Leeds Building Society

Pillar 3 Disclosures 2022

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1 Executive Summary

This document presents the Pillar 3 disclosures of Leeds Building Society (the Society) as at 31 December 2022. The Pillar 3 disclosure requirements apply to banks and building societies and require firms to publish key details regarding their capital position and management of risk.

During 2022, the Society remained strongly capitalised with capital resources significantly above the Prudential Regulation Authority (PRA) prescribed Total Capital Requirement (TCR) and buffer requirements and transitional Minimum Requirement for own funds and Eligible Liabilities (MREL) requirements.

1.1 Basis and Frequency of Disclosure

This document has been prepared in accordance with the Disclosure (Capital Requirement Regulation firms (CRR)) part of the PRA Rulebook, which includes revised disclosure requirements following the UK's full implementation CRR II, applicable from 1 January 2022. As per the regulations the Society is currently required to publish Pillar 3 disclosures twice a year (30 June, 31 December) in line with the PRA Rulebook on materiality, proprietary and confidentiality and on disclosure frequency under Articles 432(1), 432(2) and 433 of the CRR.

Disclosures are presented using the prescribed disclosure templates in the PRA Rulebook. Row and column references are based on those prescribed in the PRA templates; no changes have been made to the fixed templates. Capital positions, with the exception of leverage ratios, are reported on a transitional basis, as opposed to fully loaded. These positions are materially the same.

The Society opted to apply the IFRS 9 transitional arrangements to capital calculations from 1 January 2018, on a scaling basis, over the period to 31 December 2024. This is in accordance with EBA/GL/2018/01 and as amended from 1 January 2020 by the CRR 'Quick Fix' package in response to the COVID-19 pandemic. The implementation of IFRS 9 does not have a significant impact on the Society's capital position. The disclosures have been published in conjunction with the publication date of the Society's Annual Report and Accounts and the information presented is based on those Accounts unless otherwise stated.

1.2 Verification

These disclosures have been subject to internal verification and have been recommended for approval by the Audit Committee before approval by the Board. The production of Pillar 3 disclosures is governed by a formal policy which is owned and approved by the Audit Committee which covers, inter alia, adequacy, verification, frequency and medium of publication of the disclosures.

There is no formal external audit requirement in relation to these disclosures; however, some of the information also appears in the Society's Annual Report and Accounts, which are subject to external audit verification. The Annual Report and Accounts have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted for use in the United Kingdom and the information in the Pillar 3 disclosures may not be directly comparable with that information due to differences in regulatory requirements and/or definitions. The disclosures are published on the "Financial results" section of the Society's website (www.leedsbuildingsociety.co.uk/press/financial-results/).

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1.3 Summary of Key Metrics

Key metrics (UK-KM1)

Table 1 (UK-KM1): Key metrics		Dec-22 a T	Jun-22 c T-2	Dec-21 e T-4
Available own funds (£m)				
1	Common Equity Tier 1 (CET1) capital	**1,388.3**	1,338.3	1,228.7
2	Tier 1 capital	**1,388.3**	1,338.3	1,231.2
3	Total capital	**1,622.9**	1,568.7	1,458.7
Risk-weighted exposure (£m)				
4	Total risk-weighted exposure amount	**4,163.9**	4,013.0	3,231.2
Capital ratios (as a percentage of risk-weighted exposure amount)				
5	Common Equity Tier 1 ratio (%)	**33.3%**	33.3%	38.0%
6	Tier 1 ratio (%)	**33.3%**	33.3%	38.1%
7	Total capital ratio (%)	**39.0%**	39.1%	45.1%
Additional own funds requirements based on Supervisory Review and Evaluation Process (SREP) (as a percentage of risk-weighted exposure amount)[1]				
UK 7a	Additional CET1 SREP requirements (%)	**1.6%**	1.9%	1.4%
UK 7b	Additional AT1 SREP requirements (%)	**0.6%**	0.6%	0.4%
UK 7c	Additional T2 SREP requirements (%)	**0.7%**	0.9%	0.6%
UK 7d	Total SREP own funds requirements (%)	**10.9%**	11.5%	10.4%
Combined buffer requirement (as a percentage of risk-weighted exposure amount)				
8	Capital conservation buffer (%)	**2.5%**	2.5%	2.5%
UK 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	**0.0%**	0.0%	0.0%
9	Institution specific countercyclical capital buffer (%)[2]	**1.0%**	0.0%	0.0%
UK 9a	Systemic risk buffer (%)	**0.0%**	0.0%	0.0%
10	Global Systemically Important Institution buffer (%)	**0.0%**	0.0%	0.0%
UK 10a	Other Systemically Important Institution buffer	**0.0%**	0.0%	0.0%
11	Combined buffer requirement (%)	**3.5%**	2.5%	2.5%
UK 11a	Overall capital requirements (%)	**14.4%**	14.0%	12.9%
12	CET1 available after meeting the total SREP own funds requirements (%)[3]	**22.4%**	21.9%	27.6%
Leverage ratio[4]				
13	Leverage ratio total exposure measure (£m)	**22,516.5**	21,969.0	20,317.4
14	Leverage ratio (%)	**6.2%**	6.1%	6.0%
Additional own funds requirements to address risks of excessive leverage (as a percentage of leverage ratio total exposure amount)[5]				
UK 14a	Additional CET1 leverage ratio requirements (%)	**N/A**	N/A	N/A
UK 14b	Additional AT1 leverage ratio requirements (%)	**N/A**	N/A	N/A
UK 14c	Additional T2 leverage ratio requirements (%)	**N/A**	N/A	N/A
UK 14d	Total SREP leverage ratio requirements (%)	**N/A**	N/A	N/A
UK 14e	Applicable leverage buffer	**N/A**	N/A	N/A
UK 14f	Overall leverage ratio requirements (%)	**N/A**	N/A	N/A
Liquidity Coverage Ratio				
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	**3,554.6**	3,278.7	2,913.2
UK 16a	Cash outflows - Total weighted value	**1,953.8**	1,862.3	1,674.9
UK 16b	Cash inflows - Total weighted value	**134.8**	130.2	112.7
16	Total net cash outflows (adjusted value)	**1,819.0**	1,732.2	1,562.2
17	Liquidity coverage ratio (%)	**195.4%**	190.4%	187.2%
Net Stable Funding Ratio				
18	Total available stable funding	**22,130.4**	21,838.7	20,750.3
19	Total required stable funding	**15,819.6**	15,805.2	13,776.6
20	NSFR ratio (%)	**139.9%**	138.2%	150.6%

Notes to table UK KM1:
1. Any firm-specific PRA buffer requirement is excluded from this disclosure.
2. The institution-specific countercyclical capital buffer requirement is based on the weighted average of the buffer rates for the different countries in which institutions have exposures. Per the regulations, non-UK exposures are only included in the average if the total of non-UK exposures is greater than 2.0% of total balance sheet assets, which the Society does not meet. This buffer requirement is required to be disclosed with three decimal places.
3. Represents the level of CET1 capital available to meet buffer requirements after subtracting the minimum amount of CET1 capital required to meet Pillar 1 and Pillar 2A capital requirements, also referred to as total SREP own funds requirements. The minimum CET1 requirement is equivalent to 4.5% (Pillar 1) plus the additional CET1 SREP requirement (56.25% of Pillar 2A).
4. Leverage ratios are presented as fully loaded. The Tier 1 capital figure used in the calculation does not include IFRS 9 transitional adjustments (2022: £0.7m, 2021: £1.4m) or the qualifying AT1 element of PIBS (2022: nil, 2022: £2.5m).
5. The additional leverage ratio disclosure requirements only apply to financial institutions with deposits equal to or greater than £50bn or non-UK assets equal to or greater than £10bn. The rows have been left blank as the Society is not currently captured by either threshold.

Executive Summary

Capital Ratios and Buffers

The Society's capital position remains strong with CET1 capital of £1,388.3m (31 December 2021: £1,228.7m). The increase to CET1 capital during the year is driven by earnings after tax. The movement includes an increase to the expected credit loss charge due to changes to the Internal Ratings Based (IRB) approach, which we have applied through a temporary Post Model Adjustment (PMA) as described in section 5.3.

Risk Weighted Exposure Amounts (RWEAs) increased by £932.7m during the year. The increase is primarily driven by the implementation of new regulatory changes applied on the 1 January 2022. The new regulations included changes to the IRB approach, which the Society has applied through a temporary PMA to reflect an estimate of the effect on its IRB modelled outputs prior to approval. Until the latest generation of IRB models are approved by the PRA, the PMA is subject to change and may lead to further movements in the regulatory capital ratios. Growth in mortgage assets was the other key driver in the RWEA increase.

As a result of the movement in regulatory capital and RWEAs explained above, the CET1 ratio and TCR have both decreased to 33.3% (31 December 2021: 38.0%) and 39.0% (31 December 2021: 45.1%) respectively.

As of 31 December 2022, the Pillar 2A requirement set by the PRA was 2.9% of RWEAs, of which 1.6% must be met by CET1 capital.

Leverage Ratio

The leverage ratio has been calculated in accordance with changes to the UK's leverage ratio framework which came into effect from 1 January 2022 and excludes deposits with central banks. The UK leverage ratio has increased to 6.2% as of 31 December 2022 (31 December 2021: 6.0%) reflecting the £160.3m increase in fully loaded Tier 1 capital (2022: £1,387.6m; 2021: £1,227.3m, see table 31), partly offset by a £2,199.1m increase in the leverage exposure, primarily due to higher net retail lending in the period.

The additional leverage ratio disclosure requirements only apply to financial institutions with deposits equal to or greater than £50bn or non-UK assets equal to or greater than £10bn. These rows have been left blank as the Society is not currently captured by either threshold.

Liquidity Coverage Ratio (LCR)

As of 31 December 2022, the LCR was 195.4% (31 December 2021: 187.2%) and was above both the regulatory and internal limits set by the Board throughout the year.

Net Stable Funding Ratio (NSFR)

As of 31 December 2022, the NSFR was 139.9% (31 December 2021: 150.6%) and was above both the regulatory and internal limits set by the Board throughout the year.

1.4 Minimum Required Eligible Liabilities

As part of the Bank Recovery and Resolution Directive (BRRD), the Bank of England (BoE), in its capacity as the UK resolution authority, has published its policy for setting MREL. All banks and building societies are assigned a preferred resolution strategy by the BoE dependent on their balance sheet size and quantum of transactional accounts. Due to the Society having a balance sheet in excess of £15bn the BoE have stated a preferred resolution strategy for the Society of 'bail-in' requiring the Society to hold both recovery and resolution capital requirements.

As of 31 December 2022, total MREL resources were equal to 47.4% (31 December 2021: 56.0%) significantly in excess of the 2022 interim requirement including regulatory buffers of 21.5%. The reduction in ratios is driven by the same factors described under impact to RWEAs in section 1.3.

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MREL

Table 2a: MREL		Dec-22	Jun-22	Dec-21
Prudential Consolidation Group (Resolution Group Level)		**T**	T-2	T-4
1	Total MREL Eligible Resources (£m)	1,972.9	1,918.7	1,808.7
2	Total MREL Requirement (£m)	895.2	822.7	662.4
3	**Headroom over MREL (£m)**	**1,077.7**	**1,096.0**	**1,146.3**
	MREL Ratios (as a % of RWEAs):			
4	MREL	47.4%	47.8%	56.0%
5	Interim MREL Requirement plus Buffers	21.5%	20.5%	20.5%
6	End State MREL Requirement plus Buffers	26.3%	27.4%	25.3%

The ratio is calculated as MREL eligible resources divided by RWEAs on 31 December of the relevant year. Key drivers for the movement are 2022 profits after tax and the application of the IRB model PMA from 1st January as described in section 5.4.

Binding Minimum Capital Requirement

MREL is being phased in for the Society over a transitional period to 21 July 2023. The transitional MREL requirement set for the Society, by the BoE, is equal to 18.0% of risk weighted assets for the period July 2020 to July 2023. End state MREL requirements active from July 2023 are two times minimum regulatory requirements plus any regulatory buffers to determine full loss-absorbing capacity. The table below sets out the Society's interim and end state capital requirement as disclosed on the BOE website:

Table 2b: Binding Minimum Capital Requirement		Interim		End-state	
		MREL	Loss-absorbing capacity (MREL + Buffer)	MREL	Loss-absorbing capacity (MREL + Buffer)[1]
Dec-22	10.9% RWEAs	18.0% RWEAs	21.5% RWEAs	21.8% RWEAs	26.3% RWEAs

1.5 Approach to Assessing the Adequacy of Internal Capital

Capital Management

The Society's Capital Management Policy (CMP) outlines the systems and key controls to ensure capital is measured and managed within the boundaries of risk appetite set by the Board. It also provides a clear articulation of the accountability for capital management across the Society. The CMP is supported by three Capital Standards covering capital requirements, capital resources and stress testing.

Capital adequacy is monitored on a monthly basis against a number of key metrics to ensure that it stays within the Board's risk appetite and above the regulatory minima. Tier 1, Tier 2, total capital and MREL are tracked on both a transitional and fully loaded basis against prior periods and internal plans.

Specific capital management reports are presented to the appropriate executive risk and management committees. The key regulatory capital ratios are set out in table 1 (UK-KM1). Summarised regulatory capital positions and forecasts (including forecasts under stress scenarios) are reported to the Board and to the Asset and Liability Committee (ALCO).

The Society considers both risk-based capital requirements and non risk-based leverage requirements when determining the Society's strategy and has adopted a range of performance metrics over and above the regulatory minimum as the Society's risk appetite.

