Regulatory Disclosures as at 31 December 2022

Approved by Committee of the Board on: 16 June 2023

Contents

Introduction

Big Society Capital's overriding purpose is to build investment ecosystems that support enterprises to improve the lives of people in the UK through investment with a sustainable return.

Big Society Capital exists to make a difference: to help create a fair society by improving the lives of people in the UK through investment. Working with expert partners, the firm seeks to understand people's needs first. Then, using its knowledge and capital, it collaborates and invests with fund managers and social banks who also want to create a better, sustainable future. They, and the social enterprises and charities they invest in, create the impact. Big Society Capital's role is to bring the most relevant experts from its network to the table, generating ideas and connecting capital to where it's most needed.

Since inception, Big Society Capital and other investors alongside it have together made over £2.5 billion of new capital available to organisations with a social mission. As a wholesale social impact investor, Big Society Capital invests in funds alongside others, rather than investing directly. The firm aims to identify the sustainable business models that will create impact and improve people's lives, as well as achieving positive investment returns. The firm focuses on those models that can attract other investors, as ultimately these will provide the opportunity to scale and have greater impact. By investing its capital, the firm aims to build a thriving ecosystem, which has strong impact-driven fund managers and more available finance from diverse sources. Big Society Capital will judge its ultimate success by the growth and social impact of the broader environment it helps create, not just by the direct impact of its investment capital.

Big Society Capital's long-term objective is to generate positive financial returns alongside demonstrable social impact. The firm utilises a number of financial metrics to track its underlying in-year and longer-term performance, including new commitments, drawdowns and receipts, portfolio return and overall financial return.

The Financial Conduct Authority's ("FCA") Investment Firms Prudential Regime (IFPR) came into effect on 1 January 2022. Under this new regime Big Society Capital ('the firm", "BSC") is classified as a MIFIDPRU Investment Firm and is subject to the MIFIDPRU rules (previously it had been classified as a BIPRU Investment Firm following the rules set out in the BIPRU sourcebook, which has now been superseded by this new regime). Under the new regime Big Society Capital is classified as a non-SNI (Small and Non-Interconnected) firm due to the size of its balance sheet, exceeding £100 million.

As a result the firm is now required to make a number of public disclosure statements on an annual basis, transitioning from publishing the Pillar 3 disclosures under the previous regime. The disclosures we are required to make are collated here, as identified below with reference to the relevant clauses in the FCA prudential sourcebook for MiFID (Markets in Financial Instruments Directive) Investment Firms. Some of these disclosures (in particular the Investment Policy disclosure under MiFIDPRU 8.7) are already provided elsewhere on our website and in these cases, we have included the relevant links.
These disclosures are prepared on a solo basis.

The 'all equity' nature of the firm's balance sheet means that it holds capital significantly in excess of the technical Own Funds requirements.

Risk Management Objectives and Policies – MIFIDPRU 8.2

Overview of Big Society Capital's Risk Management Framework

The firm has established a risk management framework and a related set of policies that provide oversight and accountability for the identification, assessment and management of risks across the organisation.

The Board, supported by its Audit, Risk and Compliance Committee (ARCC), is ultimately responsible for Big Society Capital's risk management framework, and for regular review of its adequacy and effectiveness, with operation of the framework delegated to the executive team. The framework is designed to support informed decision-making regarding the risks faced by the organisation, with the intention of managing acceptable risks within the agreed risk appetite, rather than eliminating such risks.

