IPSWICH BUILDING SOCIETY

PILLAR 3 DISCLOSURES 2016

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CONTENTS

1. Introduction

In 2007 the Capital Requirements Directive (CRD – also referred to as Basel 2) was introduced in the European Union (EU). This framework represents a part of the approach to ensuring capital adequacy for building societies and banks, governing the amount of capital required to be held by them 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: Internal Capital Adequacy Assessment Process (ICAAP) and supervisory review and evaluation processes (SREP);
- Pillar 3: Disclosure.

Ipswich Building Society ("The Society") has a policy in relation to the disclosure requirements as part of Pillar 3. That policy determines procedures for assessing the appropriateness of disclosures, including their verification and frequency. This document meets the Pillar 3 disclosure requirements for the Society. The disclosures included within this document and the annual accounts are considered to convey the risk profile of the Society. In June 2013 the European Union published legislation to implement CRD IV (also referred to as Basel 3) which will replace the current capital directives. The new legislation became effective from 1 January 2014 with the aim to improve the banking sector's ability to absorb shocks arising from financial or economic stress. The key CRD IV requirements are an increase in capital requirements introducing new capital buffers with higher thresholds including Capital Conversion, Countercyclical and Systemic Risk Buffers and the introduction of a minimum leverage ratio of 3%.

The Prudential Regulation Authority (PRA), a regulator of the Society, is responsible for monitoring capital adequacy. The PRA is responsible for ensuring that the banks, building societies and investment firms that it regulates have implemented the CRD.

Under Pillar 1 the Society has followed the Standardised Approach permitted by CRD when calculating the minimum capital requirement. The Society's Board approved the latest full ICAAP in January 2017. Capital requirements and adequacy are reviewed and updated monthly.

The figures quoted in this disclosure have been drawn from the Society's Annual Report and Accounts, and the analyses underlying those accounts, as at 30 November 2016 unless otherwise stated. Readers are asked to note the following:

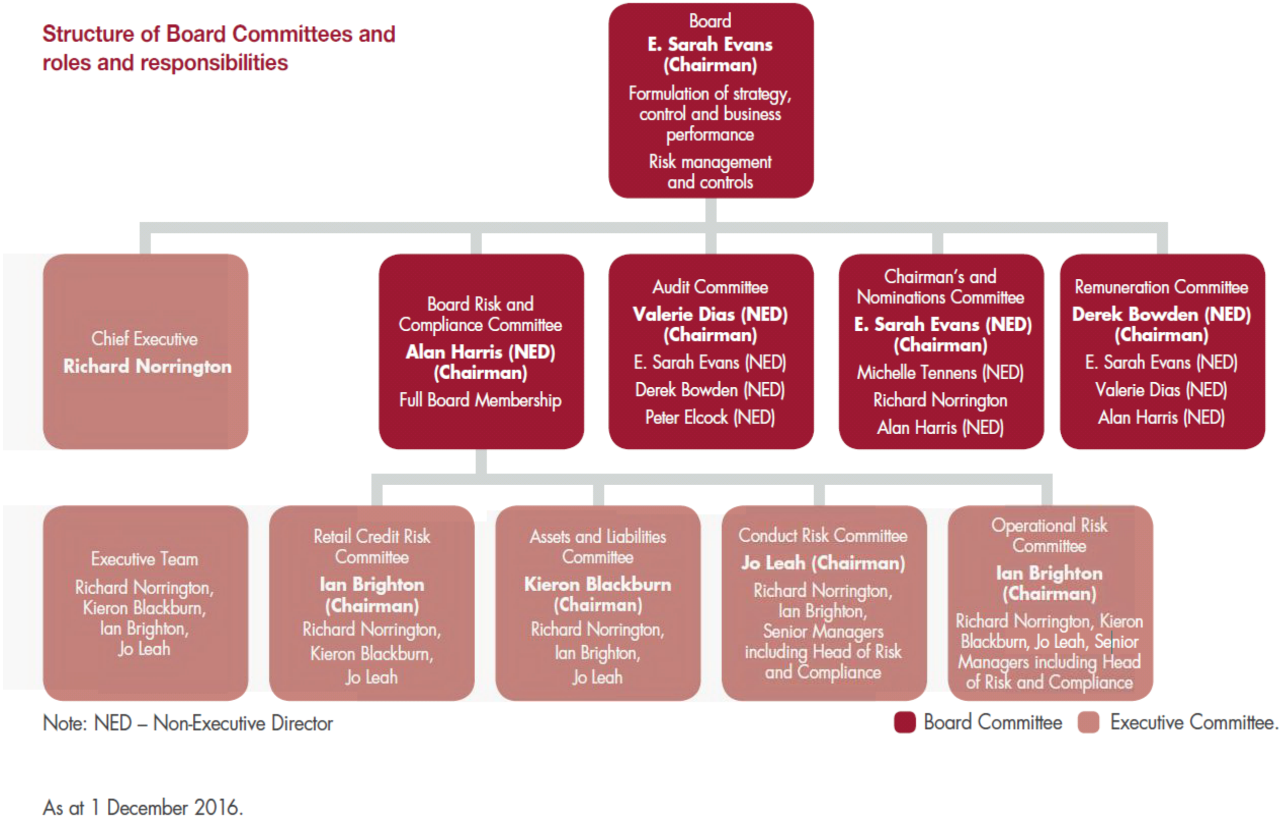
- The Report and Accounts were prepared on a UK GAAP basis including, for the first time, Financial Reporting Standard 102 including the recognition and measurement provisions of IAS 39 Financial Instruments: Recognition and Measurement ("FRS 102"). The adoption of

