2024, a "peak to trough" decline of 7.6%.

The Society's capital position, predominantly retail funding base and its flexible but prudent approach to doing business means that it is well-placed to continue to meet the needs of its members, whatever future economic conditions prevail. The strength of the balance sheet is tested regularly in several ways, including taking account of the stress testing parameters set out by the Bank of England.

2.4.2 Mortgage Credit Risk

Description: Mortgage credit risk is the risk that a borrower will be unable to fully meet their financial obligations (the whole and timely payment of principal and interest) when due, or at any time in the future.

Mitigating actions: Mortgage credit risk is managed through prudent lending criteria and underwriting policies. All loans are approved, according to defined affordability criteria, by a central team of experienced underwriters that are operationally independent of sales activity. The prudent underwriting ensures that the Society has adequate security for the loan and that the borrower will be able to meet their repayments when due.

No matter how prudent lending is, some members inevitably get into financial difficulties and struggle to keep up their mortgage payments. As well as rigorous, risk-based underwriting, the Society prides itself on being highly proactive in supporting its members through any financial difficulties, thereby being true to its mutual values and helping to mitigate mortgage credit risk. Some of the main controls that support customers, are:

- A dedicated Financial Support Team that support customers experiencing payment difficulties with expertise and empathy.
- Monitoring customers who fall into arrears to contact them to understand their situation and financial position.
- Identifying affordable and sustainable forbearance options tailored to the customer's circumstances to minimise the risk of failure.

All accounts in forbearance arrangements or arrears are subject to ongoing monitoring to ensure the support in place for them remains appropriate.

Commentary: With a prudent risk appetite, the Society has experienced low arrears, concessions, and repossessions in comparison to the rest of the mortgage industry.

While industry-wide and Society arrears remain historically low, the tougher economic conditions are expected to exert upward pressure on arrears and credit losses. The Society is not immune to the deteriorating conditions and the proactive support given to members, combined with the conservative lending criteria, will protect the Society from large credit losses.

2.4.3 Counterparty Credit Risk

Description: The Society places a proportion of its liquidity with other financial institutions to ensure it can meet its liabilities as they fall due (see the liquidity risk section). These Treasury counterparties may also be unable to meet their obligations to repay, exposing the Society to counterparty credit risk.

Mitigating actions: Counterparty credit risk is kept to a minimum by only investing in counterparties with high credit ratings and in selected building societies. In addition, the Society limits exposures to specific counterparties, types of investment or countries, and the period it is prepared to invest for. These limits, and a range of other mitigating processes and controls, are documented in the Society's Treasury Policy. The Board delegates oversight of counterparty credit risk to the Assets & Liabilities Committee (ALCO), through the Board Risk Committee.

Commentary: Treasury counterparties retained their high credit ratings, despite the challenging economic conditions seen in 2023.

2.4.4 Capital Risk

Description: Capital risk is the risk that the Society is holding an insufficient quantity or quality of capital to meet regulatory requirements or to support business strategy.

Mitigating actions: The Society monitors its capital position regularly. At least annually, the Society undertakes its Internal Capital Adequacy Assessment Process (ICAAP) that reviews whether its capital resources are sufficient to meet its requirements under stressed conditions. The Board Risk Committee and the Board approve the assumptions and results of the ICAAP.

Commentary: The Society's capital ratios are expected to remain robust over the forecast period, and comfortably within risk appetite even under stressed conditions.

2.4.5 Liquidity Risk and Funding Risk

Description: Liquidity and funding risk is the risk that the Society has insufficient financial resources to enable it to meet its obligations as they fall due or can secure such resources only at excessive cost. These obligations include, for example, savers' withdrawals and mortgage\advances.

Mitigating actions: The Society has policies to ensure that it always holds prudent levels of liquid assets such that it can meet its liquidity obligations. The Society also has liquidity contingency plans in place to cope with any sudden or extreme outflows and carries out regular stress tests to ensure the robustness of these plans.

ALCO monitors the Liquidity Policy and liquidity contingency plans and receives regular reports on the liquidity position and stress testing thereon. It also receives regular reports on the Society's compliance with regulatory guidelines that govern the scope and nature of the liquid asset holdings.

At least annually, the Society undertakes its Internal Liquidity Adequacy Assessment Process (ILAAP) that reviews whether the liquidity resources would meet internal and regulatory requirements under stressed conditions. The Board Risk Committee and the Board approve the assumptions and results of the ILAAP.