The firm's Risk Management Framework consists of a number of interlinking strands encompassing all areas of the firm's activities. The key elements of Big Society Capital's risk management framework include:

- setting of annual and longer-term corporate objectives and quarterly reporting against agreed KPIs;
- a Risk Appetite Statement approved annually by the Board, together with key indices that are monitored by ARCC quarterly;
- a quarterly review by the Executive team of key risks faced by Big Society Capital;
- A designated Risk Champion within each of the firm's three principal teams (Investment, Engagement and Core). These Champions also attend the quarterly Executive risk review meetings and are intended to be the eyes and ears of the senior team and promote good risk management practice within each individual team;
- quarterly review, challenge and approval by ARCC of the firm's key risk areas together with assessment of mitigation and management of such risks. A summary of this is then tabled at the Board half yearly. A 'Risk Universe' chart showing a wider range of risks the firm faces is also tabled quarterly with ARCC. In addition to this a longer term 'Horizon Risk' scan exercise is undertaken by the Executive team every six months and a summary tabled with ARCC.
- a robust investment decision-making process;
- half-yearly portfolio valuation and monitoring processes; and
- policies, procedures and authorisation levels against which the firm operates.

Risk Appetite

Setting the firm's risk appetite

As the UK's leading social impact investor, Big Society Capital holds a portfolio of unlisted investments (equity, loans, funds) which account for over 50% of the firm's net asset value. These investments carry a number of different higher risk factors which are not found in public markets investments. The remainder of the firm's net asset value is derived from a number of more liquid/treasury investments which provide the necessary liquidity to enable the firm to finance its Social Impact Investment Portfolio. All investments are approved by the Investment Committee with larger investments (>£10 million) requiring Board approval.

The firm takes a proportionate risk-based approach to running its business and managing its risks. However, due to its mandate of provision of finance for social impact investments that are less attractive to mainstream financial institutions, it has an increased risk appetite in respect of both investment and social impact performance, within its Social Impact Investment Portfolio.

Notwithstanding this higher risk appetite in respect of social impact investment, the firm has been set up with the aim of operating on a sustainable basis. With this in mind, the firm has developed a range of investment portfolio allocation and liquidity mitigants to ensure its continued existence and financial sustainability and to enable the firm to deliver social impact across its areas of focus.

The firm has developed a formal statement of Risk Appetite which reflects the specific characteristics of the firm's activities and is approved annually by the firm's Board. This is set out below:

Big Society Capital Risk Appetite Statement (as approved by BSC Board December 2022)

'Fulfilling BSC's mission requires us to take risks. In order to achieve BSC's financial return and social impact objectives BSC is willing to take and accept a high level of investment risk. In the light of BSC's long term investment mandate this appetite includes continuing to grow our Social Impact Investment portfolio in periods of economic stress and volatility.

BSC will also sometimes accept more risk for lower financial returns where the social impact or system change returns are justified. BSC is also exposed to a high level of strategic-type risk through the selection of its principal areas of focus and the extent to which social impact objectives for these can be delivered. We manage and mitigate those risks through a broad network of investors and enterprises to build understanding and through frameworks of rigorous social impact, financial and systems change assessment; appropriate structuring of transactions, portfolio allocation, concentration thresholds and robust governance mechanisms.

Following a review in 2022 we have made some upward adjustments to the level of risk appetite in a portion of our Treasury portfolio. With better visibility on BSC's longer term liquidity position our Board have concluded that assuming a greater degree of investment, asset and duration risk in approximately 50% of the Treasury portfolio is appropriate.

The higher level of risk appetite in respect of our core investment activity, how we achieve social impact and our strategic focus together with the Policy risks to which a number of BSC investments are exposed, is balanced by a more cautious approach to risk in other areas. The Board considers the appetite for risks across a number of areas including investment strategy, liquidity, financial performance, social impact, operational, regulatory and other external factors. BSC's overall risk appetite is set in the light of its principal risks and their impact on the ability of BSC to meet its strategic objectives.

The above statement describes the risk appetite BSC has for its core balance sheet capital as a catalytic actor in the social investment market. When BSC is running or advising portfolios on behalf of clients the risk & return appetite will be set as appropriate for the client mandate'

Assessing the effectiveness of the firm's risk management processes

The firm's risk management framework is based on a 'three lines of defence' model. The first line of defence is through the executive leadership team and line managers, who are responsible for day-to-day identification, assessment, reporting and management of risks. The second line of defence is responsible for designing risk policies and monitoring risk performance and providing objective challenge to the first line of defence – for Big Society Capital this is primarily delivered through ARCC and the executive leadership team. The third line of defence provides independent assurance of the overall systems of internal control and risk governance, and is achieved through a programme of external assurance in respect of compliance, key controls, and processes.