FRS 102 resulted in changes to a number of accounting policies covering derivatives and hedge accounting, loans and advances, debt securities and provisions for impairment losses.

- The disclosures may differ from similar information in the Annual Report and Accounts 2014/15 prepared in accordance with UK Generally Accepted Accounting Principles ('UK GAAP'); therefore, the information in these disclosures may not be directly comparable with that information;
- These disclosures have not been externally audited and do not constitute any part of the Society's financial statements;
- The Pillar III disclosures are updated on an annual basis using the year end date of 30 November, alongside publication of the Annual Report and Accounts. The annual reporting process includes consideration of regulatory changes and developing best practice, to ensure that disclosures remain appropriate. More frequent disclosures will be made if there is a material change in the nature of the Group's risk profile during any particular year."

2. Board & Committee Structure

The Society's Board of Directors currently comprises 2 executive directors and 7 non-executive directors. From a risk management point of view there are two Board appointed committees, the Board Risk and Compliance Committee and the Audit Committee. There are four management committees, which report to the Board Risk and Compliance Committee: Assets and Liabilities Committee; Retail Credit Risk Committee; Conduct Risk Committee and Operational Risk Committee. A chart of the governance structure is shown below:



Committee	Composition	Main Functions	Frequency of meetings
Audit Type of Committee: Board	A minimum of 3 non-executive directors	The primary responsibility of the Committee is to assist the Board in fulfilling its oversight responsibilities. Principally, the Committee will provide independent review, monitoring and assessment of the: • Effectiveness of the Internal Audit function and processes; • Arrangements for, independence and effectiveness of external auditors and related processes; • Integrity of the financial statements and formal financial performance announcements, reviewing accounting policies and significant financial reporting judgements; • Effectiveness of risk assessment and management processes, and of management's systems of internal control; • Effectiveness of the Compliance function in ensuring the Society meets the requirements and standards of the regulatory system and other voluntary codes of practice; • Society's ethical and business standards.	The committee meets at least four times a year

Board Risk and Compliance Type of Committee: Board	All Board members are members of the Board Risk and Compliance Committee. Executive Managers attend.	• Review and agree the Society's risk appetite statement, tolerance and future risk strategy; • Review the Society's risk profile against its risk tolerance and strategy; • Consider emerging and potential risks. Agree and approve management's actions; • Track development of all identified risks over time; • Review and approve the methodology and assumptions used in the Society's risk models; • Review the design, completeness and effectiveness of the risk management framework relative to the Society's activities; review the adequacy and quality of the risk management function; and review the effectiveness of the risk reporting; • Develop the ICAAP and ILAAP and recommend for Board approval annually; • Develop the Society's Strategic Risk Register including an assessment of the controls and mitigations described for those risks identified; • Provide oversight and approve the stress testing framework for use within the ICAAP, Going Concern, and Corporate Plan; • Review results of stress testing and reverse stress testing and ensure continued development of the suite of tests to ensure they remain robust and appropriate; • Review and monitor any Risk Mitigation Plans requested by the PRA or FCA.	The committee meets at least four times a year
Assets and Liabilities Type of Committee: Executive	Executive Directors, Executive Managers Finance staff and at least one non executive director attend.	Management of: • Wholesale Credit risk; • Liquidity risk; • Market risk (interest rate and basis risk).	The committee meets monthly