[1] End-states assumes a countercyclical capital buffer of 2.0%

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Internal Capital Adequacy Assessment Process

The Society assesses its capital adequacy through an Internal Capital Adequacy Assessment Process (ICAAP) at least annually. This process is used to determine the level of capital required to support the Society's current and future business activities. The ICAAP ensures that the Society meets regulatory and internal capital requirements under business as usual and stressed environments, over a five-year time horizon. The Board Risk Committee (BRC) reviews internal refreshes of the ICAAP at least annually and more frequently when required. A summary of the Society's ICAAP process is set out below:

<table>
<tr><th>Key Inputs</th><th colspan="3">Internal Processes</th><th>Governance</th></tr>
<tr><td>Strategic Risk Appetite (SRA)</td><td rowspan="2">Pillar 1
Credit Risk
Operational Risk
Market Risk</td><td rowspan="2">Pillar 2A
Risks not fully covered by, or outside the scope of, Pillar 1</td><td rowspan="2">Pillar 2B
Forward looking element & stress testing</td><td rowspan="4">Balance Sheet Optimisation Group (BSOG)
↓
Asset & Liability Committee (ALCO)
↓
Board Risk Committee (BRC)
↓
Board</td></tr>
<tr><td>Enterprise Risk Management Framework (ERMF)</td></tr>
<tr><td>Corporate Planning</td><td colspan="3">Assessment of key controls
Attestation of inputs provided by 1st line 'Heads of'</td></tr>
<tr><td>Stress and Scenario Testing</td><td colspan="3">Model governance
2nd line review by Prudential Risk</td></tr>
<tr><td colspan="5">3rd line review by Internal Audit (if applicable)</td></tr>
</table>

Pillar 1

The Society's minimum capital requirement under Pillar 1 is calculated by adding the credit risk requirement (see section 5) to the requirements for operational risk (see section 9) and securitisation exposures (see section 10). The Society applies an IRB approach to calculating retail credit risk requirements, with the Standardised approach applied in other areas.

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Overview of Risk Weighted Exposure Amounts (UK-OV1)

The Society's RWEA and total own funds requirement are set out in table 3 below:

Table 3 (UK-OV1) : Overview of Risk Weighted Exposure Amounts		RWEAs		Total own funds requirements
		Dec-22	Dec-21	Dec-22
		a	b	c
1	**Credit risk (excluding Counterparty Credit Risk (CCR))**	**3,701.9**	**2,859.0**	**296.2**
2	Of which the standardised approach	330.4	211.8	26.5
5	Of which the advanced IRB (AIRB) approach	3,371.5	2,647.2	269.7
6	**Counterparty credit risk - CCR**	**15.1**	**26.5**	**1.2**
7	Of which the standardised approach	-	-	-
8	Of which internal model method (IMM)	-	-	-
UK 8a	Of which exposures to a Central Clearing Counterparty (CCP)	7.7	14.5	0.6
UK 8b	Of which Credit Valuation Adjustment - CVA4	7.4	12.0	0.6
9	Of which other CCR	-	-	-
15	Settlement risk	-	-	-
16	**Securitisation exposures in the non-trading book (after the cap)**	**14.2**	**9.1**	**1.1**
19	Of which securitisation: standardised approach (SEC-SA)	14.2	9.1	1.1
UK 19a	Of which 1250%/ deduction	-	-	-
20	**Position, foreign exchange and commodities risks (Market risk)[5]**	**-**	**-**	**-**
23	**Operational risk**	**432.7**	**336.6**	**34.6**
UK 23a	Of which basic indicator approach	-	-	-
UK 23b	Of which standardised approach	432.7	336.6	34.6
UK 23c	Of which advanced measurement approach	-	-	-
29	**Total**	**4,163.9**	**3,231.2**	**333.1**

Pillar 2

Following Board approval, the ICAAP is considered by the PRA as part of its Supervisory Review and Evaluation Process (SREP) with the output being that a TCR is prescribed to the Society. This includes confirmation of Pillar 2A and Pillar 2B firm specific requirements.

Pillar 2A captures risks that are deemed to be underestimated or not adequately captured within Pillar 1. The additional minimum capital requirements set by the PRA by issuing an entity specific TCR under Pillar 2A represents a point in time estimate of the total amount of capital that is needed by the entity. It includes the assessment of risks that are not fully covered by Pillar 1 such as credit concentration and operational risk, and those risks outside the scope of Pillar 1 such as pensions and interest rate risk.

Pillar 2B (also known as the PRA buffer) is a buffer that is required to be held if the capital in the capital conservation buffer is insufficient to cover the impact of an adverse stress scenario or if the PRA considers that there are systemic risks in the organisation that require additional capital.

As of 31 December 2022, this updated TCR would equate to a Pillar 2A of 2.9% risk weighted assets, of which 1.6% has to be covered by CET 1 capital (2021: 2.4% and 1.4% respectively). The Society is not permitted by the PRA to provide any further details regarding the quantum of the individual components.

[2] CRD V requires the inclusion of an additional Pillar 1 capital charge for potential market value losses on Over The Counter (OTC) derivatives which is known as the Credit Valuation Adjustment (CVA). The CVA charge has been calculated based on the netted contractual and collateral derivative position of the Society and is included in the capital requirement for counterparty credit risk.

[3] For the Society, the market risk included under Pillar 1 only relates to currency risk. Interest rate risks are considered under Pillar 2A. The currency risk appetite for the Society is very low and is managed through the Society limit of £10m for currency mismatch. The foreign currency assets and liabilities are therefore hedged accordingly using natural offsets or through derivatives. Any remaining currency risk is not material.

1.6 Combined Buffer Requirements

Capital Conservation Buffer

The capital conservation buffer represents 2.5% of risk weighted assets throughout the year ended 31 December 2022 (2021: 2.5%).

Systemic Risk Buffer

The Systemic Risk Buffer (SRB) is an additional capital requirement that applies to ring-fenced banks and larger building societies that are deemed systemically important. Those with total assets of less than £175bn are subject to a 0% SRB, and therefore, the Society does not need to hold any additional capital buffer in this regard.

Countercyclical Buffers

The requirement for a countercyclical capital buffer under Article 440 of the CRR is set out below. As foreign credit exposures represent less than 2% of the Society's aggregate risk weighed exposures, all exposures have been allocated to the UK.

Table 4 below shows that the Society had an institution specific countercyclical capital buffer requirement of £41.6m (2021: £0.0m). The requirement results from multiplying the total risk exposure amount (the total credit risk weighted assets from table 3) by the buffer rate for that country and summing the result.

Amount of institution-specific countercyclical capital buffer (UK-CCyB2)

Table 4 (UK-CCyB2): Amount of institution-specific countercyclical capital buffer		Dec-22	Dec-21
		a	b
1	Total risk exposure amount £m	**4,163.9**	3,231.2
2	Institution specific countercyclical buffer rate %	**1.000%**	0.000%
3	Institution specific countercyclical capital buffer requirement £m	**41.6**	0.0

Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer (UK-CCyB1)

Table 5 : Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer (UK-CCyB1)	General credit exposures		Relevant credit exposures – Market risk		Securitisation exposures	Total exposure value	Own funds requirements				Risk-weighted exposure amounts	Own fund requirements weights (%)	Counter-cyclical buffer rate (%)
	Exposure value under the standardised approach	Exposure value under the IRB approach	Sum of long and short positions of trading book exposures for SA	Value of trading book exposures for internal models	Securitisation exposures Exposure value for non-trading book		Relevant credit risk exposures - Credit risk	Relevant credit exposures – Market risk	Relevant credit exposures – Securitisation positions in the non-trading book	Total			
	a	b	c	d	e	f	g	h	i	j	k	l	m
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m			%
Dec-22													
010 **Breakdown by country**													
UK only	992.3	20,199.5	-	-	143.6	21,335.4	285.0	-	1.1	286.1	3,576.4	100.0%	1.000%
020 Total	**992.3**	**20,199.5**	**-**	**-**	**143.6**	**21,335.4**	**285.0**	**-**	**1.1**	**286.1**	**3,576.4**	**100.0%**	
Dec-21													
010 **Breakdown by country**													
UK only	627.9	18,411.9	-	-	89.1	19,128.9	215.1	-	0.7	215.8	2,699.4	100.0%	0.000%
020 Total	**627.9**	**18,411.9**	**-**	**-**	**89.1**	**19,128.9**	**215.1**	**-**	**0.7**	**215.8**	**2,699.4**	**100.0%**	

Table 5 has been prepared in accordance with CRD, article 140 and excludes exposures to central governments, central banks, regional governments, local authorities, public sector entities, multilateral development banks and institutions. Therefore, exposure values and total own funds requirements differ to elsewhere in these disclosures.

2 Regulatory Scope and Consolidation

This document has been prepared in relation to Leeds Building Society. For accounting purposes, the Society's consolidation group comprises the Society and all of its subsidiary entities. The Society is regulated by the Financial Conduct Authority (FCA) and the PRA.

For capital purposes the Society is required to calculate and maintain regulatory capital ratios on a Prudential Group (PG) consolidated Group basis and on a Society only basis. The disclosures contained in this document are provided on a PG basis (except where otherwise stated) in accordance with Article 6(3) of the CRR. No subsidiaries are excluded in the consolidation. Due to the structure of the society, the PG group and individual society basis are materially the same.

There are no significant restrictions on the prompt transfer of capital resources or repayment of liabilities between the Society and its subsidiary undertakings, subject to their financial and operating performance and availability of distributable reserves.

2.1 Scope of consolidation by Entity

Outline of the differences in the scopes of consolidation (entity by entity) (UK-LI3)

Table 6: Outline of the differences in the scopes of consolidation (entity by entity) (UK-LI3)		Method of regulatory consolidation					Description of the entity
Name of the entity	Method of accounting consolidation	Full consolidation	Proportional consolidation	Equity method	Neither consolidated nor deducted	Deducted	
a	b	c	d	e	f	g	h
Leeds Building Society	Full consolidation	X					Credit Institution
Leeds Mortgage Funding Limited	Full consolidation	X					Non-trading
Leeds Building Society Covered Bonds LLP	Full consolidation	X					Provision of mortgage assets and guarantor of covered bonds
Leeds Covered Bonds Designated Member (No. 1) Limited	Full consolidation	X					First designated member of Leeds Building Society Covered Bonds LLP
Leeds Covered Bonds Designated Member (No. 2) Limited	Full consolidation	X					Second designated member of Leeds Building Society Covered Bonds LLP
Leeds Covered Bonds Holdings Limited	Full consolidation	X					Holding company to both Leeds Covered Bonds Designated Member (No. 1) & (No. 2) Limited
Albion No. 4 plc	Full consolidation	X					Provision of residential mortgaged backed securities
Albion No. 4 Holdings Limited	Full consolidation	X					Holding company to Albion No. 4 plc

Further information on the Society's subsidiaries can be found in note 15 to the Annual Report and Accounts for the year ended 31 December 2022.

Regulatory Scope and Consolidation

2.2 Differences between accounting and regulatory scopes of consolidation

Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories (UK-LI1)

Table 7 (UK-LI1) : Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories		Dec-22						
				Carrying values of items				
		Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to own funds requirements or subject to deduction from own funds
		a	b	c	d	e	f	g
Breakdown by asset class according to the balance sheet in the published financial statements								
1	Cash in hand and balances with the Bank of England	2,958.1	2,958.1	2,958.1	-	-	-	-
2	Loans and advances to credit institutions	235.9	235.9	235.9	-	-	-	-
3	Investment securities	1,386.7	1,386.7	1,243.1	-	143.6	-	-
4	Derivative financial instruments	679.9	679.9	-	679.9	-	-	-
5	Loans fully secured on residential property	20,324.3	20,324.3	20,324.3	-	-	-	-
6	Other loans	168.9	168.9	168.9	-	-	-	-
7	Fair value adjustment for hedged risk on loans and advances to customers	(585.9)	(585.9)	-	-	-	-	(585.9)
8	Other assets, prepayments and accrued income	248.3	248.3	8.4	-	-	-	239.9
9	Current tax assets	4.6	4.6	4.6	-	-	-	-
10	Deferred tax assets	0.3	0.3	-	-	-	-	0.3
11	Intangible assets	22.5	22.5	-	-	-	-	22.5
12	Property, plant and equipment	66.7	66.7	66.7	-	-	-	-
13	Retirement benefit surplus	3.6	3.6	-	-	-	-	3.6
14	**Total assets**	**25,513.9**	**25,513.9**	**25,010.0**	**679.9**	**143.6**	**-**	**(319.6)**
Breakdown by liability classes according to the balance sheet in the published financial statements								
15	Shares	17,520.4	17,520.4	-	-	-	-	17,520.4
16	Fair value adjustment for hedged risk on shares	(100.7)	(100.7)	-	-	-	-	(100.7)
17	Derivative financial instruments	251.9	251.9	-	251.9	-	-	-
18	Amounts owed to credit institutions	2,268.4	2,268.4	-	-	-	-	2,268.4
19	Amounts owed to other customers	229.7	229.7	-	-	-	-	229.7
20	Debt securities in issue	2,711.0	2,711.0	-	-	-	-	2,711.0
21	Other liabilities and accruals	586.1	586.1	-	-	-	-	586.1
22	Current tax liabilities	-	-	-	-	-	-	-
23	Deferred tax liabilities	33.0	33.0	-	-	-	-	33.0
24	Provisions for liabilities and charges	0.6	0.6	-	-	-	-	0.6
25	Subordinated liabilities	309.1	309.1	-	-	-	-	309.1
26	Subscribed capital	197.6	197.6	-	-	-	-	197.6
27	**Total liabilities**	**24,007.1**	**24,007.1**	**-**	**251.9**	**-**	**-**	**23,755.2**

There are no differences between the carrying values reported in columns a and b because no entities are derecognised from the accounting balance sheet for regulatory purposes.