With reference to provision of assurance in respect of how the third line of defence is addressed, the firm has established an internal audit assurance programme with a series of 1-2 reviews each year undertaken by a third-party specialist provider.

Alongside the overall Risk Appetite Statement, an assessment has been made of risk appetite in respect of the firm's principal risk categories and example mitigants – this is reviewed by ARCC annually. In addition, the Risk Appetite Statement is supported by a schedule of trigger thresholds for certain quantifiable risk categories which is reviewed quarterly by ARCC.

In addition to monitoring undertaken as part of the Risk Management Framework, other monitoring arrangements include:

- Compliance monitoring programme provided by external consultants.
- Compliance Officer responsibilities
- Monthly Management Accounts including capital calculations
- Liquidity is monitored daily by the finance team and monthly management accounts are produced
- Half yearly updates of long term treasury forecasting
- Annual budget/ 5 year forecast

Summary of key risks and mitigation approach

Own funds requirement

The potential for the risk of harm to the firm's own funds arises primarily from the firm's investment management activities; including its role as Delegated Portfolio Manager for its one client, managing its proprietary capital for use in social impact investment and managing its treasury portfolio with the aim of preservation for future use in social impact investment. The principle risk the firm faces is that of impairments to its assets as a result of performance risk, credit, counterparty and concentration risk, foreign exchange risk and operational risk. The firm also faces strategic risks in the form of reputational risk, failure to deliver its mission, partnership risk and governance risk, affecting its ability to make future investments and therefore not getting capital to the social issues that the firm seeks to address.

Strategies and processes for managing identified risks

As described above in the section 'Setting the firm's risk appetite' Big Society Capital has been set up to take some higher risks in terms of the types of investments it will make, mitigants are built into the planning and monitoring of business activities as detailed below.

Big Society Capital has established processes for developing and implementing its overall strategic direction. It follows a 4-5 year Strategy cycle with the overall strategic approach being signed off by the firm's Board. Within each Strategy period Annual Business Plans are produced which serve to translate and cascade the Strategy into a series of objectives and deliverables together with an assessment of the operational support required to deliver on these. Annual Business Plans are also signed off by the firm's Board. Both the longer term Strategy and Annual Business Plans include sections on the key risks arising from the goals and objectives and outline how the firm expects these to be mitigated. Any specific aspects of the Strategy and Business Plans which affect Clients are appropriately highlighted in those documents. The Strategy and Business Plans also consider in outline the effect of risks associated with the firm's business and operating model on wider financial markets – however such effects are considered very limited given the size of the firm and the specialised nature of its activities in the context of the overall financial system.

In terms of the firm managing the risks associated with specific client relationships, the firm is the delegated Portfolio Manager of the Schroders BSC Social Impact Trust ("SBSI / the Trust") with Schroder Unit Trusts Limited ("Schroders") as the AIFM. The AIFM has overall responsibility for risk management of "SBSI" but the firm is required to have a robust risk framework in place to enable portfolio risks associated with SBSI are identified and managed – this primarily comprises a Fund Risk Profile exercise, 6 monthly portfolio stress tests and a Risk Policy. There is a range of governance mechanisms in place to ensure these requirements are met.

A key client risk faced by the firm as a result is that of not treating its client fairly, which could result if there is an imbalance and mismatch between external and proprietary business lines. To mitigate this risk the firm has developed an Allocation Policy that details how the firm will recommend investments to the Trust's Investment Committee and determine appropriate allocations to the client's portfolio, including when there is scarcity of commitment and scale back may be required.