Commentary: The rising interest rate environment has seen savers and borrowers proving to be more rate sensitive over 2023. The Society continues to focus on ensuring liquidity levels are strong, and so despite the challenging external conditions, operated comfortably within risk appetite throughout the year.

Looking ahead, the deposit market is expected to remain competitive, due to this rate sensitivity and the maturity of the Bank of England's Term Funding Scheme with additional incentives for SMEs (TFSME). As this scheme, which the Society has participated in, draws to a close in 2025, there is likely to be heightened demand for retail saving deposits across the industry. To retain its strong funding position over this period, the Society has already started to repay this funding

2.4.6 Interest Rate Risk in the Banking Book

Description: The Society's primary market risk exposure arises from Interest Rate Risk in the Banking Book (IRRBB). This is the risk arising from movements in interest rates, or losses through movements in the price of financial instruments. For example, if the Society was funded by variable rate savings but lent at fixed rates, it would expose itself to the risk that if rates rose, its cost of funding would rise without any corresponding increase in interest income on loans.

Mitigating actions: Following the Society's move to the "Extended Approach" for treasury activities in 2022, the Society has adopted structural hedging using its free reserves to ensure a stable income stream and more

certainty on rates of income. Using a structural hedge reduces earning's sensitivity and the Society's exposure to the risk created by the imbalance of assets tied to bank base rate and SONIA (Sterling Overnight Index Average), where most of these assets are funded by retail savings with an administered variable rate.

Commentary: To support the use of structural hedging, the Society has enhanced its management information and its operating and risk appetite limits to ensure that the risk is appropriately monitored and controlled.

The Society operated within its IRRBB limits in 2023.

The interest rate sensitivity of the Society at 31st December 2023 is set out in Note 27 on page 66.

2.4.7 Business Strategy Risk

Description: As a lender primarily funded by retail deposits, there is the risk that competition in the savings and mortgage markets erodes the margin between rates charged to borrowers and rates paid to savers, thereby threatening the financial strength of the Society. One of the Society's key aims is to offer competitive rates to savers and borrowers, and only earn sufficient margin to maintain its financial strength and to meet the product and service needs of its members.

Mitigating actions: The Board manages this risk to margin by setting financial objectives and closely monitoring performance against them. Reforecasts are regularly carried out, enabling the Society to react promptly to challenges to these financial objectives

Commentary: As the Bank of England base rate increased over 2023, the Society has aimed to find the right balance between supporting its customers while maintaining the financial resilience of the Society

2.4.8 Operational Risk

Description: Operational risk covers a wide and diverse range of risks faced by the business. This includes:

- **Process risk** – the risk arising from inadequate or failed internal processes.
- **Third party risk** – risks arising from the use of third-party suppliers or from outsourcing functions or services.
- **People risk** – risks arising from not having enough or sufficiently qualified / experienced team members within the Society.
- **Model risk** – the potential for adverse consequences due to decisions being made based on incorrect or misused model outputs.
- **Operational resilience** – the risk that the Society fails to design resilience into business operations, underlying infrastructure and controls such that it is unable to withstand internal or external events that could impact the continuation of operations.
- **Data security** – the risk of failing to effectively govern, manage and control data.
- **Financial crime/fraud** – the risk that the Society's products and services are intentionally or unintentionally used to facilitate financial crime in the form of money laundering, terrorist financing, bribery and corruption, sanctions, and tax evasion, as well as external or internal\fraud.
- **Cyber risk** – risks arising from a failure in the Society's information technology systems or processes.

Mitigating actions: Each first line business area analyses and assesses how operational risk impacts their activities and puts in place appropriate controls or other mitigating actions. The Risk team then reviews and challenges these first line assessments every quarter.

Where the Society has outsourced a particular activity, such as the provision of IT services, it has a robust set of procedures in place to oversee these activities, including monitoring closely the provision and quality of these services against pre-determined service level agreements and key performance indicators and ensuring the Society has adequate oversight over these activities.

The Society, like most organisations, is dependent on several key third-party suppliers. A framework is in place to assess and monitor all third parties before and during any contractual relationship, including their financial resilience and the risk they pose to the Society's data and cyber\platforms.