Regulatory Scope and Consolidation

2.3 Regulatory exposures compared to Financial Statements

Main sources of differences between regulatory exposure amounts and carrying values in financial statements (UK-LI2)

Table 8 (UK-LI2): Main sources of differences between regulatory exposure amounts and carrying values in financial statements		Dec-22				
			Items subject to:			
		Total	Credit risk framework	Securitisation framework	CCR framework	Market risk framework
£m		a	b	c	d	e
1	**Assets carrying value amount under the scope of regulatory consolidation (as per template LI1)**	**25,833.5**	**25,010.0**	**143.6**	**679.9**	**-**
2	**Liabilities carrying value amount under the regulatory scope of consolidation (as per template LI1)**	**251.9**	**-**	**-**	**251.9**	**-**
3	**Total net amount under the regulatory scope of consolidation**	**25,581.6**	**25,010.0**	**143.6**	**428.0**	**-**
4	Off-balance-sheet amounts	1,055.1	1,055.1	-	-	-
5	Differences in valuations	(3.3)	(3.3)	-	-	
6	Differences due to different netting rules, other than those already included in row 2	-	-	-	-	-
7	Differences due to consideration of provisions	(8.3)	(8.3)	-	-	-
8	Differences due to the use of credit risk mitigation techniques (CRMs)	(305.9)	-	-	(305.9)	-
9	Differences due to credit conversion factors	(844.1)	(844.1)	-	-	-
10	Differences due to Securitisation with risk transfer	-	-	-	-	-
11	Other differences	177.3	37.4	-	139.9	-
12	**Exposure amounts considered for regulatory purposes**	**25,652.4**	**25,246.9**	**143.6**	**262.0**	**-**

The amounts considered for regulatory purposes shown in template UK-LI2 differ to the carrying values under the regulatory scope of consolidation due to the inclusion of off-balance sheet items, subject to credit conversion factors, for prudential purposes. In addition, the exposure value of derivatives calculated under the regulatory counterparty credit risk framework differs from their accounting carrying value under IFRS. Other differences shown in row 11 primarily relate to regulatory add-ons to carrying values in line with the UK CRR including potential future credit exposure add-ons for derivative financial instruments.

Regulatory Scope and Consolidation

2.4 Non-material, proprietary or confidential information

CRR article 432 allows institutions to omit one or more of the required disclosures (disclosure waivers) if information provided by such disclosures is not regarded as material or if it would be regarded as proprietary or confidential. Some of the required disclosures, such as those on own funds or in relation to remuneration, cannot be omitted due to concerns relating to their materiality, proprietary nature or confidentiality.

No sector split or residual maturity profile has been included for the legacy commercial loan portfolio due to the low materiality of the remaining exposure, which was £8.6m in 2022 (2021: £10.4m).

A full listing of omitted disclosures is included in Appendix 2.

2.5 IFRS 9

IFRS 9 – Financial Instruments was adopted by the Society from 1 January 2018. The standard replaces IAS 39 – Financial Instruments.

Hedge accounting – IFRS 9 altered the rules for the application of hedge accounting, although the rules in relation to portfolio fair value hedges are still under development. Consequently, the standard allows entities to continue to apply IAS 39 for all hedge accounting and the Group has chosen to do this.

For further information please see note 32 within the Society’s Annual Report and Accounts.

3 Risk Management Objectives and Policies

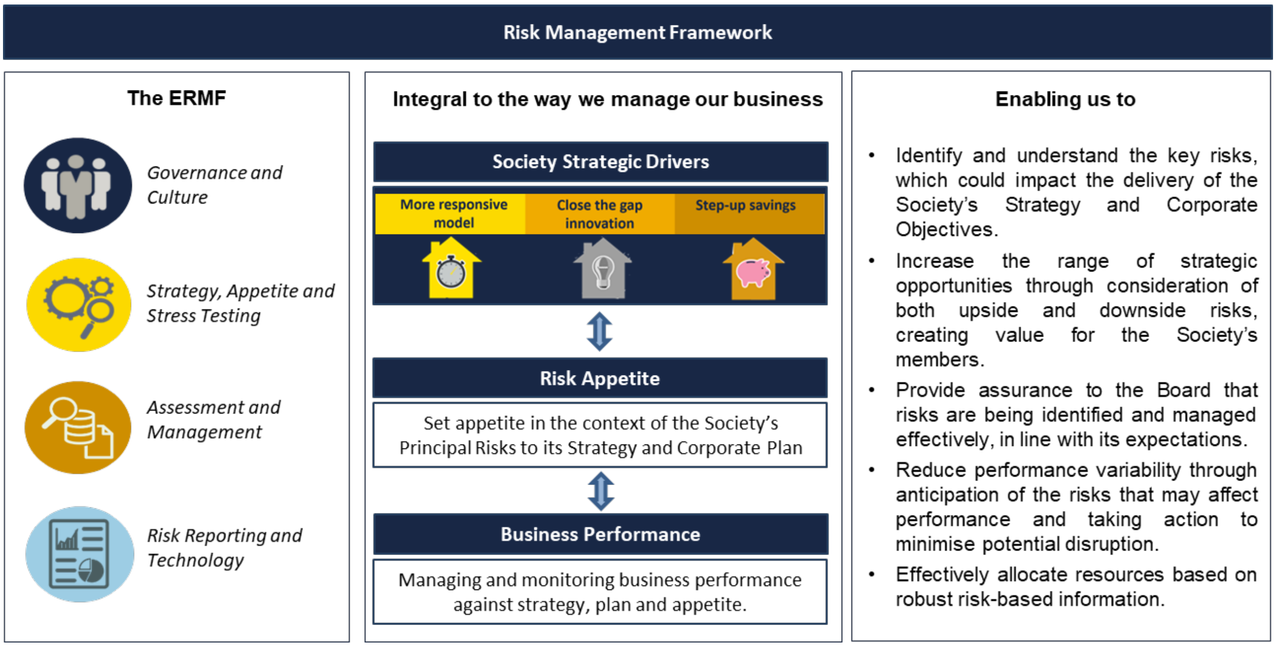
3.1 Institutions Approach to Risk Management

Risk statement

In the delivery of our purpose and strategic goals, the Society is exposed to a variety of external and internal risks. By understanding the nature of these risks through effective risk management, we can make informed decisions, which support our longer-term viability and protect members' interests.

The Society's approach to managing risk is defined within its Enterprise Risk Management Framework (ERMF), which establishes a structured and consistent approach to identifying, assessing, controlling, and monitoring risks.

Figure 1- ERMF



The ERMF applies to all areas of the Society and is owned by BRC. It is approved formally on a periodic basis and is subject to ongoing review to ensure that it remains fit for purpose.

The framework sets out the risk management responsibilities of all colleagues within a Three Lines of Defence model. Colleagues within the business (first line) have primary responsibility for risk decisions, identifying, measuring, monitoring and controlling risks within their areas of accountability. Business areas are required to identify risks, document controls and test them regularly using a centralised system. The Society's risk function (second line), which is led by the Chief Risk Officer, provides oversight and challenge of risk management, whilst the Internal Audit function (third line) provides independent assurance of the effectiveness of our control environment. Regular reporting on the Society's risk profile and effectiveness of controls is provided to the Board and its sub-committees.

Through the ERMF, the Society has identified eight principal risk categories:

Principal Risk	Description	Executive Risk Committee
Credit Risk	The risk that residential borrowers or wholesale counterparties fail to meet their current or future financial obligations.	Credit Committee

Risk management objectives and policies

Principal Risk	Description	Executive Risk Committee
Market Risk	The risk that movements in interest rates and foreign currency adversely impact our capital and earnings.	Assets and Liabilities Committee
Operational Risk	The risk of financial or reputational loss, as a result of inadequate or failed internal processes, people, systems or external events. This incorporates resilience risk which is the inability to maintain important business services in response to unexpected or adverse events.	Conduct & Operational Risk Committee and Operational Resilience Committee
Funding and Liquidity Risk	• Funding risk is the inability to generate sufficient stable funding, or only do so at excessive cost. • Liquidity risk is the risk that the Society is unable to meet its financial obligations as they fall due.	Assets and Liabilities Committee
Business and Strategic Risk	The risk that the Society fails to formulate or execute an appropriate strategy and business model in response to the external environment, threating our longer-term viability or inhibiting delivery of our purpose.	Executive Committee
Conduct Risk	The risk that actual or potential customer detriment arises, or may arise, from the way the Society conducts its business.	Conduct & Operational Risk Committee
Capital Risk	The risk that the Society has insufficient quality or quantity of capital resources to meet current or future business requirements.	Assets and Liabilities Committee
Model Risk	The risk of incorrect decision making, based upon the inputs / outputs of models, due to errors in the development, implementation or use of such models, leading to financial loss, a deterioration in the Society's capital or liquidity position, non-compliance with relevant regulations and reputational damage.	Models and Rating Systems Committee

A key element of the ERMF is the Strategic Risk Appetite (SRA) Framework. This comprises qualitative statements and quantitative metrics to set the parameters within which the Society should operate to deliver its strategy. Our SRA Framework is reinforced through policies, standards, and sub limits, to ensure consistency and alignment to the Board defined parameters.

The Board defines SRA across our principal risk categories, as outlined above, which is reviewed on an annual basis. Performance against appetite is monitored continually and we have developed appropriate early warning indicators and escalation procedures to anticipate and respond to risk profile changes. SRA metrics are used in corporate planning and stress testing to measure and validate our long-term viability, under both plausible and more severe scenarios.

The Society's Board risk appetite statements and metrics are reviewed annually or more frequently if required.

The Society does not disclose key ratios, limits and figures relating to its risk appetite, as they are considered to be proprietary information as per CRR article 432.

Risk governance structure

The main components of the Society's risk governance are as follows:

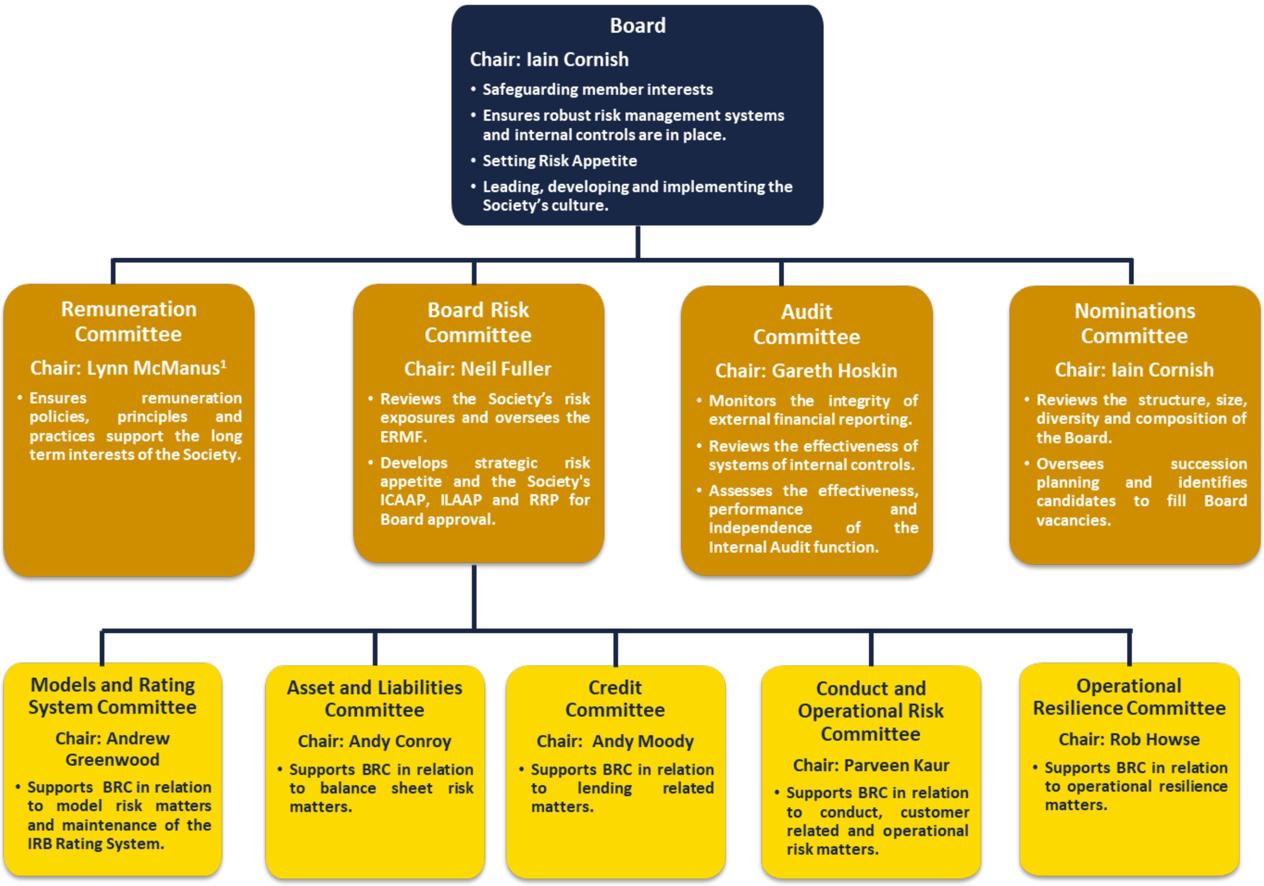
Risk management objectives and policies

Committee structure

The Board is the Society's governing body, responsible for overseeing the implementation of its Strategy and holding management to account. To support the Board in the delivery of its responsibilities, the Society operates four Board sub-committees, each with distinct mandates in their Terms of Reference.

BRC provides independent oversight of the effective management of our risk universe. BRC is supported by five executive risk committees, each focusing on a particular discipline(s) of risk. These committees are decision making in nature and operate within delegated mandates and limits provided by the Board / BRC. The Society's committee structure as at the year-end is set out at figure 2.

Figure 2: Governance structure



Three lines of defence model and the Risk division

Our approach to risk management appropriately aligns to a three lines of defence model, which is standard practice within the financial services sector. This ensures a clear delineation of responsibilities between control over day-to-day operations, risk oversight and independent assurance activities. The key accountabilities under the three lines of defence model are detailed below:

First Line (Business lines)	Second Line (Risk function)	Third Line (Internal Audit)
• Executing strategy. • Identifying and managing risks. • Adhering to appetite, policies and standards. • Implementing and maintaining regulatory compliance.	• Oversight of day-to-day activities of the first line. • Maintenance of the ERMF. • Coordination and oversight of the setting of risk appetite. • Policy co-ordination/refresh.	• Independent risk-based assurance of the adequacy and effectiveness of first and second line risk management.