There are a number of residual risks that the firm faces after proportionate risk mitigation measures have been taken. The most material of these relate to external-type risks such as the broader macroeconomic environment and the effect that material changes in that environment may have on the firm's operations and its ability to support clients. In its ICARA (Internal Capital Adequacy and Risk Assessment) the firm has therefore carried out an assessment of residual material risks of harm to the firm, clients and markets and allocated financial resources against these to determine the own funds threshold requirement under the overall financial adequacy rule, in accordance with MIFIDPRU 7.6.

The firm's policy is to hold CET 1 capital in excess of this figure, in addition the firm has identified early warning triggers that would indicate the firm may go into breach of these limits, and enable the firm to identify recovery actions. The firm has also considered own funds in the context of a wind-down situation and has not identified any additional risk as a result.

Significant impairments and lower returns are also covered in the stress testing, performed as part of the ICARA process. These demonstrate that the firm can withstand substantial impairments without breaching its own funds threshold requirements. The stress tests also consider the impact on liquidity and demonstrate that the firm continues to hold sufficient liquid assets to fulfil its commitments and obligations, following actions that would need to be taken to recover from any theoretical breach scenarios.

Concentration risk

Big Society Capital recognises concentration risk as the risk that harms could arise from a lack of diversification of the firm's investments and earnings and bank balances.

<u>Strategies and processes for managing identified risks</u>

As the firm does not deal on its own account there is no specific requirement to hold capital in respect of concentration risk. However Big Society Capital does monitor its counterparty positions. The firm accepts the use of a single banking partner as being within its risk appetite, but does note the diversification of its treasury balances across several counterparties, a small element of cash is also held within the main treasury portfolio. The earnings model is based on having one single client, which the firm considers is within its risk appetite. It should be noted that non-client income is diversified across a wide range of portfolio investees. The firm is required to monitor and report these concentration risks to the FCA on a quarterly basis.

Liquidity Risk

Big Society Capital recognises liquidity risk as the risk of not having sufficient liquid funds to meet obligations as they fall due or as needed in the event of an orderly wind down.

<u>Strategies and processes for managing identified risks</u>

At all times liquid funds should be sufficient to meet the firm's overall ICARA requirements.

The firm's liquidity risk tolerance is considered annually by the Board as part of the planning process with particular focus on projected cash inflows from the social impact investment portfolio which can be uncertain from a timing perspective and lumpy in nature. The planning process includes scenario analysis, looking out 10 years to identify when and why cash availability could drop below 80% of undrawn commitments (the firm's self-imposed 'overcommitment' limit). Potential mitigations such as a bank facility or the ability to realise more liquid investments are identified, for these circumstances, which if the situations were to crystallise Big Society Capital would plan to implement.

The liquidity of the firm's assets is monitored daily and through a monthly financial reporting process.

In its ICARA, the firm considers the additional liquidity requirements under MIFIDPRU 7.7. The firm has also considered the liquid assets it would require to commence wind-down. The firm's policy is to maintain liquid assets in excess of this figure, in addition the firm has identified early warning triggers that would indicate the firm may go into breach of these limits, and enable the firm to identify recovery actions.

As part of its annual ICARA process the firm projects its profit and loss, balance sheet and liquidity positions over a five year horizon to identify any potential future breaches of the own funds or liquidity requirements. The firm also carries out stress testing, using both internal (levels of commitment, drawdown and redemptions) and external influences (economic downturn, changes to interest rates, counterparty failure) to create severe scenarios and determine how these could impact the firm's position. The results of these stress tests indicate that the firm has considerable excess own funds and liquidity, following actions that would need to be taken to recover from any theoretical breach scenarios.

Governance Arrangements – MIFIDPRU 8.3

Overview – Governance Structure

The Oversight Trust

The Oversight Trust is the majority shareholder of Big Society Capital and provides oversight with the aim of ensuring that Big Society Capital remains true to its object of promoting and developing social impact investment and the social impact investment market in the United Kingdom.

Big Society Capital Board

The Board is the highest decision-making body within the organisation. Its remit and functions are set out in a documented Terms of Reference which is reviewed periodically. The responsibilities of the Board captures the key requirements within SYSC 4.3A.1.