There has been an increasing focus on operational resilience across the UK financial system. The Society has identified its Important Business Services and regularly assesses the risks that could threaten their operation and the capabilities available to maintain services. Business continuity and contingency plans have been developed to ensure the impact of any disruption is minimised and there is an ongoing programme to ensure stakeholders are familiar with the plans.

The Operational and Conduct Risk Committee, the Board Risk Committee and Board Audit Committee oversee operational Risk.

Commentary: The Society has been engaged in a multi-year project to upgrade its core banking platform, which was successfully delivered in Q4 2022 and has since reduced the Society's exposure to Operational Risk.

The Society continues to strengthen its approach to operational risk and resilience management and in 2023 has invested in its people to ensure that it can maintain a robust control environment.

2.4.9 Conduct Risk

Description: Conduct risk is the risk of inappropriate customer outcomes or customer harm arising from a failure to act fairly and reasonably.

Mitigating actions: As a mutual the customer is at the heart of the Society's operations and processes. The Board have fully embraced the requirements of the consumer duty as the principles become firmly embedded within the Society's culture and the interests of the Society continue to be well served by its commitment to the fair treatment of all customers.

Conduct risk is overseen by the Operational and Conduct Risk Committee, which considers regular conduct risk management information, approves the Conduct Risk Policy and ensures that the customer is at the heart of the product development process, marketing, sales, and post-sales service. The Committee also regularly considers the treatment of vulnerable customers and ensures this is embedded across the business, for example in product development and changes.

Compliance and Internal Audit consider whether the Society is delivering appropriate outcomes for members as part of their reviews.

Commentary: The Society continues to monitor its treatment of customers and customer outcomes, including receiving additional feedback and surveys of customers who have found themselves in financial difficulties.

During 2023, the Society has focussed on embedding the Consumer Duty requirements in line with the regulatory deadlines. The FCA's requirements fit naturally with the ethos of the Society, as a mutual organisation.

2.4.10 Regulatory Risk

Description: This is the risk arising from changes in laws or regulations governing the Society and/or failure to comply with legal or regulatory requirements.

Mitigating actions: The Board and Management Team closely monitor compliance with all regulatory requirements and keep up to date with relevant changes. The Society employs a team of compliance experts within the second line of defence to support its adherence to the regulatory requirements.

Commentary: The key areas of forthcoming regulatory change that will impact the Society, include the PRA's Strong and Simple Framework, Basel 3.1 and the continued implementation of Consumer Duty and Operational Resilience in line with the regulatory timescales.

2.4.11 Financial Crime and Fraud Risk

Description: This is the risk that the Society's products and services are intentionally or unintentionally used to facilitate financial crime in the form of money laundering, terrorist financing, bribery & corruption, sanctions and tax evasion as well as external or internal fraud.

Mitigating actions: The Society would never knowingly enter an activity associated with a financial crime or fraud and has processes and controls in place to mitigate this risk and ensure that the Society's complies with the legal and regulatory requirements in relation to anti-money-laundering (AML) and combatting the financing of terrorism.

Commentary: Like all financial institutions, the Society is exposed to some degree of financial crime risk as part of day-to-day operations, however, has an extremely low tolerance and is committed to fulfilling its moral, lawful and regulatory obligations in this regard.

2.4.12 Climate Risk

Description: Risks arising from either the physical changes to the climate (e.g. increased frequency and severity of extreme weather events such as flooding) or from transitioning to a low carbon economy.

Mitigating actions: In line with regulatory expectations, the Society has integrated climate risk into its Risk Management Framework and has carried out analysis to improve the understanding of the financial risks it presents, including conducting stress testing through the Internal Capital Adequacy Assessment Process ("ICAAP").

Commentary: The Society will use the work carried out to date to help inform its wider climate strategy to reduce its own carbon footprint and to support its customers in transitioning to a low carbon economy.

2.5 Risk Governance

2.5.1 Board and Board Committees

The Committee structure as at 31st December 2023 is shown in Figure 1.