Risk management objectives and policies

• Identifying emerging risks.	• Identifying emerging risks. • Enterprise risk reporting. • Independent risk-based assurance plans.	

The Risk function is independent from the operational business divisions and ensures we follow a consistent approach to risk management. It is led by the Chief Risk Officer, who reports directly to the Deputy Chief Executive Officer (and is also accountable to the Chair of the BRC). The Risk function comprises specialist teams, aligned to key risk disciplines, which provide oversight and independent challenge of first line activities:

Figure 3: Risk division structure

Policy framework

We operate a tiered policy framework, through which mandates and limits are delegated to Management. Our policies are reviewed on an annual basis (or as appropriate), by relevant committees.

Risk culture

Risk culture is an essential element of effective risk management, underpinning how our ERMF is embedded across the business and into decision making. In order to maintain an appropriate risk culture, the ERMF includes a risk culture framework, designed around four components:

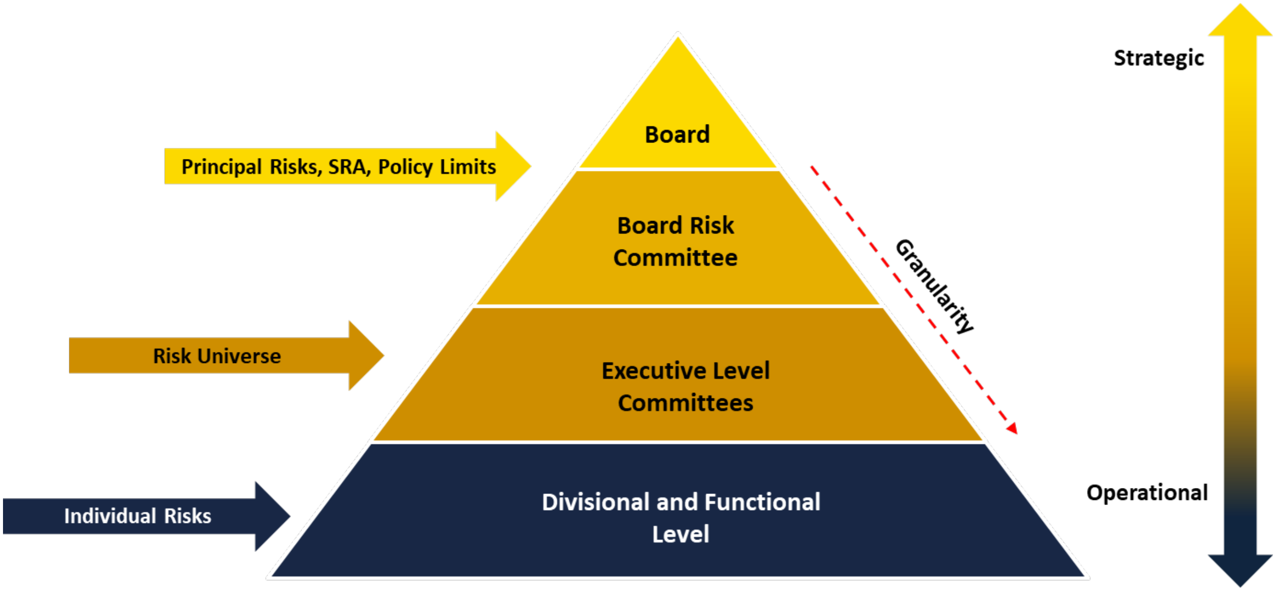
- Tone from the top and desired behaviours – The Board and Senior Leadership Team are expected to demonstrate our behaviours to set the tone for all colleagues.
- Accountability - To support the delivery of our Strategy and business objectives, individuals at all levels are held accountable for risk management.
- Effective communication – An environment of open and transparent communication is encouraged around all business processes and decision making.
- Incentives and performance management – An appropriate incentive scheme and other HR frameworks are operated to promote, and align with, the desired risk culture.

Risk management objectives and policies

Risk reporting

The Board, BRC and Executive Risk Committees receive regular reporting on the Society's risk profile and position against appetite and limits as set out at figure 4. Any breaches of SRA or policy limits are reported through the Society's incident management system and through appropriate governance forum(s).

Figure 4: Risk reporting hierarchy



Whistleblowing

The Society encourages a culture that welcomes open discussion and challenge, where colleagues feel comfortable about raising their concerns, which in turn allows us to take appropriate action quickly and prevent any malpractice. All colleagues are encouraged to raise a concern without fear of retribution, victimisation or detriment, should they encounter or suspect wrongdoing, through our Speak Up procedures.

Declaration approved by the management body on the adequacy of the risk management arrangements

Through the Board Risk Committee and the Audit Committee, the Board monitors the performance of the Society's risk management processes and internal control environment throughout the year. Based upon this year's review it has been concluded that overall, the Society has an adequate and effective risk management framework in place, which has allowed risks to be appropriately identified and managed. Further enhancements to discrete elements of the framework have been identified to increase risk maturity over the next twelve months as part of a process of continuous improvement, which are encapsulated within the Society's Corporate Objectives and Risk Strategy.

Scope and nature of risk disclosure and/or measurement systems

The declaration set out above is reviewed and approved by the Board, following an assessment of the effectiveness of the ERMF.

Main features of risk disclosure and measurement systems

The Board review of effectiveness set out above considers the design and the implementation of the ERMF across all principal risk categories. This evaluation is based on a summary activity conducted throughout the year including:

- Annual update of the ERMF and Risk Strategy;
- Risk and Control Self Assessments;

Risk management objectives and policies

- A program of critical control testing;
- Independent second and third line reviews;
- External assurance.

Strategies and processes to manage risks

The Society's ERMF provides a structured and consistent approach to the management of risks across the organisation.

Figure 5: ERMF components

Stress Testing

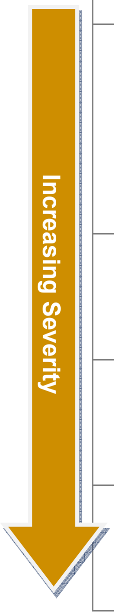
Stress testing is a risk management tool used to support the understanding of the vulnerabilities within our business model. Our approach to stress testing is defined within a stress testing framework (part of the ERMF) and supports:

- a sound understanding of internal and external influences on the Society and our principal risks;
- the Board in strategic business planning and the setting of SRA; and
- management of capital and liquidity resources against SRA and regulatory expectations.

We have developed an annual programme of stress testing activity, which informs the planning process and the calibration of SRA. The key components of the programme are set out at figure 6.

Risk management objectives and policies

Figure 6: Stress testing programme



Activity	Description
Corporate & operational resilience planning	Sensitivity analysis and a suite of alternative scenarios are used to assess the corporate plan under a range of plausible stresses. Operational resilience stressing is an embedded part of corporate planning.
Prudential risk assessments	ICAAP - an internal assessment of whether we have sufficient capital, given current risks, as well as future risks from our strategy, under conditions as set out by the Board / PRA.
	ILAAP - an internal assessment of whether we have sufficient liquidity and stable funding to withstand a range of severe liquidity stresses.
Climate change	Scenario analysis is used to assess the potential financial and non financial impacts of climate-related risks. Refer to pages 60 - 62 of the Society's Annual Report and Accounts for further details.
Recovery plan	Scenario analysis is used to inform the development of a suite of recovery actions (primarily capital and liquidity) to be used under extreme stress and to set and validate operational protocols.
Reverse stress testing	An assessment of the stress scenarios under which we would potentially become unviable. This examines potential weaknesess in our business model under extreme events so that mitigating actions can be identified (where possible).

Strategies and processes to manage, hedge and mitigate risks

In addition to the generic approach outlined, the Society utilises a variety of risk mitigation techniques to manage financial and non-financial exposures. More detailed risk-specific considerations can be found in the principal risk section of our 2022 Annual Report and Accounts.

3.2 Risk Governance and Culture

Directorships held by members of the management body

The number of directorships held by Executive and Non-Executive Directors, including those in Leeds Building Society, are shown below.

Executive and Non-Executive Directorships as at 31st December 2022

Name	Appointments	Type of Directorship	Total directorships held pursuant under the scope of Article 91(3) and (4) of Directive (EU) 2013/361("CRD")	Total Directorships Held
Iain Cornish	Leeds Building Society	Non-Executive Director	Non-Executive (2)	2
	Macmillan Cancer Support	Non-Executive Director		
Gareth Hoskin	Leeds Building Society	Non-Executive Director	Non-Executive (3)	3
	Saga plc	Non-Executive Director		
	Acromas Insurance Company Ltd	Non-Executive Director		

Name	Appointments	Type of Directorship	Total directorships held pursuant under the scope of Article 91(3) and (4) of Directive (EU) 2013/361("CRD")	Total Directorships Held
Annette Barnes	Leeds Building Society	Non-Executive Director	Non-Executive (3)	4
	Globaldata Plc	Non-Executive Director		
	Quilter Investment Platform Ltd[4]	Non-Executive Director		
	Quilter Life and Pensions Ltd[4]	Non-Executive Director		
Neil Fuller	Leeds Building Society	Non-Executive Director	Non-Executive (1)	1
David Fisher	Leeds Building Society	Non-Executive Director	Non-Executive (2)	3
	Tandem Bank Ltd[4]	Non-Executive Director		
	Tandem Money Ltd[4]	Non-Executive Director		
Lynn McManus	Leeds Building Society	Non-Executive Director	Non-Executive (2) Executive Director (1)	3
	Kane LMMG Ltd	Executive Director		
	Beatson Cancer Charity	Non-Executive Director		
Anita Tadayon	Leeds Building Society	Non-Executive Director	Non-Executive (1) Executive Director (1)	2
	Tadayon Consulting Ltd	Executive Director		
Richard Fearon	Leeds Building Society	Executive Director	Executive Director (1)	1
Andrew Conroy	Leeds Building Society	Executive Director	Non-Executive (1) Executive Director (1)	4
	Saltmine Trust	Trustee / Non- Executive Director		
	Leeds Mortgage Funding Ltd[5]	Executive Director		
	Akrose Funding Ltd[5]	Executive Director		
Andrew Greenwood	Leeds Building Society	Executive Director	Executive Director (1)	1
Rob Howse	Leeds Building Society	Executive Director	Executive Director (1)	1

[4] Part of same group and multiple directorships held within the same group are counted as one mandate for the purposes of Article 91(3) and (4) of CRD.

[5] Subsidiary or associate entity of Leeds Building Society and multiple directorships are counted as one mandate for the purposes of Article 91(3) and (4) of CRD.

Risk management objectives and policies

Recruitment policy for the selection of members of the management body

The Nominations Committee is responsible for ensuring that the Board consists of individuals who are deemed fit and proper under the Senior Managers' Regime and possess an appropriate range of diverse backgrounds and skills to direct the delivery of the Society's purpose and strategic objectives. In this context, the Committee undertakes a full review of board talent, diversity, and succession at least annually.

During the early stages of the recruitment process, the Nominations Committee defines the Board's requirements through an evaluation of the current blend of skills, knowledge, and diversity, as well as future challenges and opportunities facing the Society. Based on this assessment, a description of the role and capabilities required is prepared and shared with approved independent external advisers to identify a diverse list of suitable candidates.

The Society operates a rigorous and transparent recruitment process to select the best candidate for the role, based upon merit and a set of objective criteria. This involves multiple interviews, detailed referencing, and other checks, including fitness and propriety. Regulatory approval is also necessary for certain Board roles.

The skills, experience and contribution of each Board Director is described within the Governance report on pages 110 to 115 in the Society's 2022 Annual Report and Accounts.

Information on the diversity policy with regard of the members of the management body

The Society strongly believes in the value of a diverse and inclusive Board and colleague population more broadly. We believe the diversity of skills, experience, backgrounds, opinions and other differences, including gender and race strengthens the capability of the Board and, therefore, the effectiveness of its independence, judgement and decision making.

All Board appointments are based on merit against objective criteria which reflect the skills and experience of the Board as a whole and consider the benefits of diversity. The Society works with a variety of executive search firms to ensure a wide talent pool and insists on diverse shortlists for all roles.

To support its commitment to diversity, the Board has approved targets in relation to gender and ethnicity. In 2022, the Society set a target to have 33% minimum female representation on the Board, aligned to the Hampton Alexander Review. We ended the year with 27% female representation on the Board and are actively recruiting for 2 more Non-Executive Directors. Shortlists for both roles include a number of female candidates. In addition, we reached our current target to have one ethnic minority Board member (9%), in line with the Parker Review.

The Board remains committed to driving progress in the diversity of its membership in the widest sense and will aim to continue to meet the Hampton-Alexander and Parker Review Committee targets factoring this into succession planning and future Board appointments.

Risk committee

The Society has established a Board Risk Committee, to support the Board in risk related matters, which meets at least five times per annum. During 2022, the Committee met eight times.

information flow on risk to the management body

The Board is the Society's governing body and is ultimately responsible for the oversight of risk management across the organisation. To support the Board in discharging its duties, the Society had established four Board sub-committees, each with distinct mandates in their Terms of Reference.

Risk management objectives and policies

From a risk perspective, the Board Risk Committee (BRC) is responsible for assisting the Board in overseeing the effective implementation of the Enterprise Risk Management Framework and the setting of risk appetite. The Committee benefits from full Board representation through its membership or an open invite.

At each BRC meeting, the Chief Risk Officer provides an update on the Society's principal and emerging risk profile through a summary report and management information. In addition, committee updates are provided by each of the five supporting Executive Risk Committees, along with reports from Subject Matter Experts (SMEs) on areas of heightened risk focus.