The composition of our Board reflects our purpose and includes directors with financial and/or social sector expertise. Our Board comprises a majority of non-executive directors, and one executive director, being the company CEO.

The Board meets at least five times a year, and there is an annual review of its effectiveness (including feedback on the Chair's performance). To ensure an objective assessment is made, we have a policy of complementing this exercise by engaging a third party to provide an independent Board evaluation approximately every three years, with the last independent evaluation undertaken for 2021, which was reported to and discussed by the Board in March 2022.

The Board is collectively responsible for providing leadership to the Company within a framework of prudent and effective controls which enable risk to be assessed and managed. It sets the Company's strategic aims, meeting at least once yearly to consider the longer-term strategy, and consider key strategic plans and proposals brought by respective executive team leads, including, (but not limited to) items relating to our approach to stakeholder engagement, investment and ESG principles, impact management, budget and financial plans, overall business planning and people strategy. It monitors performance against agreed KPIs in respect of strategy and also considers items related to setting our values and standards, including our company level EDI Action Plan and Responsible Business Principles. Where there are key areas of emerging risk for the Company, as referred to it by the Audit Risk and Compliance Committee (see below), it considers, evaluates and advises upon management's proposed mitigating actions to address these.

Board Committees

The Board has two Committees, each comprising only non-executive directors. The Audit, Risk and Compliance Committee also engages an external adviser member to provide specific expertise.

- **The Nominations and Remuneration Committee (also known as the People Committee)** is responsible for making recommendations concerning the appointment and development of directors. Specific considerations include ensuring: that an appropriate depth and breadth of skills and experience is present in the Board composition; that the Board benefits from a diversity of membership; and that there is an even balance of expertise across both the financial and social sectors. It also has responsibility for setting levels of executive and non-executive remuneration, and monitors activities related to our People Strategy.

- **The Audit, Risk and Compliance Committee (ARCC)** is responsible for overseeing management processes and other arrangements to ensure the appropriateness and effectiveness of systems and controls, including risk management. The ARCC also considers the arrangements made by management to ensure compliance with external regulatory requirements and standards. It oversees the internal audit programme and reviews the annual accounts with the external auditors. It also advises the Board on our overall current and future risk appetite and strategy, assisting the Board in overseeing the implementation of that strategy by senior management.

Whilst Big Society Capital does not run an entirely separate risk committee, the agenda for ARCC has clear standing items relating purely to risk, with appropriate time assigned to them, and a waiver in this regard was obtained from the FCA in early 2023. A similar waiver has also been granted from the FCA from the obligation to split the Nominations and Remuneration Committee into its component parts.

Big Society Capital operates a rotational system whereby directors whose experience is not primarily in the financial sector serve for a period of two years on ARCC, to ensure that the Committee benefits from a diversity of perspectives, and to contribute to the development of directors.

Other Operational Committees

Big Society Capital has three other operational committees:

- **The Executive Committee** is chaired by the CEO and is responsible for the day-to-day running of Big Society Capital.
- **The Investment Committee** comprises both Board and Executive Committee members as well as two external members, and an advisor, and is responsible for making investments and for monitoring the performance of our portfolio. All investments over £10 million also require approval by the Board. It is chaired by the CEO of Big Society Capital or delegated to an alternative member of the Committee (normally the Deputy Chair of the Investment Committee). All Board members have a standing invitation to observe the Investment Committee. There is a separate Investment Committee established purely in respect of the Company's responsibilities as portfolio manager for the Schroders BSC Social Impact Trust ("SBSI").
- **The Valuation and Performance Committee** also comprises both Board and Executive Committee members. Its role is to agree the valuation of our social impact investments (Valuation) and to review how our social investment portfolio is performing against the original investment thesis from an overall financial, impact on people and systems change perspective (Performance). This includes identifying key risks and issues within our investment portfolio. It is chaired by the

CFO of Big Society Capital (who is not a member of the Investment Committee). Members of ARCC and our external auditors have an open invitation to observe meetings of the Valuation and Performance Committee. The Committee also meets at least twice yearly, for a separate closed session to discuss the valuation of assets within the SBSI portfolio.