Retail Credit Risk Type of Committee: Executive	Executive Directors, Executive Managers Mortgage staff and at least one non executive director attend.	Management of: • Retail Credit risk; • Mortgage concentration risk.	The committee meets monthly
Conduct risk Type of Committee: Executive	General Managers at least one non-executive director attends.	Management of: • Conduct risk, including Treating Customers Fairly; • New product and business line assessment to ensure they are fair and appropriate from a business conduct view; • Review of current product and business lines to ensure they are fair and appropriate from a business conduct view.	The committee meets at least four times a year
Operational Risk Type of Committee: Executive	One Executive Director and operational managers	Management of: • Failure of process or control; • Exposure to external events.	The committee meets at least four times a year

3. Risk Management Objectives and Policies

The Society's risk strategy is:

- To ensure that it holds sufficient capital so no investor suffers a loss in all reasonably foreseeable circumstances
- To hold sufficient liquidity to ensure all payments due and expenses can be met on time
- To hold sufficient liquidity to ensure members' requests to withdraw funds can be met in all reasonably foreseeable circumstances

Our Risk Tolerance and Culture Policy sets out our risk tolerance (appetite) for our business. Adherence with this policy is effected through further policies including: Lending Policy; Financial Risk Management Policy and Liquidity Policy. The Society conducts an Internal Capital Adequacy Assessment Process and an Internal Liquidity Adequacy Assessment Process at least annually. These processes allow the Board to assess and determine the levels of capital and liquidity it is will hold to achieve its risk strategy and remain within risk appetite. These policies and processes not only define our risk parameters and mitigations, but also enable us to operate in ways that ensure our members can have confidence in the sustainability of our business.

The Board reviews the Risk Tolerance and Culture Policy annually and this is monitored by the Board Risk and Compliance Committee. There are four management committees reporting to the Board Risk and Compliance Committee. These are Retail Credit Risk, Assets and Liabilities, Conduct Risk and Operational Risk. We also have a comprehensive business-wide risk register to capture all the key risks across our business. Managers are responsible for identifying and detailing risks in this document and their associated mitigations and controls. In 2016 the Board considered the Society's biggest challenge was the risk presented by cybercrime and ensuring the Society's systems are as protected from cyber attack as reasonably possible.

Retail Credit Risk
This risk materialises when a loss is incurred through non-repayment of mortgage lending. It is managed through our Lending Policy, which is set by the Board. This includes clear guidelines and mandate levels.
We also focus on supporting borrowers who may be having payment difficulties to help mitigate any potential loss and assist the borrowers in returning to a normal repayment pattern.
Where we consider that there is potential for a loss we make an impairment allowance for this in accordance with our policies.

Liquidity Risk
Liquidity risk is the risk that the Society will not be able to meet its financial obligations as they fall due. This includes requests from members to withdraw funds. It is managed through our Liquidity Policy, which is set by the Board. The Society is required by regulation to hold a calculated level of liquidity. Liquidity investments are held in either 'on call' accounts or as short term dated investments including Certificates of Deposit (CDs) and Floating Rate Notes (FRNs). We hold the majority of our 'on-call' liquidity investments with the Bank of England.
At 30 November 2016 we had a total of £102m held as liquid assets; £58m of this was available 'on-call' (£57m with the Bank of England) and the remainder in cash, CDs and FRNs.

Wholesale Credit Risk (Counterparty credit risk)
Wholesale credit risk is the risk of default on assets held to mitigate liquidity risk ('on call' accounts, CDs and FRNs) and interest rate risk. It is managed through our Liquidity and Financial Risk Management policies, which are set by the Board. These include strict criteria for accepting counterparties to invest in and absolute limits for investments with each counterparty. They include a requirement for counterparties to have a Fitch rating of A- or higher (except building societies where Management may use their specialist knowledge). An element of this risk relates to exposures, including collateral lodged, with counterparties with whom we have entered interest rate swap arrangements.
We review our approved counterparty list and investments made monthly at the Assets and Liabilities Committee.