4 Capital Resources

4.1 Composition of Own Funds

Composition of own funds (UK-CC1)

The table below sets out the capital position on a transitional basis under CRD V rules:

	Table 9 (UK-CC1): Composition of regulatory own funds	Transitional Dec-22 a	Source based on reference numbers / letters of the balance sheet under the regulatory scope of consolidation (see table 10 UK-CC2) b	Transitional Dec-21 a
	Common Equity Tier 1 (CET1) capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	-		-
2	Retained earnings	1,253.4	f	1,131.1
3	Accumulated other comprehensive income (and other reserves)	91.5	g, h, l, j	23.3
4	Amount of qualifying items referred to in Article 484 (3) CRR and the related share premium accounts subject to phase out from CET1	-		-
5	Minority interests (amount allowed in consolidated CET1)	-		-
UK-5a	Independently reviewed interim profits net of any foreseeable charge or dividend	161.9	f	120.2
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**1,506.8**		**1,274.6**
	Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional valuation adjustment	(3.3)		(1.4)
8	Intangible assets	(22.5)	b	(25.0)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences	(0.3)	a	(4.5)
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	(81.3)	g	-
12	Negative amounts resulting from the calculation of expected loss amounts	(8.3)		(8.1)
15	Defined-benefit pension fund assets	(3.6)	c	(8.3)
27a	Other regulatory adjustments to CET1 capital (inc. IFRS 9 transitional adjustments)	0.7		1.4
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(118.5)**		**(45.9)**
29	**Common Equity Tier 1 (CET1) capital**	**1,388.3**		**1,228.7**
	Additional Tier 1 (AT1) capital: instruments			
33	Amount of qualifying items referred to in Article 484 (4) CRR and the related share premium accounts subject to phase out from AT1 as described in Article 486(3) CRR	-	d	2.5
44	**Additional Tier 1 (AT1) capital**	**-**		**2.5**
45	**Tier 1 capital (T1 = CET1 + AT1)**	**1,388.3**		**1,231.2**
	Tier 2 (T2) capital: instruments			
46	Capital instruments and the related share premium accounts	200.0	e	200.0
47	Amount of qualifying items referred to in Article 484 (5) CRR and the related share premium accounts subject to phase out from T2 as described in Article 486(4) CRR	25.0	d	22.5
50	Credit risk adjustments	9.6		5.0
58	**Tier 2 (T2) capital**	**234.6**		**227.5**
59	**Total capital (TC = T1 + T2)**	**1,622.9**		**1,458.7**
60	**Total Risk exposure amount**	**4,163.9**		**3,231.2**
	Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	33.3%		38.0%
62	Tier 1 (as a percentage of total risk exposure amount)	33.3%		38.1%
63	Total capital (as a percentage of total risk exposure amount)	39.0%		45.1%
64	Institution CET1 overall capital requirement (CET1 requirement in accordance with Article 92 (1) CRR, plus additional CET1 requirement which the institution is required to hold in accordance with point (a) of Article 104(1) CRD, plus combined buffer requirement in accordance with Article 128(6) CRD) expressed as a percentage of risk exposure amount)	3.5%		2.5%
65	of which: capital conservation buffer requirement	2.5%		2.5%
66	of which: countercyclical buffer requirement	1.0%		0.0%
67	of which: systemic risk buffer requirement	0.0%		0.0%
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0.0%		0.0%
68	**Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)**	**25.2%**		**30.3%**
	Amounts below the thresholds for deduction (before risk weighting)			
72	Direct and indirect holdings of own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-		-
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 17.65% thresholds and net of eligible short positions)	-		-
75	Deferred tax assets arising from temporary differences (amount below 17,65% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met)	-		-
	Applicable caps on the inclusion of provisions in Tier 2			
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-		-
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	4.1		3.1
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	9.6		5.0
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	20.2		15.9

Capital Resources

4.2 Tier 1 capital

Common Equity Tier 1

CET1 capital comprises the general reserve, other reserve, revaluation reserve and fair value reserve. The general and other reserves represent the Society's accumulated profits, as well as adjustments for pension obligations.

At 31 December 2022 there was a CET1 regulatory deduction relating to intangible assets and pension surplus, neither of which are eligible capital under either the transitional or fully implemented CRD V rules. A deduction of £22.5m has been made (2021: £25.0m) relating to intangible assets and £3.6m (2021: £8.3m) relating to pension surplus. An additional valuation adjustment of £3.3m was also deducted in 2022 (2021: £1.4m).

The Society has chosen to adopt the IFRS 9 transitional arrangements associated with the move from IAS 39 to IFRS 9. This has led to an add-back adjustment to CET1 of £0.7m (2021: £1.4m) and has been prepared in line with the latest regulations published in June 2020 extended to take account of COVID-19. This value is relatively low due to the Society being granted IRB permission by the PRA in 2018 and the majority of the book being assessed under this approach.

As the Society is regulated under the IRB approach an adjustment to CET1 was required to account for the shortfall in provision that relates to the difference between regulatory expected losses and IFRS 9 provisions. The calculation is performed separately for accounts in and out of default. For accounts not in default, the assessment at the end of 2022 resulted in a deduction of £8.3m (2021: £8.1m).

The Society introduced macro cash flow hedge accounting during 2022 and applied it to a portion of its floating rate financial liabilities which are designated in the hedge alongside interest rate swaps that have been transacted to economically hedge mortgage applications, prior to completion of the mortgage. At 31 December 2022, £81.3m (2021: nil) fair value reserves relating to gains or losses on cash flow hedges were included row 3 of table 9 (UK-CC1) and have been deducted from CET1 capital on row 11 in line with CRR.

Additional Tier 1 (AT1)

The Society has no qualifying AT1 instruments.

AT1 capital previously comprised Permanent Interest Bearing Shares (PIBS). PIBS are unsecured deferred shares and rank behind the claims of all subordinated noteholders, depositors, creditors and investing members of the Society. The PIBS, which are denominated in sterling, were issued for an indeterminate period and are only repayable in the event of resolution of the Society. The interest rate on PIBS is fixed at 13.375%.

As defined in the CRD V requirements, the Society's PIBS ceased to qualify as an AT1 capital instrument on 1 January 2022. The Society derecognised 20% of the instrument in 2014 and has derecognised an additional 10% in each subsequent year, such that 100% of the instrument has now been derecognised from AT1 capital in 2022. The PIBS continue to meet the definition of Tier 2 capital and qualify as a Tier 2 capital instrument.

The full terms and conditions of the PIBS are set out in the Offering Circular dated 31 March 1992, available on request from the Society (see section 13 for contact information).

4.3 Tier 2 capital

At 31 December 2022, Tier 2 capital comprises the Society's qualifying subordinated notes and PIBS phased from AT1 to Tier 2.

Under regulatory rules for Individual Capital Guidance, at least 56.25% of capital must be CET1, no more than 43.75% should be AT1 and no more than 25% Tier 2 capital. Given the magnitude of the components of CET1, AT1 and Tier 2 capital, the Society was at all times comfortably within these limits.

Capital Resources

The Society issued £200m of subordinated debt in 2018, which qualifies as Tier 2 capital. The full terms and conditions of this issuance are available on request from the Society; see section 13 for contact information. The key features of the subordinated debt and PIBS are set out in Table 11 (UK-CCA).

As the Society is regulated under the IRB approach an additional adjustment of £9.6m (2021: £5.0m) is required in Tier 2 capital to reflect the level of IFRS 9 provision over regulatory expected losses for cases in default.

4.4 Reconciliation of regulatory own funds to audited financial statements

Reconciliation of regulatory own funds to balance sheet in the audited financial statements (UK-CC2)

The society has the same statutory and regulatory scope of consolidation; therefore, columns a and b are the same.

Table 10 (UK-CC2): Reconciliation of regulatory own funds to balance sheet in the audited financial statements		Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference (see Table 9 UK-CC1)
		Dec-22	Dec-22	
£m		a	b	c
Assets - *Breakdown by asset class according to the balance sheet in the published financial statements*				
1	Cash in hand and balances with the Bank of England	2,958.1	2,958.1	
2	Loans and advances to credit institutions	235.9	235.9	
3	Investment securities	1,386.7	1,386.7	
4	Derivative financial instruments	679.9	679.9	
5	Loans fully secured on residential property	20,324.3	20,324.3	
6	Other loans	168.9	168.9	
7	Fair value adjustment for hedged risk on loans and advances to customers	(585.9)	(585.9)	
8	Other assets, prepayments and accrued income	248.3	248.3	
9	Current tax assets	4.6	4.6	
10	Deferred tax assets	0.3	0.3	a
11	Intangible assets	22.5	22.5	b
12	Property, plant and equipment	66.7	66.7	
13	Retirement benefit surplus	3.6	3.6	c
	Total assets	**25,513.9**	**25,513.9**	
Liabilities - *Breakdown by liability class according to the balance sheet in the published financial statements*				
1	Shares	17,520.4	17,520.4	
2	Fair value adjustment for hedged risk on shares	(100.7)	(100.7)	
3	Derivative financial instruments	251.9	251.9	
4	Amounts owed to credit institutions	2,268.4	2,268.4	
5	Amounts owed to other customers	229.7	229.7	
6	Debt securities in issue	2,711.0	2,711.0	
7	Other liabilities and accruals	586.1	586.1	
8	Current tax liabilities	-	-	
9	Deferred tax liabilities	33.0	33.0	
10	Provisions for liabilities and charges	0.6	0.6	
11	Subordinated liabilities	309.1	309.1	d
12	Subscribed capital	197.6	197.6	e
	Total liabilities	**24,007.1**	**24,007.1**	
Shareholders' Equity				
1	General reserve	1,415.3	1,415.3	f
2	Cash flow hedge reserve	81.3	81.3	g
3	Fair value reserve	(5.9)	(5.9)	h
4	Revaluation reserve	1.8	1.8	i
5	Other reserve	14.3	14.3	j
	Total shareholders' equity	**1,506.8**	**1,506.8**	
	Total liabilities and equity	**25,513.9**	**25,513.9**	

4.5 Regulatory own funds and Eligible Liabilities instruments

Main features of regulatory own funds instruments and eligible liabilities instruments (UK-CCA)

The main features of capital and MREL related instruments issued by the Society are set out below.

	Table 11 (UK-CCA): Main features of regulatory own funds instruments and eligible liabilities instruments	Dec-22 Permanent Interest Bearing Shares a	Subordinated Debt a	MREL a
1	Issuer	Leeds Building Society	Leeds Building Society	Leeds Building Society
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	GB0005104913	XS1812121876	XS2314635934
2a	Public or private placement			
3	Governing law(s) of the instrument	English	English	English
3a	Contractual recognition of write down and conversion powers of resolution authorities	No	No	No
	Regulatory treatment			
4	Current treatment taking into account, where applicable, transitional CRR rules	Tier 2	Tier 2	N/A
5	Post-transitional CRR rules	Tier 2	Tier 2	N/A
6	Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated	Group Solo consolidated Society	Group Solo consolidated Society	Group Solo consolidated Society
7	Instrument type (types to be specified by each jurisdiction)	PIBS	Subordinated debt	Senior Non-Preferred
8	Amount recognised in regulatory capital or eligible liabilities (Currency in million, as of most recent reporting date)	£25m	£200m	£350m
9	Nominal amount of instrument	£25m	£200m	£350m
UK-9a	Issue price	100.23	98.36	99.38
UK-9b	Redemption price	100.00	100.00	100.00
10	Accounting classification	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost
11	Original date of issuance	07-Apr-92	25-Apr-18	16-Mar-21
12	Perpetual or dated	Perpetual	Dated	Dated
13	Original maturity date	No maturity	25-Apr-29	16-Mar-27
14	Issuer call subject to prior supervisory approval	N/A	Yes	No
15	Optional call date, contingent call dates and redemption amount	N/A	25-Apr-28	16-Mar-26
16	Subsequent call dates, if applicable	N/A	N/A	N/A
	Coupons / dividends			
17	Fixed or floating dividend/coupon	Fixed	Fixed	Fixed
18	Coupon rate and any related index	13.38%	3.75%	1.50%
19	Existence of a dividend stopper	No	No	No
UK-20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Partially discretionary	Mandatory	Mandatory
UK-20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No
22	Noncumulative or cumulative	Cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	NA	NA
25	If convertible, fully or partially	N/A	NA	NA
26	If convertible, conversion rate	N/A	NA	NA
27	If convertible, mandatory or optional conversion	N/A	NA	NA
28	If convertible, specify instrument type convertible into	N/A	NA	NA
29	If convertible, specify issuer of instrument it converts into	N/A	NA	NA
30	Write-down features	N/A	N/A	N/A
31	If write-down, write-down trigger(s)	N/A	N/A	N/A
32	If write-down, full or partial	N/A	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A
34a	Type of subordination (only for eligible liabilities)	Subordinated	Subordinated	Senior
UK-34b	Ranking of the instrument in normal insolvency proceedings	2	2	1
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Tier 2	Tier 2 (Senior Non-Preferred)	Senior Non-Preferred (Senior Preferred)
36	Non-compliant transitioned features	Yes	Yes	No
37	If yes, specify non-compliant features	No conversion	No conversion	N/A
37a	Link to the full term and conditions of the intrument (signposting)	https://www.leedsbuildingsociety.co.uk/treasury/wholesale/pibs/	https://www.leedsbuildingsociety.co.uk/_resources/pdfs/treasury-pdfs/emtn-pdfs/final-terms-2029.pdf	https://www.leedsbuildingsociety.co.uk/_resources/pdfs/treasury-pdfs/emtn-pdfs/final-terms-2027.pdf

5 Credit Risk

5.1 Overview

Credit risk is the risk that residential borrowers or wholesale counterparties fail to meet their current or future financial obligations. The Society is a Prime residential mortgage lender which seeks to build and maintain credit portfolios which support the Society's purpose and maintains the capital strength to support our differentiated product mix through an economic cycle.

At the Society, we lend in a responsible, affordable and sustainable way to ensure we safeguard members assets and the financial strength of the Society throughout the credit cycle. We operate with a commitment to responsible lending and a focus on championing good conduct and fair outcomes.

Credit risks are inherent across the Society's lending activities and may arise from changes in credit quality, such as a borrower's risk profile, and the recoverability of loans and amounts due from counterparties. Adverse changes in the credit quality of borrowers or a general deterioration in economic conditions could affect the recoverability and value of the Society's assets and therefore its financial performance. Comprehensive risk management methods and processes have been established as part of the Society's overall governance framework to measure, mitigate and manage credit risk within the Society's risk appetite.