Governance Framework and Supporting Documents

Big Society Capital Limited maintains a clear framework which is documented through: The Schedule of Matters Reserved to the Board; the Board Conflicts of Interest Policy and Register of Directors' Interests, (reviewed at least annually and on an ongoing basis where new disclosures arise); a Board approved Authorised Signatories List; and a Statement of the Division of Responsibility between the Chair and the CEO.

Number of Other (relevant) Directorships

Please see below for the number of relevant directorships held by the Board members in place as at 31 December 2022, in addition to their role with Big Society Capital Limited.

Name	Number of Directorships[1]
Robin Hindle Fisher (Chair)	2
Stephen Muers (Executive Director and CEO)	0
David Hunter (Chair of ARCC)	2
Kieron Boyle (Chair of the Nominations and Remuneration Committee)	1
Christina McComb	1
Chris Wright	1
Fiona Ellis	0
Alan Giddins	2
Lesley Anne Alexander	2
Stuart Foster	1
Stan Chan	0

Table 1

Diversity

The Board Diversity Policy for Big Society Capital Limited is publicly available on our website at: https://bigsocietycapital.com/documents/265/BSC_Board_Diversity_Policy

Progress against our Diversity Objectives

All qualitative underlying practices and principles set out within the stated objectives have been complied with.

[1] This *excludes* the directorship of Big Society Capital, subsidiaries within the same group and organisations which do not pursue predominantly commercial objectives, as per the requirements of the relevant regulations (SYSC 4.3A.6).

In respect of the quantitative target with respect to gender balance on the Board, we intend to meet this in full by the end of 2025 as per the timescale stated in the policy. We see these targets as minimum standards and continue to strive to do better in this space.

Own Funds – MIFIDPRU 8.4

The firm has calculated its own funds as at 31 December 2022 as below:

Composition of regulatory own funds (OF1)			
	Item	**Amount (GBP thousands)**	**Reference to Table 3 below**
1	**OWN FUNDS [2 + 25]**	594,121	
2	**TIER 1 CAPITAL [3 + 20]**	594,121	
3	**COMMON EQUITY TIER 1 CAPITAL**	594,121	
4	Fully paid up capital instruments	626,345	10
5	Share premium	0	
6	Retained earnings	(1,545)	11
7	Accumulated other comprehensive income	0	
8	Other reserves	0	
9	Adjustments to CET1 due to prudential filters	0	
10	Other funds	0	
11	(-)TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1	(30,679)	1 + 3a
19	CET1: Other capital elements, deductions and adjustments	0	
20	**ADDITIONAL TIER 1 CAPITAL**	0	
21	Fully paid up, directly issued capital instruments	0	
22	Share premium	0	
23	(-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1	0	
24	Additional Tier 1: Other capital elements, deductions and adjustments	0	
25	**TIER 2 CAPITAL**	0	
26	Fully paid up, directly issued capital instruments	0	
27	Share premium	0	
28	(-) TOTAL DEDUCTIONS FROM TIER 2	0	
29	Tier 2: Other capital elements, deductions and adjustments	0	

Table 2

Cross references between the above calculation and the audited Financial Statements (below) are included in the final columns of each table.

Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statement*				
			a	b
	As at period end 31 December 2022		Balance sheet as in published/ audited financial statements	Cross reference to template OF1
Assets - Breakdown by asset classes according to the balance sheet in the audited financial statements				
	Fixed assets			
1	Intangible assets		3	11
2	Tangible assets		49	
3a	Investments - CET1 instruments of financial sector entities	30,676		11
3b	Investments - non CET1 instruments of financial sector entities	349,593		
3	Investments (Total)		380,269	
	Current assets			
4	Debtors		1,758	
5	Investments		248,016	
6	Cash at bank and in hand		22,759	
7	**Creditors: amounts falling due within one year**		(4,465)	
	Creditors: amounts falling due after more than one year			
8	Deferred income		(23,581)	
9	**Provisions for liabilities: Deferred taxation**		(8)	
	Total net assets		624,800	
	Capital and reserves			
10	Called-up share capital		626,345	4
11	Profit and loss account		(1,545)	6
	Total equity		624,800	

Table 3

*With the exceptions of line items referenced as 3a and 3b above table replicates the Statement of Financial Position per the audited financial statements.