Operational Risk
Operational risk is the risk of loss through inadequate or failed internal processes or systems, including human error or external events.
Operational risks are logged and assessed on our Risk Register and mitigations put in place to ensure their management. Outsourced services are assessed and managed for risk through contractual terms with agreed service level agreements, performance indicators and documented

processes where relevant. Our most significant operational and business risk during 2016 was further developing and embedding our IT systems and going forward will be the compliance with Mortgage Credit Directive which was introduced during 2016.

Interest Rate and Basis Risk

Interest rate and basis risk arises from a mismatch between the interest rate characteristics or maturity profiles of assets and liabilities. The Board approved Financial Risk Management Policy includes set limits for assets and liabilities on different interest rate bases. Where possible we use natural hedging between our fixed rate mortgages and fixed rate savings bonds. We also use derivatives known as interest rate swaps to manage interest rate risk within our Statement of Financial Position. Strategies for the management of interest rate and basis risk are defined by the Board. The implementation of the agreed strategies, including for monitoring the continuing effectiveness of hedges, is the responsibility of the Assets and Liabilities Committee.

Regulatory Risk

Regulatory risk is the risk that the Society breaches a regulatory requirement. As a result we have policies and procedures in place to ensure compliance with the regulations that affect our business. The Board will continue to monitor regulatory changes, to ensure that the Society continues to meet all of its regulatory requirements.

Conduct Risk

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

We believe our membership can only be served by having committed, knowledgeable staff, with the ability and authority to meet requirements and expectations of our members. As such we encourage all staff to undertake personal development and advancement, and we recognise and reward their achievements, creating a sense of pride in serving our membership, and in providing total customer satisfaction.

Capital Risk

Capital risk is the risk that the Society does not have sufficient own funds (capital) to protect investors against loss of their funds in all reasonably foreseeable circumstances. The Board complies with the Basel II Capital Requirements Directive (CRD) which requires the Society to assess the adequacy of its capital through an Internal Capital Adequacy Assessment Process. To assist the Board in determining the level of capital required, stress testing and scenario analysis is performed on key business risks to assess whether the Society could survive a severe economic downturn and other severe business shocks. Through this process the Board ensures that the Society holds a level of capital sufficient to satisfy both the CRD's Pillar 1 minimum capital requirements and to cover those risks that the Board has identified under Pillar 2.

Pension obligation risk

Pension obligation risk arises as a result of the Society's defined benefits pension scheme. The scheme was closed to new entrants on 1 January 2001 and made paid-up on 31 March 2006. The effect of the decision to make the scheme paid-up removes the Society's exposure to funding future service, though the following exposures remain:

- Volatility (economic value and earnings) from mismatched assets and liabilities within the scheme;
- Volatility through investment performance shortfall;
- Increased life expectancy rates amongst members.

A specific amount of capital is allocated under Pillar 2 to cater for a stress reduction in asset values or an increase in pension liabilities. External actuaries are appointed by the trustees to carry out a valuation every three years.

Note 9 in the annual accounts gives detail on the Society's pension obligations.

Residual risk

The Board recognises that in any business there are inherent residual risks which may not be identified specifically. Adequate provision has been made for general residual risks in the Society's ICAAP by applying a buffer to the individual capital guidance (ICG) requirement issued by the PRA.

4. Capital Resources

The capital resources of the Society as at 30 November 2016 amount to £31.73m (see Table 3)

The Society disclosed in its annual accounts the following capital ratios at 30 November:

Table 1 **Ratio**	**2016**	**2015 restated**
Gross capital	6.03%	6.84%
Free capital	5.27%	6.09%

Capital resources used in the calculation of the ratios above are made up of:

- Tier 1 capital: general reserves (the accumulated profits of the Society and available for sale reserve).
- Tier 2 capital in the form of mortgage related collective impairment allowance and eligible subordinated debt. The Society has £0.3m of collective impairment allowance and £4.55m of subordinated debt, of which £4.16m is eligible as regulatory capital. Subordinated debt held at the year end is detailed below in Table 2;

Table 2 **Maturity Date**	**Type**	**Sub-ordinated debt** **Amount** **£000**
6/11/2019	Variable	500
1/12/2019	Variable	50
16/3/2020	Variable	500
17/10/2024	Fixed	3,500
	Total	**4,550**

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Table 2 above shows the nominal value of subordinated debt. The carrying value in the accounts includes unamortised issuance costs and accrued interest. Details of this can be seen in note 27 to the Annual Report and Accounts 2016.
EU Capital Resources Requirement regulations require that Tier 2 capital must be amortised for regulatory capital eligibility as it approaches its maturity date. The following debt has now started to be amortised for regulatory capital purposes:

- £500k maturing 6/11/2019;
- £50k maturing 1/12/2019;
- and £500k maturing 16/03/2020

The rights of repayment of the holders of subordinated loans are subordinated to the claims of depositors, all creditors and investing members of the Society.