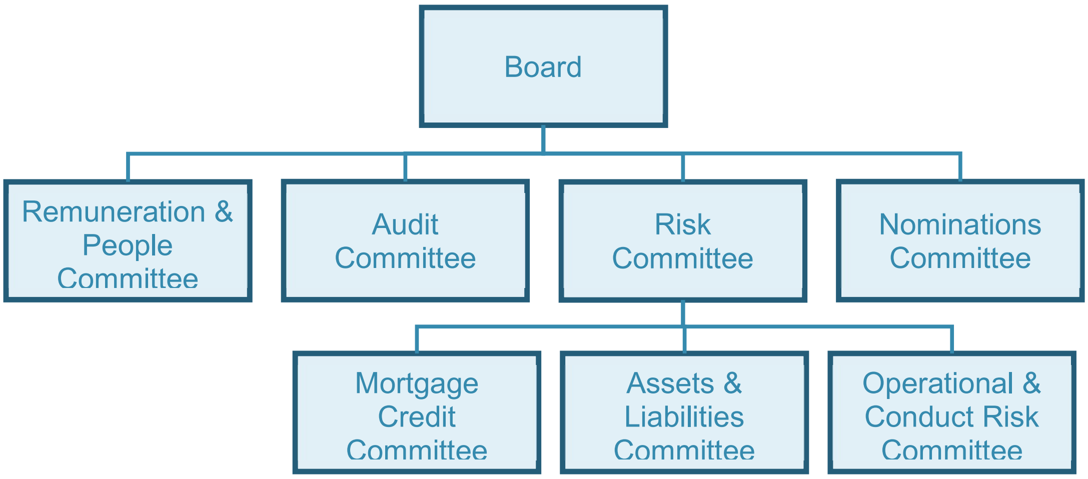

Figure 1: Schematic overview of the Committee structure

Remuneration & People Committee

Composition:

The Committee is made up of at least three Non-Executive Directors. Meetings are attended by the Chief Operating Officer and the Chief Executive.

Main functions:

The primary objective of the Remuneration & People Committee remains, under delegated authority from the Board, to make recommendations to the Board on the general remuneration policy of the Society, including the remuneration and succession plans of Executive Directors. In addition to this, the Committee provides general oversight on all aspects of people and culture at The Cambridge.

Frequency: meets three times a year or more frequently if required.

Audit Committee

Composition:

The Committee is made up of at least two Non-executive Directors. Meetings are attended by the Chief Executive, the Chief Financial Officer, the Chief Risk Officer, the Society's outsourced internal audit provider, and the Society's external auditors.

Main functions:

The role of the Audit Committee is to review the integrity of financial statements, to review the effectiveness of internal controls and compliance, to monitor and review the effectiveness of the internal audit function and to consider and recommend to the Board (for approval by the members) the appointment or reappointment of the external auditors.

Frequency: meets four times a year, or more frequently if required.

Risk Committee

Composition:

The Committee is made up of at least three Non-Executive Directors. Meetings are also attended by the Chief Executive, the Chief Financial Officer, Chief Commercial Officer, the Chief Operating Officer, and the Chief Risk Officer.

Main functions:

The role of the Risk committee is to oversee risk management strategy, systems and controls and to review the effectiveness of internal controls and compliance.

It also, inter alia:

- approves the remit of the risk management function and ensures that it is appropriately resourced and has sufficient independence to effectively meet its responsibilities
- monitors how the Society's business strategy impacts its overall risk profile and appetite
- advises the Board on the Society's overall risk appetite and the metrics to be used to monitor performance against this risk appetite, and
- receives risk reports from operational committees and provide oversight of, and challenge to, those committees on risk matters.

Frequency: meets four times a year, or more frequently if required.

Nominations Committee

Composition:

The Committee is made up of at least two Non-Executive Directors together with the Chief Executive. Meetings are attended by the Company Secretary.

Main functions:

- regularly review the structure, size and composition (including the skills, knowledge and experience) required of the Board, compared to its current position and make recommendations to the Board regarding any changes;
- give full consideration to succession planning for non-executive members of the Board, taking into account the challenges and opportunities facing the Society, and what skills and expertise are therefore needed on the Board in the future;
- evaluate the balance of skills, knowledge and experience on the Board, and in light of this evaluation, prepare a description of the role and capabilities required for a particular appointment;
- keep under review the leadership needs of the Society, both Executive and Non-Executive, to ensure that the Society can continue to compete successfully in the marketplace; and
- to review and determine the fees for the Society's Non-Executive Directors.

Frequency: meets twice a year, or more frequently if required.

Mortgage Credit Committee

Composition:

The Committee is made up of the Chief Risk Officer, the Chief Commercial Officer, the Chief Operating Officer, the Head of Lending, the Underwriting Manager, the Product Manager, and the Credit Risk Manager.