Main features of own instruments issued by the firm

Common equity tier 1 instruments are made up entirely of privately held share capital with a value of £626,345,000, each share is held at par and has a nominal value of £1.

Own Funds Requirements – MIFIDPRU 8.5

Own funds requirement

The MIFIDPRU Prudential sourcebook for MiFID Investment Firms defines the Own Funds Requirement (OFR) of a non-SNI MIFIDPRU Investment firm as the highest of:

- Permanent Minimum Requirement (PMR) – this is prescribed in MIFIDPRU 4.4, and under the conditions described therein, Big Society Capital is required to hold PMR of £75,000.
- Fixed Overhead Requirement (FOR) – this is defined in MIFIDPRU 4.5 as an amount equal to one quarter of the firm's relevant expenditure during the preceding year.
- K-factor Requirement (KFR) – this is set out in MIFIDPRU 4.6 to 4.16, where calculations specific to the K-factors are specified.

Big Society Capital has calculated its OFR as:

		Current Yr.
	Solo Basis	2022
	Own Funds Requirements (OFR)	£
(A)	Permanent Minimum Requirement (PMR)	75,000
(B)	Fixed Overhead Requirements (FOR)	2,533,000
	K-factor requirement (KFR)	
	a) Sum of K-AUM, K-CMH and K-ASA requirements	17,875
	b) Sum of K-COH and K-DTF requirements	0
	c) Sum of K-NPR, K-CMG, KTCD and K-CON requirements	0
(C)	Total KFR (sum of all K-Factors)	**17,875**
(D)	**OFR Result: Higher of (A), (B) or (C)**	**2,533,000**

Table 4

The only K-factor that is applicable to Big Society Capital is K-AUM, in relation to its role as delegated Portfolio Manager for the Schroder BSC Social Impact Trust.

FOR is calculated as:

	£
2022 audited Administrative and other expenses per Financial Statements	10,201,000
less one off salary costs	(69,000)
Total Relevant Expenditure	10,132,000
Fixed Overhead Requirement	2,533,000

Table 5

The FOR is the highest of the three Own Funds Requirement components. The firm holds surplus own funds to cover its FOR.

Assessment of additional capital in accordance with the overall financial adequacy rule (MIFIDPRU 7.4.7R)

The firm performs an annual ICARA exercise which considers additional risk of harm from ongoing operations. As described above the firm has carried out an assessment of residual material risks of harm to the firm, clients and markets and allocated financial resources against these. The firm has also considered additional own funds required to secure an orderly wind down. The sum of K-factors and additional capital from risks is greater than that of FOR and wind down costs and is therefore used as the basis for the Own Funds Threshold Requirement (OFTR).

Assessment of additional capital in accordance with the overall financial adequacy rule (MIFIDPRU 7.7.3R)

The firm's Basic Liquid Asset Requirememt (BLAR), which is calculated as one third of FOR is met with core liquid assets and the Liquid Assets Threshold Requirement (LATR), which is based on stressed liquidity requirements (being higher than additional liquid assets required for wind-down) is met with core and non-core liquid assets.

Conclusion

Due to the illiquid nature of the social impact investments made by the firm, the firm has been specifically structured to ensure that it has appropriate and sufficient working and liquid capital to sustain long term investment. The firm's latest financial model and projection shows that it is expected to generate profits in future years, but even without these there is sufficient capital in place to ensure that it can meet the investment commitments it has made and holds capital in excess of OFTR and liquidity in excess of LATR.