Table 3 provides details of the components of Tier 1 capital and total capital with the Society.

Table 3	**Capital eligible within regulation £m**	**Capital reported in accounts £m**
Tier 1 capital resources		
General Reserve	28.80	28.80
Available for Sale Reserve	0.02	0.02
Deduction- intangible assets	(1.55)	
Total Tier 1	**27.27**	**28.82**
Tier 2 capital resources		
Subordinated debt	4.16	4.48
Collective impairment allowace	0.30	
Net Tier 2 capital resources	**4.46**	**4.48**
Total capital resources		
Total Own Funds	**31.73**	**33.30**

5. Leverage Ratio

The leverage ratio as at 30 November 2016, applying CRR Article 499 (2) and (3) is 4.481%
The tables below details the components of the leverage ratio calculation as defined by the latest implementing technical standards

Table 4	**£m**
Capital measure (£m)	27.27
Exposure measure	608.52
Leverage ratio (%)	4.481%

Reconciliation of accounting assets and leverage ratio exposures

Table 5	**£m**
Total assets as per published accounts	584.08
Adjustments for items not included in the Balance Sheet	23.84
Other adjustments	0.60
Total leverage ratio exposure	608.52

Leverage ratio exposure measure

Table 6	**£m**
On-Balance Sheet items (excluding derivatives but including collateral)	584.68
Derivatives exposure	0.21
Replacement costs	0.11
Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	0.10
Other exposures not in the Balance Sheet	23.63
Leverage ratio exposure measure	608.52

The adoption of FRS102 in the 2016 accounts has impacted the leverage ratio.
The Statement of Financial Position(also refered to a Balance Sheet) has increased and therefore the exposure measure is higher , off Balance Sheet items, primarily mortgage pipeline, are also included in the calculation. The capital measure has proportionally decreased because of the requirement to deduct intangible assets from Tier 1 capital. The ratio has reduced from 4.91% in 2015 to 4.481% 2016. The impact of the transition to FRS102 is documented in the Annual Report and Accounts Note 32.
The risk associated with excessive leverage is managed in the internal capital adequacy process (ICAAP)
ALCO monitors the leverage ratio quarterly

6. Capital Adequacy Assessment

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 includes references to the Society's ICAAP submission and, in particular, the Board’s risk tolerance (appetite) for different business activities/risks which is an important component within the plan. The Society ICAAP also contains the capital plan and the Board monitors that there are adequate capital resources to support the corporate goals contained within the plan. In order to produce a capital plan, the Society’s ICAAP contains calculations of the capital resources requirement (effectively the minimum capital required) each year using the standardised approach for credit risk and the basic indicator approach for operational risk.

Under the standardised approach for credit risk, the Society applies a risk weighted asset value to each of its exposure classes and provides 8% of that risk weighted asset value as the minimum capital requirement for credit risk.

Under the basic indicator approach for operational risk, the Society calculates its average net income over the previous three years and provides 15% of that average net income as the minimum capital requirement for operational risk.

Table 7 provides details of the calculation of capital resource requirements for the Society as at 30 November 2016.

Table 7 **Capital Resources Requirement**			
Credit Risk	**Exposure** **£000**	**Risk weighted asset value** **£000**	**Minimum capital required** **£000**
Non-cash liquidity exposures:			
Central government	56,576	-	-
Institutions	30,105	7,533	603
Short term claims on institutions	14,885	1,143	91
Total non-cash liquidity exposures	**101,566**	**8,676**	**694**
Loans and advances to customers:			
Residential use – performing loans and advances	473,190	167,911	13,405
Residential use – past due loans and advances	3,467	3,337	266
Total loans and advances to customers	**477,657**	**171,248**	**13,671**
Other exposures			
Fixed and other assets	3,734	9,627	770
**Risk weighted asset value includes off-Balance Sheet items.*			
Total other exposures	**3,734**	**9,627**	**770**
Credit Risk – capital resources required	**582,957**	**189,551**	**15,135**
Operational risk – capital resources required		17,780	1,422
Total capital resources required		**207,331**	**16,557**
Net capital resources (Table 3)			**31,731**

7. Credit Risk

The Society is participant in the Bank of England Discounted Window Facility (DWF) and Funding for Lending Scheme (FLS). Under FLS the bank lends the Society treasury bills against the security of mortgage assets. As at the 30 November 2016 the Society had 3 portfolios pre-positioned as potential collateral. Two of these portfolios has been utilised to draw Treasury Bills under the FLS scheme. As at the 30 November 2016 £21m had been drawn down.