Descriptions of retail and wholesale credit risk and their mitigation are included in the Principal Risks section of the Annual Report and Accounts for the year ended 31 December 2022 on pages 86 to 92.

5.2 Approach to Credit Risk

Credit Risk under the IRB Approach

The Society uses the IRB Approach for the following credit risk exposure classes:

- Retail mortgages: UK Prime Residential Real Estate, UK Residential Buy to Let and UK Prime Shared Ownership; and
- Other Non-Credit Obligation Assets.

Credit Risk under the Standardised Approach

The Society uses the Standardised Approach for the following credit risk exposure classes:

- Exposures to Central Governments and Central Banks;
- Exposures to Institutions;
- Exposures to Corporates;
- Exposures to Retail;
- Exposures to Multilateral Development Banks;
- Other / legacy retail mortgages (secured against residential property); and
- Items Representing Securitisation Positions.

Credit Risk

Scope of the use of IRB and SA approaches (UK-CR6A)

The Society's total credit risk exposure split by exposure class:

Table 12 (UK-CR6A): Scope of the use of IRB and SA approaches		Dec-22				
		Exposure value as defined in Article 166 CRR for exposures subject to IRB approach	Total exposure value for exposures subject to the Standardised approach and to the IRB approach	Percentage of total exposure value subject to the permanent partial use of the SA (%)	Percentage of total exposure value subject to IRB Approach (%)	Percentage of total exposure value subject to a roll-out plan (%)
£m		a	b	c	d	e
1	Central governments or central banks	-	3,685.1	100.0%	0.0%	0.0%
1.1	*Of which Regional governments or local authorities*	-	-	-	-	-
1.2	*Of which Public sector entities*	-	132.9	100.0%	0.0%	0.0%
2	Institutions	-	750.3	100.0%	0.0%	0.0%
3	Corporates	-	-	-	-	-
3.1	*Of which Corporates - Specialised lending, excluding slotting approach*	-	-	-	-	-
3.2	*Of which Corporates - Specialised lending under slotting approach*	-	-	-	-	-
4	Retail	20,199.5	20,729.9	2.6%	97.4%	0.0%
4.1	*of which Retail – Secured by real estate SMEs*	-	8.0	100.0%	-	-
4.2	*of which Retail – Secured by real estate non-SMEs*	20,199.5	20,721.9	2.5%	97.5%	0.0%
4.3	*of which Retail – Qualifying revolving*	-	-	-	-	-
4.4	*of which Retail – Other SMEs*	-	-	-	-	-
4.5	*of which Retail – Other non-SMEs*	-	-	-	-	-
5	Equity	-	-	-	-	-
6	Other non-credit obligation assets	81.6	81.6	0.0%	100.0%	0.0%
7	**Total**	**20,281.1**	**25,246.9**	**20.5%**	**79.5%**	**0.0%**

Approach to credit risk management

Residential

The Society's Lending Policy includes a broad range of stock and flow limit structures to support the ongoing risk management of the book in line with the agreed credit risk appetite. The BRC also receives management information, providing key metrics and commentary upon the performance of the Society's mortgage portfolio.

With regards to new lending, residential credit risk is managed using the following tools:

- Credit scorecard assessment;
- Access to credit file data, including the credit history of an individual to ensure adherence with standards;
- Residential affordability assessment based on income and expenditure using stressed interest rates;
- Buy to Let (BTL) affordability assessment based on interest coverage ratio requirements using stressed interest rates;
- An appropriate valuation using independent expert appraisal of the suitability and value of a property or an Automated Valuation Model where specified criteria are met;
- Application of differentiated Loan to Value (LTV) controls; and
- Underwriting processes, which are a hybrid of computer systems and suitably qualified and mandated underwriters.

The Society's retail credit risk function monitors the asset quality of the portfolio, including forward looking scenario-based credit risk stress testing, on an ongoing basis. This identifies trends and potential risks, facilitating understanding of the portfolio, which is used to manage credit risk appetite over the course of an economic cycle.

The Society's Debt Management Policy outlines the key controls required to promote positive customer outcomes and the ongoing effectiveness of collections and recoveries activity. The key components relating to credit risk management are as follows:

- Highly trained and experienced colleagues to support tailored support for customers in financial difficulty;
- Standards and backstops regarding the customer contact strategy;
- Availability of appropriate forbearance options and exit strategies and standards on appropriate use;

- Requirements around understanding individual customer circumstances including income and expenditure assessments clearly outlined; and
- A range of operational controls to ensure the safeguarding of collateral.

The Society has a dedicated Collections function, which seeks to engage with customers, at an early stage, to discuss potential financial difficulties. Forbearance options are determined on a case-by-case basis, with the aim of working with borrowers to clear arrears. Subject to assessment and meeting criteria, the Society is able to offer customers an appropriate range of options, including an extension of the mortgage term, a short-term temporary change to interest only, capitalisation of arrears, reduced monthly repayments, and transfer to an alternative product.

After all other options have been exhausted, the Society may take possession of the mortgaged property. Analysis of the Society's residential portfolio and forbearance activity is used to inform the provisioning policy. This ensures that the Society properly recognises losses, in accordance with its accounting policies.

Note 8 in the Society's Annual Report and Accounts details the provisions that are held against residential mortgages.

Wholesale

The Wholesale Credit Risk Policy sets out the framework for the management of Treasury-related counterparty credit risk and is approved by BRC annually. Acting within the confines of the Wholesale Credit Risk Policy and delegated authority from BRC and ALCO, the Treasury Credit Risk Delegated ALCO (TCRDA), which meets at least bi-monthly, regularly reviews and approves Treasury credit limits.

Due diligence on potential new Treasury counterparty limits and recommendations to TCRDA to amend existing limits is undertaken by the Asset and Liability Management (ALM) team, which is part of the Society's Treasury function. This review process typically involves a mix of qualitative and quantitative analysis. For financial institution counterparties this incorporates the outputs from the Society's credit risk assessment models. For securitisations, the process meets UK Securitisation Regulation requirements and includes cash-flow modelling and scenario testing. The Society also uses credit assessments provided by External Credit Assessment Institutions (ECAIs) - Moody's and Fitch, for backstop purposes.

The Society does not utilise credit derivatives; it only uses derivatives to reduce exposure to market risks.

Structure and Organisation of Credit Risk Management and Control Function

Residential

Residential credit risk is overseen by a Credit Risk Function, reporting to the Chief Risk Officer, with oversight from Board Risk Committee. The Board delegates operational mandates (e.g. underwriting and collections) pertaining to the effective day-to-day running of the business via a Delegated Authorities Manual.

The Society maintains a tiered Policy Framework to establish and cascade Board approved directive limits and controls, which Management must follow to enable the safe delivery of the Society's Strategy. The level 1 controls and limits relating to Residential Credit Risk management activities are outlined in the society's Lending and Debt Management policies which are subject to annual approval via Board and BRC respectively. A management Credit Committee provides oversight at a more granular level, including ongoing review and approval of level 2 limits.

There is also a suite of Primary and Secondary SRA limits relating to the ongoing management of credit risk appetite. These are reported through to Board on a monthly basis and are routinely tested against alternative forward-looking scenario as part of the Stress Testing Framework.

Credit Risk

Wholesale

Under a governed delegated mandate structure from the Board Risk Committee and ALCO, TCRDA assesses Treasury counterparty credit risk to ascertain that wholesale counterparties can meet their ongoing contractual obligations. Compliance with Board Risk Appetite is measured against absolute limits monitored daily by the Treasury Operations team, which is part of the Society's Finance Division, and is reported monthly to ALCO (members of which include the Chief Executive Officer, the Chief Financial Officer and the Chief Risk Officer). If adverse trends are identified, the Treasury Front Office team will take corrective action to mitigate the risk where necessary.

The relationship between credit risk management, risk control, compliance and internal audit functions

The Society currently employs a Three Lines of Defence (LoD) risk management model. This has clearly defined roles and demarcation of responsibilities between the 1st and 2nd LoDs. In the context of credit risk management this provides effective and robust credit risk control.

- 1st LoD: Responsible for executing the strategy and the day-to-day management of credit risk in line with agreed policies, standards and limits. Responsible for the design and day-to-day execution of operational controls.
- 2nd LoD: Responsible for the design, development and oversight of credit risk policies and appetite. Independent oversight of relevant 1st line activities and ongoing reporting of asset quality to the relevant committees. Performs the accountabilities of the Credit Risk Control Unit (CRR Article 190).
- 3rd LoD: Internal Audit provide independent assurance over the effectiveness of the credit risk management & oversight.

5.3 Impairment of loans and advances to customers

Impairment losses are calculated for all financial assets held at amortised cost or at FVOCI. Loss provisions are also held against undrawn loan commitments where a loan offer has been issued to a customer and remains in place, but the loan has not yet completed and so has not yet been recognised in the Statement of Financial Position.

Impairment loss provisions are calculated to cover future losses expected to emerge over a defined time period, dependent on the stage allocation of the individual asset, as set out below. This approach to impairment losses is known as the Expected Credit Loss (ECL) basis.

- Stage 1 – assets are allocated to this stage on initial recognition and remain in this stage if there has not been a significant increase in credit risk since initial recognition. Impairment losses are recognised to cover 12-month ECL, being the proportion of lifetime ECL arising from default events expected within 12 months of the reporting date.
- Stage 2 – assets where it is determined that there has been a significant increase in credit risk since initial recognition, but where there is no objective evidence of impairment. Impairment losses are recognised to cover lifetime ECL.
- Stage 3 – assets where there is objective evidence of impairment, i.e. they are considered to be in default or in the cure period following default (see below for full definition of default). Impairment losses are recognised to cover lifetime ECL.

Assets continue to be recognised, net of impairment loss provisions, until there is no reasonable prospect of recovery, which is generally at the point at which the property securing the loan is sold. If a loss is ultimately realised, it is written off against the provision previously made. Any subsequent recoveries are recognised directly in the Income Statement as a credit to impairment, as they arise.

Credit Risk

The primary driver in determining whether an individual loan has had a significant increase in credit risk is a quantitative assessment of the increase in lifetime probability of default (PD). At each reporting date, lifetime PD is recalculated and compared to the lifetime PD calculated on initial recognition. The loan is allocated to Stage 2 if the lifetime PD has increased over a pre-determined threshold which is set using a test-based approach and expressed as a percentage increase, segmented by product type and risk banding at the date of initial recognition.

In addition to the above, qualitative criteria have been set such that loans which are considered to have a significantly increased credit risk but would not be captured above are moved to Stage 2. These qualitative criteria include loans which have reached the end of their contractual term and loans where the customer has been identified as bankrupt but is not in arrears. A backstop is also in place such that all loans which are 30 days past due are moved to Stage 2.

Definition of default: Individual loans are considered to be in default and are allocated to Stage 3 if the loan is more than 90 days past due, is subject to certain forbearance activities, is in possession, meets 'unlikely to pay' criteria or if the customer has been identified as bankrupt and is in arrears by more than a nominal amount. A cure period is in place such that the loan would move back to Stage 2 if the loan exits default and remains not in default for more than 12 months or, for loans subject to forbearance, if 12 consecutive full payments are made after the forbearance activity has completed. In 2021 the Society updated its accounting definition of default to align to the regulatory definition under the IRB approach for capital requirements and these have remained aligned in 2022.

ECL is calculated by multiplying loss given default (LGD), probability of default (PD) and exposure at default (EAD). Each element of the calculation is modelled at individual account level on a monthly basis over the remaining contractual term of the loan, with the first 12 months totalled to obtain the 12-month ECL and the lifetime ECL obtained by totalling the above over the full contractual life of the loan. Modelling assumptions are based on historical data analysis of the impact of economic variables on loan behaviour. These assumptions are then applied to the forecast economic scenarios to predict future loan behaviour.

The overall ECL recorded in the financial statements is calculated as the probability weighted ECL over a range of possible forecasted macroeconomic scenarios.

PMAs are applied to modify the level of impairment loss provisions from that calculated by the detailed models used to determine ECL. They are used where there is a material risk that is not adequately captured within modelled ECL as a result of a lack of historical data with which to model or due to ongoing uncertainty. Judgement is required in determining whether a PMA should be used and the appropriate quantum of the adjustment. All PMAs are subject to approval by Credit Committee and must be reviewed and reapproved at least annually.

The Society utilises a wide range of forbearance strategies to support customers in financial difficulty, working with customers on a case-by-case basis to determine the most suitable approach. The implementation of a forbearance strategy does not give rise to the derecognition of the loan.