Main functions:

- review and recommend to the Risk Committee, the Society's:
  - Credit risk appetite and lending limits
  - Climate risk appetite with respect to the lending portfolio
- In relation to credit risk assessment:
  - Keep under review the Society's overall credit risk assessment processes that inform the Risk Committee's decision making, ensuring both qualitative and quantitative metrics are used; and
  - Recommend to the Risk Committee the parameters used in these measures and the methodology adopted.
- Report to the Risk Committee on any material breaches of credit risk limits and the adequacy of proposed action
- Consider and recommend to the Risk Committee the Society's high-level policy on lending annually
- Monitor the credit risk
  - Portfolio quality
  - Models
  - Drivers, both internal and external
  - Stress testing impacts
- Recommend to the Risk Committee, for approval and inclusion within policy; any new lending product area, market or lending jurisdiction; or other significant criteria change, and the risks associated with these
- Monitor credit risk MI
- Review the mortgage insurance policy (MIG)
- Review and approve material changes to the affordability model

Frequency: meets four times a year, or more frequently if required.

Assets and Liabilities Committee

Composition:

The Committee is made up of the Chief Financial Officer, Chief Risk Officer, Prudential Risk Manager, Asset and Liability Manager, Treasurer, Product Manager, and Mortgage Distribution Manager. The Chief Executive Officer will also attend periodically.

Main functions:

The Committee formulates and recommends the Treasury Policies to the Board Risk Committee. The policy sets out risk appetites relating to balance sheet structure, liquidity, interest rate risk and basis risk. The policy also sets out counterparty, sector, country, instrument and funding limits. The Committee is responsible for monitoring the Society's position against these risk appetites and limits.

The Committee also assesses the effect on the Society's capital of the competitive squeeze on margins, the mismatch between interest characteristics of assets and liabilities, capital and solvency directives issued by regulatory bodies, and the performance and risk profile of the pension deficit obligation.

Frequency: meets 10 times a year, or more frequently if required.

Operational and Conduct Risk Committee

Composition:

The Committee is made up of the Chief Commercial Officer, Chief Operating Officer, the Head of Marketing, the Head of Lending, the Head of Customer Engagement, the Head of Information Technology, the Head of Compliance, the Head of People, the Compliance Manager, the Information and Resilience Risk Manager and the Prudential Risk Manager.

Main functions:

- approve the operational Risk Management Framework
- assess the impact of risk incidents and monitor actions arising from risk events
- review relevant internal audit and compliance monitoring reports, including reviews of conduct risk, complaints handling and product governance
- approve the financial crime policy, the conduct risk policy, and the gifts and hospitality policy
- review operational Management Information
- approve the conduct Risk Management Framework
- review the conduct risk dashboard, and
- review new products and product changes escalated by the Product Development Committee for conduct risk.

Frequency: meets four times a year, or more frequently if required.

2.5.2 Other directorships held by members of the management body

Information on the number of directorships held by members of the management body can be found on page 87 of the Annual Report and Accounts.

2.5.3 Recruitment policy for members of the management body

The Nomination Committee conducts a regular review of the structure, size and composition required of the Board and its Committees, compared to its current position and makes recommendations to the Board with regard to any changes. The review encompasses an assessment of the skills, knowledge and expertise of the Board and whether these are aligned to the requirements of the Society's Corporate Plan. Changes identified from the review are recommended to the Board for implementation through a targeted approach to recruitment.

A succession planning review is conducted on an annual basis, unless action is required at an earlier stage, for members of the Board and the Chief Executive. This review takes into account the challenges and opportunities identified by the Corporate Plan, and what skills and expertise are therefore needed for the Board in the future. The findings of the review are used by the Committee to prepare a description of the role to be recruited for and any particular capabilities required of the individual. The Committee utilises external support to ensure that the right potential candidates are identified.

The recruitment of Non-Executive Directors is based on the Society's policy of ensuring diversity of its Board members including but not limited to gender, geographical location, and sector.

The Committee is responsible for the review and determination of fees for Non-Executive Directors and ensures that they are aligned to the skills and knowledge required for the Board. The Committee recognises the need to attract the right candidates, balancing risk and reward whilst maintaining fees which are in line with the market.