The Society regards exposures as impaired if they are 'past due'. The definition of 'past due' is any mortgage or loan account where more than three monthly repayments have not been made at the accounting date. Arrears of mortgage repayment are monitored closely and the Society has performed favourably in comparison with national arrears statistics.
A geographical analysis of Society exposures is given in Table 8:

Table 8

Geographical region	Past due £000	Indexed security value of past due loans £000	Performing £000	Total £000
North	106	132	8,105	8,211
Yorkshire & Humberside	88	169	12,097	12,185
East Midlands	456	933	34,910	35,366
East Anglia	480	1,554	108,101	108,581
Greater London	724	2,097	90,266	90,990
South East	556	1,748	150,579	151,135
South West	229	463	28,047	28,276
West Midlands	257	590	16,858	17,115
North West	571	1,094	16,997	17,568
Wales	0	0	7,830	7,830
Total Mortgages		**8,780**	**473,790**	**477,257**
Fair value and Effective Interest Rate adjustments				400
Net loan exposures for capital adequacy				**477,657**

The indexed security value of past due loans relates to the original value of the property adjusted to reflect changes in a regional house price index.

All the Society's 'past due' loans are on residential loans, the table below shows more detail, and is based on contractual amount outstanding. A residual maturity analysis of loans and advances to customers is provided at Note 15 of the Annual Report and Accounts 2016. The following caveat is offered: '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 disclosed'.

Table 9 Society - Residential							
Past Due Loans	**Total Balance £000**	**Total Arrears Balance £000**	**Specific Impairment Allowance**	**Residual Maturity 0-3 m**	**Residual Maturity 3-12 m**	**Residual Maturity 1-5 yrs**	**Residual Maturity >5 yrs**
Shared Ownership	1,028	52	30	0	0	95	933
Buy to Let	385	9	15	0	0	109	276
Prime	2,054	107	145	17	11	107	1919
Total Past Due	**3,467**	**168**	**190**	**17**	**11**	**311**	**3,128**
Performing Loans	**473,790**	**95**	**214**	**4,524**	**8,816**	**64,691**	**395,759**

The Society's accounting policy in relation to impairment allowances on loans and advances to customers is recited in full at Note 1 to the Annual Report and Accounts 2016.

Full details of the movements on impairment allowances on loans and advances to custmers are provided at Note 16 to the Annual Report and Accounts 2016. 2015 impairment allowance balances have been restated following implementation of FRS102 in 2016 financial statements.

For capital adequacy purposes, collective impairment allowances are regarded as Tier 2 capital (see Table 4 above). Summarised details of the impairment allowance movements during 2016 are given in Table 8 below.

Table 10
Impairment Allowance on loans and advances to customers

	Brought forward at 1 Dec 2015 £000	Written off £000	Recoveries £000	Charge for the year £000	Carried forward at 30 Nov 2016 £000
Collective	261	-	-	46	307
Individual	360	(2)	10	36	404
Total	**621**	**(2)**	**10**	**82**	**711**

8. Counterparty Credit Risk

The Society has exposures to banks and building Societies in its treasury portfolio. These exposures are held purely for liquidity purposes. Treasury activity is tightly controlled with policy limits and approved counterparties included in the Liquidity Policy. Senior management monitor limits on a daily basis and ALCO monitors treasury activity monthly.

The Society has nominated Fitch as its external credit assessment institution. Fitch's ratings are applied to Society non-cash liquidity exposures in order to establish the risk-weighted value of those exposures for capital adequacy purposes.

Risk-weighted asset values under the standardised approach are calculated by reference to six credit quality steps under CRR, dependent upon whether they are exposures for up to three months or longer. Table 9 maps the Society's applications of Fitch's ratings to CRR credit quality steps together with the risk weightings applicable according to counterparty type.

As is demonstrated from the Fitch ratings attached to each credit quality step, step 1 represents the highest credit quality and step 6, the lowest.