Credit Risk

Performing and Non-Performing Exposures and Related Provisions (UK-CR1)

Table 13 (UK-CR1): Performing and non-performing exposures and related provisions		Dec-22														
		Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
			Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
£m		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
005	**Cash balances at central banks and other demand deposits**	**3,040.6**	**3,040.6**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
010	**Loans and advances**	**20,357.1**	**17,168.4**	**3,188.7**	**240.4**	**16.1**	**224.3**	**(38.3)**	**(5.0)**	**(33.3)**	**(13.6)**	**(0.1)**	**(13.5)**	**262.2**	**20,266.5**	**226.8**
	General governments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Credit institutions	52.2	52.2	-	-	-	-	-	-	-	-	-	-	-	-	-
050	*Other financial corporations*	-	-	-	2.5	-	2.5	-	-	-	(2.5)	-	(2.5)	-	-	-
060	*Non-financial corporations*	19.9	-	19.9	-	-	-	(1.6)	-	(1.6)	-	-	-	164.0	18.3	-
070	*Of which SMEs*	9.3	-	9.3	-	-	-	(0.8)	-	(0.8)	-	-	-	123.4	8.6	-
080	*Households*	20,285.0	17,116.2	3,168.8	237.9	16.1	221.8	(36.7)	(5.0)	(31.7)	(11.1)	(0.1)	(11.0)	98.2	20,248.2	226.8
090	**Debt securities**	**1,386.8**	**1,386.8**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
100	*Central banks*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
110	*General governments*	530.6	530.6	-	-	-	-	-	-	-	-	-	-	-	-	-
120	*Credit institutions*	711.8	711.8	-	-	-	-	-	-	-	-	-	-	-	-	-
130	*Other financial corporations*	144.4	144.4	-	-	-	-	-	-	-	-	-	-	-	-	-
140	*Non-financial corporations*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
150	**Off-balance-sheet exposures**	**1,055.1**	**1,054.6**	**0.5**	**-**	**-**	**-**	**(0.2)**	**(0.2)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
160	*Central banks*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
170	*General governments*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
180	*Credit institutions*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
190	*Other financial corporations*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
200	*Non-financial corporations*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
210	*Households*	1,055.1	1,054.6	0.5	-	-	-	(0.2)	(0.2)	-	-	-	-	-	-	-
220	**Total (£m)**	**25,839.5**	**22,650.3**	**3,189.2**	**240.4**	**16.1**	**224.3**	**(38.5)**	**(5.2)**	**(33.3)**	**(13.6)**	**(0.1)**	**(13.5)**	**262.2**	**20,266.5**	**226.8**

		Dec-21														
		Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
			Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
£m		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
005	**Cash balances at central banks and other demand deposits**	**2,633.0**	**2,633.0**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
010	**Loans and advances**	**18,265.1**	**16,362.4**	**1,902.7**	**252.7**	**21.7**	**231.0**	**(22.4)**	**(9.3)**	**(13.1)**	**(18.8)**	**(0.2)**	**(18.6)**	**262.2**	**18,241.5**	**233.9**
030	*General governments*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
040	*Credit institutions*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
050	*Other financial corporations*	-	-	-	2.5	-	2.5	-	-	-	(2.5)	-	(2.5)	-	-	-
060	*Non-financial corporations*	21.9	-	21.9	0.3	-	0.3	(1.7)	-	(1.7)	(0.0)	-	(0.0)	164.0	20.2	0.2
070	*Of which SMEs*	10.8	-	10.8	0.3	-	0.3	(0.8)	-	(0.8)	(0.0)	-	(0.0)	123.4	10.0	0.2
080	*Households*	18,243.2	16,362.4	1,880.8	250.0	21.7	228.3	(20.7)	(9.3)	(11.4)	(16.3)	(0.2)	(16.1)	98.3	18,221.3	233.6
090	**Debt securities**	**949.1**	**949.1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
100	*Central banks*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
110	*General governments*	403.1	403.1	-	-	-	-	-	-	-	-	-	-	-	-	-
120	*Credit institutions*	456.7	456.7	-	-	-	-	-	-	-	-	-	-	-	-	-
130	*Other financial corporations*	89.3	89.3	-	-	-	-	-	-	-	-	-	-	-	-	-
140	*Non-financial corporations*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
150	**Off-balance-sheet exposures**	**1,349.6**	**1,349.3**	**0.3**	**-**	**-**	**-**	**(0.3)**	**(0.3)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
160	*Central banks*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
170	*General governments*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
180	*Credit institutions*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
190	*Other financial corporations*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
200	*Non-financial corporations*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
210	*Households*	1,349.6	1,349.3	0.3	-	-	-	(0.3)	(0.3)	-	-	-	-	-	-	-
220	**Total (£m)**	**23,196.8**	**21,293.8**	**1,903.0**	**252.7**	**21.7**	**231.0**	**(22.7)**	**(9.6)**	**(13.1)**	**(18.8)**	**(0.2)**	**(18.6)**	**262.2**	**18,241.5**	**233.9**

Credit Risk

Maturity of Exposures (UK-CR1A)

Table 14 (UK-CR1A) : Maturity of exposures		Dec-22					
		Net exposure value					
		On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	Total
£m		a	b	c	d	e	f
1	Loans and advances	18.6	52.0	637.4	19,785.2	-	20,493.2
2	Debt securities	-	764.9	453.8	168.0	-	1,386.7
3	**Total**	**18.6**	**816.9**	**1,091.2**	**19,953.2**	**-**	**21,879.9**

		Dec-21					
		Net exposure value					
		On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	Total
£m		a	b	c	d	e	f
1	Loans and advances	15.3	56.0	599.5	17,856.4	-	18,527.2
2	Debt securities	-	232.9	591.7	124.5	-	949.1
3	**Total**	**15.3**	**288.9**	**1,191.2**	**17,980.9**	**-**	**19,476.3**

Changes in the Stock of Non-Performing Loans (UK-CR2)

As per CRR article 432(1), UK-CR2 has not been presented on grounds of materiality as non-performing loans and advances comprise less than 5% of total loans and advances.

Credit Risk

Credit quality of forborne exposures (UK-CQ1)

Table 15 (UK-CQ1): Credit quality of forborne exposures		Dec-22							
		Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Performing forborne	Non-performing forborne	Of which defaulted	Of which impaired	On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
005	Cash balances at central banks and other demand deposits	-	-	-	-	-	-	-	-
010	Loans and advances	17.8	81.5	45.1	77.6	-	(1.8)	97.5	79.7
020	*Central banks*	-	-	-	-	-	-	-	-
030	*General governments*	-	-	-	-	-	-	-	-
040	*Credit institutions*	-	-	-	-	-	-	-	-
050	*Other financial corporations*	-	-	-	-	-	-	-	-
060	*Non-financial corporations*	-	-	-	-	-	-	-	-
070	*Households*	17.8	81.5	45.1	77.6	-	(1.8)	97.5	79.7
080	Debt Securities	-	-	-	-	-	-	-	-
090	Loan commitments given	-	-	-	-	-	-	-	-
100	**Total**	**17.8**	**81.5**	**45.1**	**77.6**	**-**	**(1.8)**	**97.5**	**79.7**

		Dec-21							
		Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Performing forborne	Non-performing forborne	Of which defaulted	Of which impaired	On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
005	Cash balances at central banks and other demand deposits	-	-	-	-	-	-	-	-
010	Loans and advances	41.6	104.9	75.5	84.1	(0.1)	(3.5)	142.9	101.4
020	*Central banks*	-	-	-	-	-	-	-	-
030	*General governments*	-	-	-	-	-	-	-	-
040	*Credit institutions*	-	-	-	-	-	-	-	-
050	*Other financial corporations*	-	-	-	-	-	-	-	-
060	*Non-financial corporations*	-	-	-	-	-	-	-	-
070	*Households*	41.6	104.9	75.5	84.1	(0.1)	(3.5)	142.9	101.4
080	Debt Securities	-	-	-	-	-	-	-	-
090	Loan commitments given	-	-	-	-	-	-	-	-
100	**Total**	**41.6**	**104.9**	**75.5**	**84.1**	**(0.1)**	**(3.5)**	**142.9**	**101.4**

Credit Risk

Credit quality of performing and non-performing exposures by past due days (UK-CQ3)

Table 16 (UK-CQ3): Credit quality of performing and non-performing exposures by past due days		Dec-22											
		Gross carrying amount / nominal amount											
		Performing exposures			Non-performing exposures								
			Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
£m		a	b	c	d	e	f	g	h	i	j	k	l
005	Cash balances at central banks and other demand deposits	3,040.6	3,040.6	-	-	-	-	-	-	-	-	-	-
010	**Loans and advances**	**20,357.1**	**20,258.2**	**98.9**	**240.4**	**127.0**	**41.2**	**38.0**	**24.1**	**9.2**	**0.4**	**0.5**	**136.0**
020	*Central banks*	-	-	-	-	-	-	-	-	-	-	-	-
030	*General governments*	-	-	-	-	-	-	-	-	-	-	-	-
040	*Credit institutions*	52.2	52.2	-	-	-	-	-	-	-	-	-	-
050	*Other financial corporations*	-	-	-	2.5	2.5	-	-	-	-	-	-	2.5
060	*Non-financial corporations*	19.9	19.9	-	-	-	-	-	-	-	-	-	-
070	*Of which SMEs*	9.3	9.3	-	-	-	-	-	-	-	-	-	-
080	*Households*	20,285.0	20,186.1	98.9	237.9	124.5	41.2	38.0	24.1	9.2	0.4	0.5	133.5
090	**Debt securities**	**1,386.8**	**1,386.8**	-	-	-	-	-	-	-	-	-	-
100	*Central banks*	-	-	-	-	-	-	-	-	-	-	-	-
110	*General governments*	530.6	530.6	-	-	-	-	-	-	-	-	-	-
120	*Credit institutions*	711.8	711.8	-	-	-	-	-	-	-	-	-	-
130	*Other financial corporations*	144.4	144.4	-	-	-	-	-	-	-	-	-	-
140	*Non-financial corporations*	-	-	-	-	-	-	-	-	-	-	-	-
150	**Off-balance sheet exposures**	**1,055.1**			-								
210	*Households*	1,055.1			-								
220	**Total (£m)**	**25,839.5**	**24,685.6**	**98.9**	**240.4**	**127.0**	**41.2**	**38.0**	**24.1**	**9.2**	**0.4**	**0.5**	**136.0**

		Dec-21											
		Gross carrying amount / nominal amount											
		Performing exposures			Non-performing exposures								
			Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
£m		a	b	c	d	e	f	g	h	i	j	k	l
005	Cash balances at central banks and other demand deposits	2,633.0	2,633.0	-	-	-	-	-	-	-	-	-	-
010	**Loans and advances**	**18,265.1**	**18,195.8**	**69.3**	**252.7**	**133.3**	**43.3**	**39.9**	**26.0**	**8.2**	**0.0**	**2.1**	**142.1**
020	*Central banks*	-	-	-	-	-	-	-	-	-	-	-	-
030	*General governments*	-	-	-	-	-	-	-	-	-	-	-	-
040	*Credit institutions*	-	-	-	-	-	-	-	-	-	-	-	-
050	*Other financial corporations*	-	-	-	2.5	2.5	-	-	-	-	-	-	2.5
060	*Non-financial corporations*	21.9	21.9	-	0.3	0.3	-	-	-	-	-	-	-
070	*Of which SMEs*	10.8	10.8	-	0.3	0.3	-	-	-	-	-	-	-
080	*Households*	18,243.2	18,173.9	69.3	249.9	130.5	43.3	39.9	26.0	8.2	0.0	2.1	139.6
090	**Debt securities**	**949.1**	**949.1**	-	-	-	-	-	-	-	-	-	-
100	*Central banks*	-	-	-	-	-	-	-	-	-	-	-	-
110	*General governments*	403.1	403.1	-	-	-	-	-	-	-	-	-	-
120	*Credit institutions*	456.7	456.7	-	-	-	-	-	-	-	-	-	-
130	*Other financial corporations*	89.4	89.4	-	-	-	-	-	-	-	-	-	-
140	*Non-financial corporations*	-	-	-	-	-	-	-	-	-	-	-	-
150	**Off-balance sheet exposures**	**1,349.6**			-								
210	*Households*	1,349.6			-								
220	**Total (£m)**	**23,196.8**	**21,777.9**	**69.3**	**252.7**	**133.3**	**43.3**	**39.9**	**26.0**	**8.2**	**0.0**	**2.1**	**142.1**

Credit quality of loans and advances to non-financial corporations by industry (UK-CQ5)

The society has a commercial real estate book, which has been closed to new business since 2008. The society has made no loans and advances to any other industries. The residual commercial loan balance that would be reported through row 120 real estate activities is immaterial. As individual commercial loans could potentially be identified from this disclosure, for confidentiality reasons in line with CRR article 432(1), table CQ5 has not been presented.

Collateral obtained by taking possession and execution processes (UK-CQ7)

Table 17 (UK-CQ7) : Collateral obtained by taking possession and execution processes		Dec-22		Dec-21	
		Collateral obtained by taking possession		Collateral obtained by taking possession	
£m		Value at initial recognition a	Accumulated negative changes b	Value at initial recognition a	Accumulated negative changes b
010	Property, plant and equipment (PP&E)	-	-	-	-
020	Other than PP&E	5.8	0.6	5.3	1.4
030	*Residential immovable property*	5.8	0.6	5.3	1.4
040	*Commercial Immovable property*	-	-	-	-
050	*Movable property (auto, shipping, etc.)*	-	-	-	-
060	*Equity and debt instruments*	-	-	-	-
070	*Other*	-	-	-	-
080	**Total (£m)**	**5.8**	**0.6**	**5.3**	**1.4**

5.4 Internal Ratings Based Approach to Credit Risk

Overview

As part of its calculation of capital requirements for credit risk, the Society uses a suite of approved IRB models developed for, and applied to, its retail UK exposures defined in section 5.2. The Society was granted its IRB permissions by the PRA with effect from 1st July 2018 with no pre- or post- conditions of use specified. The current suite of models, and performance as at end 2022, are described in this section.

In addition to driving the calculation of regulatory capital requirements, the Society's IRB models support the Society's business operations in a number of key areas. Examples include credit decisioning, portfolio management, product pricing, forecasting and stress testing, expected credit losses for impairment, and the development and monitoring of strategic risk appetite.

Model Risk Management of the IRB Ratings System

The performance of the Society's IRB model suite is regarded as very high materiality, in terms of the calculation of credit risk capital requirements, and wider use of model estimates in operational and risk management practices. As part of its Enterprise Risk Management Framework (ERMF) the Society operates a structured and proportionate approach to model risk management and has operated industry good practice and well-defined disciplines to its credit risk related models for a number of years. Model Risk was elevated to a standalone principal risk category in 2020 and is monitored by the Society's Board Risk Committee against bespoke expressions of strategic risk appetite. For more detail on the ERMF please see the Risk Management Report on pages 82 to 85 of the Annual Report and Accounts.

In terms of model governance, under the Society's Board approved Model Risk Policy, all IRB related models are required to have a Model Owner. The Model Owner resides in the Credit Risk Control Unit as defined in Capital Requirements Regulation.

All models developed for IRB purposes are classified as Very High Materiality under Model Risk Policy. As a result, they must be:

Credit Risk

- Developed and managed in accordance with Model Risk Policy and supporting Risk Model Standards and attested against all pertinent prudential regulation and guidance.
- Reviewed by a team of appropriately skilled and experienced specialists independent from the Credit Risk Control Unit; and
- Reviewed and approved by the Society's Designated Committee, the Models and Rating System Committee (MRSC).