2.5.4 Reporting on Risk Management

The Society operates a structured system of management information reporting to Board, Senior Management and Committees. The main component is the information pack that is reviewed by the Risk Committee and Board. This pack is aligned with the risk appetite and key risk indicators that form part of the Risk Management Framework, and also contains forward-looking indicators intended to keep the Board informed on emerging risks and market developments.

3 Disclosure of Key Metrics

3.1 Disclosure – Template UK KM1 – Key Metrics

This section contains reporting in line with the following articles set out in the Disclosure Part of the PRA Rulebook:

- Article 447 (a) to (h)
- Template UK KM1 of Annex I

The following table provides high-level metrics related to the Society's own funds, risk weighted exposures, capital requirements and liquidity coverage ratio.

		31-Dec-23	31-Dec-22
		£000	£000
	Available own funds (amounts)		
1	Common Equity Tier 1 (CET1) capital	124,877	111,661
2	Tier 1 capital	124,877	111,661
3	Total capital	126,062	113,698
	Risk-weighted exposure amounts		
4	Total risk-weighted exposure amount	652,989	634,227
	Capital ratios (as a percentage of risk-weighted exposure amount)		
5	Common Equity Tier 1 ratio (%)	19.12%	17.61%
6	Tier 1 ratio (%)	19.12%	17.61%
7	Total capital ratio (%)	19.31%	17.93%
	Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)		
UK 7a	Additional CET1 SREP requirements (%)	0.80%	0.77%
UK 7d	Total SREP own funds requirements (%)	8.80%	8.77%
	Combined buffer requirement (as a percentage of risk-weighted exposure amount)		
8	Capital conservation buffer (%)	2.50%	2.50%
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 (%)	2%	1%

11	Combined buffer requirement (%)	4.50%	3.50%
UK 11a	Overall capital requirements (%)	13.30%	12.27%
12	CET1 available after meeting the total SREP own funds requirements (%)	10.33%	8.83%
	Leverage ratio		
13	Total exposure measure excluding claims on central banks	1,819,291	1,811,366
14	Leverage ratio excluding claims on central banks (%)	6.86%	6.16%
	Liquidity Coverage Ratio		
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	301,391	305,753
UK 16a	Cash outflows - Total weighted value	156,170	142,862
UK 16b	Cash inflows - Total weighted value	30,709	24,826
16	Total net cash outflows (adjusted value)	125,461	118,036
17	Liquidity coverage ratio (%)	240.20%	259.00%
	Net Stable Funding Ratio		
18	Total available stable funding	1,746,097	1,692,204
19	Total required stable funding	1,078,605	1,077,252
20	NSFR ratio (%)	162%	157%

Template UK KM1 - Key metrics template

4 Disclosure of Own Funds Requirements and Risk Weighted Exposure Amounts (RWEAs)

This section contains reporting in line with the following articles set out in the Disclosure Part of the PRA Rulebook:

- Article 438 (d)
- Template UK OV1 of Annex I
- Template UK OR1 of Annex XXXI

4.1 Disclosure – Template UK OV1 – Overview of RWEAs

The table below sets out the Society's RWEAs and total own funds requirements under the Standardised Approach for Credit Risk and the Basic Indicator Approach for Operational Risk.

		Risk weighted exposure amounts (RWEAs)		Total own funds requirements
		31-Dec-23	**31-Dec-22**	**31-Dec-23**
		£000	£000	£000
1	**Credit risk (excluding CCR)**	**582,016**	**560,034**	**46,561**
2	Of which the standardised approach	582,016	560,034	46,561
6	**Counterparty credit risk - CCR**	**4,708**	**22,102**	**377**
7	Of which the standardised approach	2,475	4,646	198
UK 8b	Of which credit valuation adjustment - CVA	2,233	17,456	179
23	**Operational risk**	**66,265**	**52,091**	**5,301**
UK 23a	Of which basic indicator approach	66,265	52,091	5,301
29	**Total**	**652,989**	**634,227**	**52,239**

4.2 Disclosure – Template UK OR1 – Operational risk own funds requirements and risk-weighted exposure amounts

The table below sets out the Society's RWEAs calculation for Operational Risk under the Basic Indicator Approach.