Table 11
Matrix of risk weightings by credit quality step and Fitch ratings

Credit quality step	**1**	**2**	**3**	**4**	**5**	**6**	**Un-rated**
Fitch's long-term ratings	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ to B-	<= CCC+	-
Fitch's short-term ratings	F1+, F1	F2	F3	< F3	-	-	-
Corporates	20%	50%	100%	100%	150%	150%	-
Institutions (UK formed)	20%	50%	100%	100%	100%	150%	-
Institutions (over 3 months)	20%	50%	50%	100%	100%	150%	50%
Institutions (to 3 months)	20%	50%	100%	150%	150%	150%	20%
Sovereign	0%	20%	50%	100%	100%	150%	-

Applications of the matrix (shown in Table 9) to Society non-cash liquidity exposures at 30 November 2016 produces risk-weighted asset values as shown in Table 12.

Table 12					
Risk-weighted asset values of Society non-cash liquidity exposures 30 November 2016	**Total** **£000**	**Credit quality step1** **£000**	**Credit quality step 2** **£000**	**Credit quality step 3** **£000**	**Unrated** **£000**
Exposures subject to 0% risk-weighting	80,787	80,787	-	-	-
Exposures subject to 20% risk-weighting	5,713	1	5,712	-	-
Exposures subject to 50% risk-weighting	15,066	-	10,051	5,015	-
Exposures subject to 100% risk-weighting	-	-	-	-	-
Total non-cash exposures	**101,566**	**80,788**	**15,763**	**5,015**	**-**
Risk-weighted asset value	**8,676**		**6,168**	**2,508**	**-**

9. Interest Rate Risk

The main activities undertaken by the Society that give rise to interest rate risk are as follows:

- Management of the investment of capital and other non-interest bearing liabilities;
- Issue of fixed rate savings products;
- Fixed rate wholesale funding taken by the Treasury department;
- Fixed rate mortgage and other lending;
- Fixed rate investments by the Treasury department;
- Timing differences between asset, liability and swap maturities.

Interest rate risk is managed by utilising natural hedges on the Statement of Financial Position and by effecting interest rate swaps with external counter-parties. An analysis of the variance in earnings or economic value arising from both upward and downward interest rate shocks is considered on a monthly basis by ALCO and hedging action is taken as appropriate. When considering hedging action an allowance is made for the impact of loan prepayments, early redemption charges, or early withdrawal of deposited funds.

The Society Statement of Financial Position is tested against Board limits on a regular basis for the effects of a 2% parallel shift in interest rates after the appropriate adjustment of capital allocations. Interest rate risk limits are an expression of the Board’s risk appetite and are reviewed annually as an integral part of updating the Society's ICAAP.

10. Asset Encumbrance

Information on importance of encumbrance
The Society has two pools of mortgage assets encumbered under the Bank of England Funding For Lending scheme. Drawings in the form of 9 month Bank of England Treasury Bills are held against these. These are held off Balance Sheet.
A breakdown of the median encumbered and unencumbered assets during the financial year ended 30 November 2016 is given in Table 13

Table 13	Carrying amount of encumbered assets £000	Fair value of encumbered assets £000	Carrying amount of unencumbered assets £000	Fair value of unencumbered assets £000
Assets of the reporting institution				
Equity instruments	0	0	0	0
Debt securities	0	0	72,271	72,271
Other assets	45,127		471,879	

Table 14	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	20,965	46,689

11. Remuneration Policy

Staff salaries (other than directors) are considered by the Executive Directors as part of the Corporate Planning process, which is subject to board approval. Staff bonuses are also set by the Executive Directors.

The Remuneration Committee consists of three Non-Executive Directors under the Chairmanship of Derek Bowden. The Chief Executive attends by invitation only but takes no part in the discussion of his own salary. The Committee is responsible for the remuneration policy of all Executive Directors and it makes recommendations to the Board regarding remuneration and contractual arrangements. The Committee meets at least twice a year and reviews supporting evidence, including external professional advice, if appropriate, on comparative remuneration packages.

Reports and minutes of the Committee's meetings are circulated to all members of the Board and the Chairman of the Committee reports at the Board meeting following a Committee meeting.

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.

Executive Directors' Remuneration

The main components

Basic salary

Salaries are reviewed by reference to jobs carrying similar responsibilities and from external salary benchmarking data from the building society sector and financial services sector as well as other UK and regional salary data. This encompasses the responsibility and complexity of the role. Those Executive Directors who hold outside Directorships do not receive remuneration from those organisations.