Remuneration Policies and Practices – MIFIDPRU 8.6

Big Society Capital's Remuneration Policy and Governance

The Board has delegated authority to the Nominations and Remuneration Committee (also known as the People Committee) to consider and agree a Remuneration Policy for all employees, with particular focus on Material Risk Takers (MRTs).

The Remuneration Policy, which is reviewed by the Nominations and Remuneration Committee annually, is designed to adhere to regulatory and legislative principles and aims to recognise the interests of relevant stakeholders of Big Society Capital. Big Society Capital's remuneration practices ensure remuneration levels are adequate to attract staff with sufficient skill and experience to ensure high quality processes, sound controls and good decision making. Big Society Capital uses a robust job-matching framework, which categorises roles across Big Society Capital. The category a role sits within is then used to determine which salary band applies. Big Society Capital's Remuneration Policy sets out its approach when determining employee remuneration for a small number of specific jobs that may need to sit outside the standard pay bands and be cross-checked against market data. These are typically roles that require a specialist skillset.

Given the stated objects of Big Society Capital to deploy funds to social impact investing and therefore ensure there is no excessive risk taking and that optimal funds are available for investing, the Renumeration Policy clearly states that a bonus related pay system, or a variable pay system of any sort, will not be operated. In addition, the overall Governance Agreement between Big Society Capital and its majority shareholder (Oversight Trust) states that senior management will not be paid bonuses.

Remuneration decisions for staff in general are taken by the Executive Committee Decisions affecting the remuneration of the Executive Committee members, MRTs who are not Executive Committee members and members of the Board who are not in either category, are made by the Nominations and Remuneration Committee.

Every three years, an external benchmarking review of Big Society Capital's remuneration policy and practices is undertaken by a pay and benefits consulting firm. Any changes required to be made to the Remuneration Policy and Big Society Capital's remuneration practices following the benchmarking review are discussed and agreed by the Nominations and Remuneration Committee as part of their annual approval of the Remuneration Policy.

The People and Talent Team oversee the implementation of the Remuneration Policy, decisions made by the Nominations and Remuneration Committee and the Executive Committee in relation to remuneration and remuneration practices.

Material Risk Takers

At Big Society Capital an MRT is defined as "a staff member whose professional activities have a material impact on the risk profile of Big Society Capital or of the assets BSC invests in or manages".

Big Society Capital have identified the following types of staff as MRTs:

- Executive Committee and Board members excluding NEDs
- CIOs/Heads of investment units/control functions not included in the above

Annual Remuneration Review process

For existing staff, a pay and promotions review is undertaken annually by:

- the Nominations and Remuneration Committee in relation to Executive Committee, MRTs who are not members of Executive Committee and executive and non-executive directors who are not members of the Executive Committee;
- the Executive Committee in relation to the Senior Management Team (except for MRTs); and
- The Senior Management Team in relation to all other staff below the level Managing Director

where the pay of all staff is reviewed, alongside the consideration of the promotion of an individual into a different role within the job matching framework.

Quantitative Disclosures

	Senior Management	Other MRTs	Other Staff
Total Remuneration*	£743,871.46	£543,954.73	£4,723,786.59
Fixed Remuneration	£743,871.46	£543954.73	£4,723,786.59
Variable Remuneration	NA	NA	NA
Total Number of MRTs	NA	13	NA

Table 6

*At Big Society Capital no variable award is offered or guaranteed to any staff member.

During the 2022 performance year no severance payments were awarded to any MRT.

Investment Policy – MIFIDPRU 8.7

Engagement Policy

The firm's investment policy is set out in the Engagement Policy (the "Policy"). The Policy sets out the approach to engagement and voting of Big Society Capital Limited in line with its obligations under the FCA's UK Conduct of Business Sourcebook rules. This Policy applies to both the management of Big Society Capital's proprietary capital and the management of social impact investments under delegated mandates from its clients. The policy, including appendices detailing information required under IFPR, is published on our website in full here: https://bigsocietycapital.fra1.cdn.digitaloceanspaces.com/media/documents/230419_-_Engagement_Policy_IFPR.pdf.