		Relevant indicator			Own funds requirements	Risk weighted exposure amount
		Year-3	Year-2	Last year		
		£000	£000	£000	£000	£000
1	Banking activities subject to basic indicator approach (BIA)	27,019	37,622	41,383	5,301	66,265

5 Disclosure of Remuneration policy

5.1 Introduction

This section contains reporting in line with the following articles set out in the Disclosure Part of the PRA Rulebook:

- Article 450 (1) (a) to (c)
- Article 450 (1) (h)
- Article 450 (1) (i)
- Table UK REMA of Annex XXXIII
- Template UK REM1 of Annex XXXIII
- Template UK REM2 of Annex XXXIII
- Template UK REM3 of Annex XXXIII
- Template UK REM4 of Annex XXXIII
- Template UK REM5 of Annex XXXIII

Templates UK REM2, UK REM3, and UK REM4 have not been included below as all entries within these templates are not applicable to the Cambridge. We do not have special payments to material risk takers, deferred remuneration, or remuneration of 1 million EUR or more in a year.

The Directors Remuneration Report, which is set out on pages 30 to 33 of the Society's Annual Report and Accounts sets out the policies and process for determining the Remuneration Policy of the Society.

5.2 Remuneration & People Committee

The Remuneration and Organisational Design Committee was renamed to Remuneration & People Committee to reflect its broad focus on all strategic people and culture matters.

The Committee seeks input from the Chief Executive Officer, the Chief Operating Officer, and the Head of People who are invited to attend meetings.

Team member representatives from the Society's employee forum, known as Our Forum, are invited to attend meetings at least once a year to give the Committee an understanding of overall engagement levels and their opinion on our workplace culture.

None of the attendees have voting rights and no individual is involved in determining their own remuneration.

The Committee ensures that the Society's remuneration policy and practices are effective, compliant and reflect the Society's purpose, values, and strategy. The Committee meets at least twice a year and met on three occasions in 2023.

The primary objective of the Remuneration & People Committee remains, under delegated authority from the Board, to make recommendations to the Board on the general remuneration policy of the Society including the remuneration of Executive Directors. In addition to this, the Committee provides general oversight on all aspects of people and culture at The Cambridge.

The Committee ensures that remuneration is in line with the Society's brand values, corporate objectives, and ambitions. In addition, the Committee has responsibility for approving the Society's Remuneration policy and Organisational Design policy. The Committee continually assesses the adequacy and effectiveness of both policies.

5.3 Nominations Committee

The Society's Nominations Committee determines the fees paid to Non-Executive Directors based on comparable data from similar financial services organisations.

The Committee meets at least twice a year to determine fees paid to Non-executive Directors and to consider the balance and diversity of skills, knowledge and experience of the Board and the requirements of the organisation. During 2023, the Committee met a total of three times.

5.4 Certification Regime and Material Risk Takers

This section provides details of the remuneration of the Society's team members, including those individuals who could pose significant harm to our customers, as highlighted within the Certification Regime.

During the year, the Society identified 30 team members captured within the Certification Regime. These include Material Risk Takers (MRT). Those identified include, but are not limited to:

- Executive and Non-Executive Directors of the Society;
- Members of the Leadership Team;
- Other staff with key functional or managerial responsibility, including senior managers of control functions such as Lending and Treasury; and
- Other risk takers, whose professional activities could have a material impact on the Society's risk profile.

5.4.1 The Remuneration System for Team Members and Board Members

The Society adheres to the requirements of the FCA's Remuneration Code. The Non-Executive Directors do not receive any element of variable remuneration.

The Remuneration & People Committee determines basic pay for the Society's Executive Directors and wider Leadership Team which consists of Heads of Function and the Company Secretary. Salaries of all team members are reviewed at least annually, but with no guarantee of an increase.

Salary levels for team members are set taking into account a number of factors including the skills, knowledge and experience of the role holder, the position of the role holder's salary against wider market conditions, Society performance, and individual performance. The Committee has sight of the total reward package for all team members which includes benefits (e.g., pension and healthcare) and variable pay (Sharing in Success).

Non-Executive Directors receive a fee in line with their Contracts. Fees are tiered and those individuals who have responsibility for chairing a committee receive a higher fee. Reasonable expenses are reimbursed and paid in accordance with the Society's Board Expenses Policy. Fees are set at a level that reflects the market and are sufficient to attract individuals with appropriate knowledge and experience to support the Society in achieving its strategic objectives. Fees are reviewed annually, taking into account market data, annual pay increases awarded to team members, the economic environment, and the Society's performance.