Three Year Performance Related Pay Scheme

A three year performance related pay (PRP) scheme operated during the year for Executive Directors; this was designed to encourage the achievement of targets central to the long term sustainability of the Society. The PRP currently allows a maximum of 20% of salary earned for achievement of all targets set which are based on financial performance and effective risk management criteria. One third of this payment is deferred until the end of the three-year period to ensure consistent performance is delivered over the longer term. As part of the process the Remuneration Committee sets targets and assess whether any payment should be made.

The Remuneration Committee also has the facility to provide an additional discretionary payment for exceptional performance.

Pensions

The Society makes a contribution of between 17.5% and 20% of salary to Executive Director's private pension arrangements. Mr Winter (Chief Executive, Retired 30th November 2016) is a deferred member of the Ipswich Building Society Pension and Life Assurance Scheme, a defined benefit pension which became paid up on 31 March 2006.

Benefits

Executive Directors receive other taxable benefits including a car allowance, and a private health care scheme, which covers the Directors and their families. The Society does not provide concessionary home loans to Directors.

Contractual terms

The Executive Directors are employed on open-ended service contracts which require 12 months notice to be given by the Society and six months notice by the individual.

Remuneration paid

Table 15 Non-Executive Directors	**2016 fees £'000**	2015 fees £'000
D W Bowden (Deputy Chairman)	**24.5**	24.0
Ms E S Evans (Chairman)	**41.0**	40.0
A Harris	**25.8**	25.2
Mrs M A Tennens	**24.5**	24.0
C B Tilley (retired 25.03.15)	**0.0**	8.6
A L Wilson (retired 01.06.15)	**0.0**	12.8
V Dias	**26.3**	17.2
P Elcock	**22.5**	11.0
S J Reid (appointed 01.11.16)	**1.9**	0.0
Total	**166.5**	162.8

The Board, other than the Chairman, is responsible for approving the Chairman's fees.

Table 16 – Executive Directors	**Salary**	**Performance related pay**		**Discretionary bonus**		**Benefits**	**Sub Total**	**Pension Contributions**	**Total**
		Payable now	**Deferred**	**Payable now**	**Deferred**				
Executive Directors	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
2016									
P Winter (Chief Executive)*	**156**	**-**	**-**	**-**	**-**	**17**	**173**	**28**	**201**
K F Blackburn (Finance Director)	**109**	**-**	**-**	**5**	**-**	**12**	**126**	**19**	**145**
Total	**265**	**-**	**-**	**5**	**-**	**29**	**299**	**47**	**346**
2015									
P Winter (Chief Executive)*	154	3	1	-	-	17	175	31	206
K F Blackburn (Finance Director)	107	2	1	-	-	12	122	19	141
Total	261	5	2	-	-	29	297	50	347

* P Winter retired as Chief Executive on the 30 November 2016 and was replaced by Richard Norrington.

Remuneration of other officers whose professional activities have a material impact on the risk profile (General Manager (Operations); General Manager (Retail and Distribution); Head of Risk and Compliance):

Table 17 – Other Officers	**2016 £k**	2015 £k
Fixed	**305**	324
Variable	**13**	4

12. Board (management body) recruitment and other directorships

Recruitment to the Board (the management body) is determined by the Society's Board Recuitment 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 on the Board. It will consider candidates on merit and against objective criteria and with due regard to the benefits and advantage of diversity on the Board. The Society aims to maintain a balance on its Board and is aware of the advantages that this may bring. Candidates for Directorships are assessed on the basis of their skills and expertise. Applicants are sought from varied geographical, social, economic, environmental, business and cultural backgrounds.

The Society does not set objectives and targets for diversity, although it notes that it currently has a 37.5% female representation on the Board and therefore exceeds the recommendations of the Davies Report which, for diversity purposes, has set a minimum target of 25% female representation.

Members of the Board are expected to devote sufficient time to enable them to discharge their duties. A register of other directorships is held and the register at 30 November 2016 is included within the annual report and accounts.

13. Conclusion

This disclosure document has been prepared in accordance with the requirements of European regulation as interpreted for a group of firms of the size and complexity of the Society.

In the event that a user of this disclosure document should require further explanation on the disclosures given, application should be made in writing to: The Finance Director at Ipswich Building Society, PO Box 547, Ipswich, IP3 9WZ.