The Society provides a competitive and comprehensive benefits package to all its team members (i.e., employees) to support their physical, mental, and financial wellbeing. The Society's total reward approach is based on 'one team, one scheme' meaning that team members of all grades are eligible for the same benefits with the exception of holiday pay (a full-time employee will receive between 26-30 days paid leave per annum, rising with seniority. Additional holiday is also earned with each 4 years' completed service, and we offer a holiday purchase scheme to all). Benefits include 12% employer's pension contribution, private medical insurance, employee assistance helpline, health cash plan, concessionary mortgage rate and life insurance.

The Society operates only one variable pay scheme which is known as 'sharing in success' which rewards all our people based on customer satisfaction and Society profitability.

Each year the sharing in success scheme considers awarding a certain percentage of base salary as a bonus payment. Any payments under the scheme are at the absolute discretion of the Remuneration & People Committee and they may override any formulaic calculation of proposed payments. Current scheme rules provide for contingent pay of between 0% and 15% of basic pay earned during the relevant year. Any percentage awarded is same for all team members, including Executive Directors.

The Remuneration & People Committee agrees the Scheme rules on an annual basis and assesses whether and to what extent any payment should be made, giving due regard to compliance, ethical standards and appropriate risk management including affordability, culture, and conduct.

Payments on termination of employment are made in accordance with any contractual or other statutory entitlements (e.g., redundancy), are made in a way that reflects performance over time, and do not reward failure or misconduct.

5.4.2 The Society's Variable Pay Scheme, the Criteria and Performance Metrics

The Society applies one variable pay scheme known as 'Sharing in Success'. Individuals with an 'underperforming' status are not eligible for the bonus payment. The annual bonus is determined using two measures:

1. the Society's controllable profit
2. the Society's customer satisfaction score

The latter is made up using a basket of 5 measures:

- Overall satisfaction
- Net promoter score
- Customer recommendations
- Customer retention
- Meeting expectations

An external third-party provider, QRS Research, carries out a customer satisfaction survey twice a year and the results of these surveys determine our year-end customer satisfaction score. The customer satisfaction score, alongside annual financial accounts, informs the Committee's decision making in relation to variable pay.

When reviewing the annual Sharing in Success variable pay scheme, the Remuneration & People Committee considers the Society's performance as set out above. The Committee considers target ranges taking into account plan targets, market forecasts, credit and risk limits and maintaining long-term sustainability.

The Remuneration & People Committee confirms the level of any variable pay they consider appropriate, consulting the Chair of Audit and Chair of Risk for approval.

5.5 Remuneration Disclosures

5.5.1 Template UK REM1 - Remuneration awarded for the financial year

			MB Supervisory function	MB Management function	Other senior management	Other identified staff
1	Fixed remuneration	Number of identified staff	10	5	12	5
2		Total fixed remuneration	260,597	945,968	694,232	238,372
3		Of which: cash-based	260,597	826,015	629,764	212,446
UK-5x		Of which: other instruments	-	119,954	64,468	25,925
9	Variable remuneration	Number of identified staff	10	5	12	5
10		Total variable remuneration	-	128,205	77,506	29,370
11		Of which: cash-based	-	120,656	66,194	25,449
UK-14x		Of which: other instruments	-	7,549	11,312	3,921
17	Total remuneration (2 + 10)		260,597	1,074,173	771,738	267,742

5.5.2 Template UK REM5 - Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff)

An overview of remuneration to material risk takers is provided in the table below. The table includes remuneration to staff members and Directors that have left or joined during the year.

		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**										**32**
2	**Of which: members of the MB**	10	5	15							
3	**Of which: other senior management**				-	5	-	-	-	-	
4	**Of which: other identified staff**				-	-	-	12	-	-	
5	**Total remuneration of identified staff**	260,597	1,074,173	1,334,770	-	267,742	-	771,738	-	-	
6	**Of which: variable remuneration**	-	128,205	128,205	-	29,370	-	77,506	-	-	
7	**Of which: fixed remuneration**	260,597	945,968	1,206,565	-	238,372	-	694,232	-	-	

6 Attestation

The Directors confirm that, to the best of their knowledge, the Pillar 3 disclosure document for 31 December 2023 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:

Sandhya Kawar
Chief Risk Officer

Richard Brockbank
Chief Financial Officer

16 July 2024

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