The Modelling and Measurement Team within the Risk Function are Credit Risk Control Unit (CRCU) under IRB, responsible for the development, calibration, approval and any subsequent changes to the Rating System. Performance of approved models is monitored quarterly by the Credit Risk Control Unit (the 'CRCU') and reported in detail to the Credit Models Working Group, the Society's technical model review forum supporting the Models and Rating System Committee. Detailed reporting includes:

- PD Model: discrimination, accuracy, stability, concentration and grade migration.
- LGD model: Probability of Possession sub-component discrimination, accuracy and stability, and accuracy of Loss Given Possession estimates at sub-component level. Overall LGD accuracy.
- EAD model: accuracy at overall and sub-component level.

The Models and Rating System Committee meet at least six times per year and review summarised reporting against approved Key Performance Indicators, designed in accordance with the Society's Model Validation Framework.

All IRB models are subject to an annual review process undertaken by the Risk Function, including an independent review performed by the Finance Function, and re-approval by the Models and Rating System Committee, in accordance with prudential regulation. Internal Audit also perform a full program of third line annual IRB assurance activity. The Models and Rating System Committee are the 'Designated Committee' for IRB. In addition to roles and responsibilities within the annually approved Terms of Reference, the Committee maintains a Schedule of Key Events calendar which includes the requirement for an annual review, independent review, audit assurance of the Rating System and approval for continued use by the Designated Committee.

Key Features of IRB Models

The IRB models and their key features are summarised as follows:

Portfolio	Portfolio RWEAs Dec-22			Number of years of loss data	Basel Asset Class	Applicable industry-wide thresholds
Prime Mortgages	£3,289.9m	PD	Exposures are placed into long run PD rating grades based upon application / behavioural scores, Loan to Value and Arrears Status. Each rating grade is assigned a regulatory (long run average) PD.	>10 years	Retail Exposures Secured by residential properties	PD floor of 0.03%

			Exposures may subsequently migrate across grades over time.			
		LGD	Deterministic models predicting propensity for possession (given default), movements in property values, property value haircuts and post-default costs incurred – in current and downturn conditions.			Portfolio LGD floor of 10%
		EEAD	Deterministic model predicting exposure at the point of default taking into account balance, pre-default costs incurred, and interest accrued – in current and downturn conditions.			Floored at existing account balance

These measures form the base inputs to the regulatory risk weight function, in order to derive Pillar 1 risk weighted assets at account level. Thereafter, minimum capital requirements are calculated as 8% of risk weighted assets, reflecting the credit risk capital required to cover unexpected losses attributed to the portfolio.

Under IRB, expected losses are also derived by multiplying the above measures together, both on a current 'point in time' and long run / downturn basis. These reflect losses which the Society expects to lose as a result of customers defaulting across the course of an economic cycle. Where such expected losses exceed accounting provisions, the excess of expected losses is deducted from CET1 capital.

IRB Model Performance

This section provides an overview of the performance of the IRB models over the course of 2021-22.

Table 18: IRB Model Performance Dec-22	Predicted PD %	Observed PD %	Predicted LGD %	Observed LGD %
Prime	0.27	0.20	1.70	0.51
Buy to let	0.08	0.08	10.72	7.09
Shared ownership	0.53	0.33	1.81	0.31
Total	**0.25**	**0.18**	**2.66**	**1.16**
Dec-21	**%**	**%**	**%**	**%**
Prime	0.30	0.21	1.31	0.82
Buy to let	0.08	0.08	7.83	7.00
Shared ownership	0.58	0.36	2.18	1.13
Total	**0.27**	**0.19**	**2.40**	**1.75**

Credit Risk

2022 Predicted PDs[6] are similar to 2021, with Prime and Shared Ownership predictions reducing marginally. Observed PDs are slightly lower than 2021 but remain broadly in line with the predicted PDs which demonstrate an appropriate margin of prudence.

LGD estimates continue to exhibit a degree of prudence when compared to actuals. Observed LGD shows some variance to the predicted values across all three lending segments. The LGD model is designed to consider the broad range of potential debt management actions in the possession and recovery process. As a result, estimates include elements of conservatism in order to recognise the potential costs of recovery actions and time taken to manage individual cases through to conclusion. The models reflect prevailing market prices, forced sale discounts in the event of possession stock sale and projected costs involved.

Prudential Regulation: Changes to IRB Models Taking Effect from 2022

Changes to prudential regulation in the UK, taking effect from January 2022, have necessitated redevelopment of IRB model suites across the industry. In common with all approved UK IRB firms, the Society are redeveloping their residential mortgage model suite in discussion with the UK Regulators and expect to implement a revised set of models in 2023. The redeveloped models are being aligned to the following principles.

• Definition of Default (DoD)	Bringing the Days Past Due (DPD) Definition of Default forward to 90 days from 180 days and widening definitions of Unlikeliness to Pay (UTP) to include additional indicators.
• Probability of Default (PD)	Similar in philosophy to the existing PD model, development of a cyclical 'Hybrid' PD model, developed in accordance with prudential regulation and guidance, aligned to the revised Definition of Default.
• Loss Given Default (LGD)	Again, similar in structure to the existing model, the new LGD model will be aligned to the revised Definition of Default, and reflecting more prescriptive guidance on economic loss, given cure from Default.
• Exposures at Default (EAD)	Structure aligned to the existing model, aligned to the revised Definition of Default.

Under these revised requirements, in common with most pre-existing IRB firms, the Society's risk weighted asset percentage is expected to increase and result in a reduction of the Society's Total Capital Ratio. Notwithstanding this change, the Society expects to retain significant capital headroom versus risk appetite. In the meantime, a PMA has been applied by way of an incremental scalar to outputs from the currently approved Rating System; Pillar One RWEAs and ELs. Impacts are expressed as a multiplicative percentage based scalar increment of (currently) circa +25%, applied to non-defaulted assets. The scalar is regularly reviewed as insights emerge during model redevelopment at the Society and across the industry. The PMA will be held in place, with any revisions due to emerging insight requiring a decrease / increase being reported to the Society's Designated Committee, until such time as remediated models are approved through internal governance, submitted, receive regulatory approval, and are implemented.

6 The Predicted and Actual PD columns in the table have been based upon the fully performing segments only; the PD models applied to accounts in arrears do not form part of the IRB Rating System solution (accounts in arrears are placed directly into their own MIA LRA PD bands) and it is therefore not considered appropriate to include them in Pillar 3 Disclosures, when measuring PD model predictions vs actuals.

Credit Risk

Credit Risk exposures by exposure class and PD range (UK-CR6)

Table 19 (UK-CR6) : IRB approach – Credit risk exposures by exposure class and PD range					Dec-22							
PD range	On-balance sheet exposures	Off-balance-sheet exposures pre-CCF	Exposure weighted average CCF	Exposure post CCF and post CRM	Exposure weighted average PD (%)	Number of obligors	Exposure weighted average LGD (%)	Exposure weighted average maturity (years)	Risk weighted exposure amount after supporting factors	Density of risk weighted exposure amount	Expected loss amount	Value adjust-ments and provisions
a	b	c	d	e	f	g	h	i	j	k	l	m
	£m	£m	%	£m	%		%		£m	%	£m	£m
A-IRB - Retail Exposure Class												
PD scale												
0.00 to <0.15	1,418.5	0.1	100.0%	1,418.5	0.1%	16,884	11.6%	-	56.3	4.0%	0.2	(0.8)
0.00 to <0.10	-	-	0.0%	-	0.0%	-	0.0%	-	-	0.0%	-	-
0.10 to <0.15	1,418.5	0.1	100.0%	1,418.5	0.1%	16,884	11.6%	-	56.3	4.0%	0.2	(0.8)
0.15 to <0.25	-	-	0.0%	-	0.0%	-	0.0%	-	-	0.0%	-	-
0.25 to <0.50	5,702.3	65.7	99.1%	5,715.4	0.4%	54,101	10.5%	-	501.7	8.8%	2.8	(5.3)
0.50 to <0.75	5,936.5	502.7	93.8%	6,037.1	0.6%	48,175	9.2%	-	645.9	10.7%	4.5	(4.5)
0.75 to <2.50	5,232.5	447.7	93.7%	5,322.1	1.5%	47,541	10.4%	-	1,165.0	21.9%	10.9	(6.5)
0.75 to <1.75	4,495.8	447.4	92.8%	4,585.4	1.4%	37,779	10.3%	-	955.9	20.8%	8.9	(4.6)
1.75 to <2.50	736.7	0.3	100.0%	736.7	1.9%	9,762	11.0%	-	209.1	28.4%	2.0	(1.9)
2.50 to <10.00	1,378.3	26.7	98.5%	1,383.6	4.4%	13,092	9.8%	-	548.7	39.7%	7.7	(5.3)
2.50 to <5.00	961.2	22.6	98.2%	965.7	3.5%	8,967	9.4%	-	325.9	33.7%	4.0	(3.2)
5.00 to <10.00	417.1	4.1	99.2%	417.9	6.6%	4,125	10.6%	-	222.8	53.3%	3.7	(2.1)
10.00 to <100.00	198.0	-	100.0%	198.0	33.3%	2,241	11.1%	-	143.2	72.3%	10.8	(5.6)
10.00 to <20.00	61.8	-	100.0%	61.8	12.2%	707	8.1%	-	32.9	53.2%	0.8	(0.7)
20.00 to <30.00	70.0	-	100.0%	70.0	28.7%	682	10.2%	-	55.6	79.5%	2.6	(1.7)
30.00 to <100.00	66.2	-	100.0%	66.2	57.8%	852	14.9%	-	54.7	82.6%	7.4	(3.2)
100.00 (Default)	124.8	0.0	100.0%	124.8	100.0%	1,811	1.6%	-	229.1	183.5%	2.1	(12.3)
Subtotal (exposure class)	**19,990.9**	**1,042.9**	**96.0%**	**20,199.5**	**1.9%**	**183,845**	**10.0%**	**-**	**3,289.9**	**16.3%**	**39.0**	**(40.3)**
Total (all exposures classes)	**19,990.9**	**1,042.9**	**96.0%**	**20,199.5**	**1.9%**	**183,845**	**10.0%**	**-**	**3,289.9**	**16.3%**	**39.0**	**(40.3)**

Credit Risk exposures by exposure class and PD range (UK-CR9)

Table 20 (UK-CR9): IRB approach – Back-testing of PD per exposure class (fixed PD scale)	Dec-22						
	PD range	Number of obligors at the end of previous year	Of which: number of obligors which defaulted in the year	Observed average default rate (%)	Exposures weighted average PD (%)	Average PD (%)	Average historical annual default rate (%)
a	b	c	d	e	f	g	h
A-IRB Retail Exposure class							
	PD scale						
	0.00 to <0.15	15,738	6	0.04%	0.11%	0.11%	0.02%
	0.00 to <0.10	-	-	-	-	-	-
	0.10 to <0.15	15,738	6	0.04%	0.11%	0.11%	0.02%
	0.15 to <0.25	-	-	-	-	-	-
	0.25 to <0.50	49,724	29	0.06%	0.36%	0.36%	0.05%
	0.50 to <0.75	44,744	34	0.08%	0.59%	0.59%	0.11%
	0.75 to <2.50	46,735	88	0.19%	1.42%	1.47%	0.25%
	0.75 to <1.75	37,487	72	0.19%	1.34%	1.36%	0.27%
	1.75 to <2.50	9,248	16	0.17%	1.92%	1.92%	0.17%
	2.50 to <10.00	13,992	98	0.70%	4.57%	4.75%	0.90%
	2.50 to <5.00	8,673	43	0.50%	3.44%	3.52%	0.58%
	5.00 to <10.00	5,319	55	1.03%	6.58%	6.76%	1.46%
	10.00 to <100.00	2,703	357	13.21%	29.82%	29.97%	12.03%
	10.00 to <20.00	1,244	29	2.33%	12.31%	12.36%	2.79%
	20.00 to <30.00	651	60	9.22%	28.59%	28.03%	8.69%
	30.00 to <100.00	808	268	33.17%	59.15%	58.64%	27.98%
	100.00 (Default)	1,863	-	-	100.00%	100.00%	-

Pillar 1 Risk Weighted Assets under IRB (UK-CR8)

Table 21 (UK-CR8) : RWEA flow statements of credit risk exposures under the IRB approach £m		Dec-22 RWEA a
1	**Risk weighted exposure amount as at the end of the previous reporting period[7]**	**2,497.8**
2	Asset size (+/-)	420.7
3	Asset quality (+/-)	(222.9)
4	Model updates (+/-)	(17.9)
5	Methodology and policy (+/-)	612.2
6	Acquisitions and disposals (+/-)	-
7	Foreign exchange movements (+/-)	-
8	Other (+/-)	-
9	**Risk weighted exposure amount as at the end of the reporting period[7]**	**3,289.9**

RWEAs under the IRB approach, excluding non-credit obligation assets, have increased by £792.1m to £3,289.9m due to:

- a £612.2m increase in RWEAs due to methodology and policy, primarily as a result of a temporary PMA to our IRB modelled outputs until the latest generation of IRB models, reflecting revised capital requirements regulations (effective 1 January 2022), are approved by the PRA (see page 41 for more details); and
- a £420.7m increase in RWEAs due to asset size reflecting higher net lending; partly offset by
- a £222.9m decrease in RWEAs due to asset quality primarily driven by a reduction in accounts in default and a reduction in the PD for non-defaulted accounts, which support an overall reduction in the PD of the book over 2022; and
- a £17.9m decrease in RWEAs due to Retirement Interest-only (RIO) mortgages, which have moved to the standardised approach in line with regulatory guidance.

[7] The RWEA reported in table 21 excludes £81.6m (2021: £149.4m) of non-credit obligation assets, which have decreased primarily due to a reduction in the fair value of equity release loans.

IRB approach – Use of Credit Risk Mitigation Techniques (UK-CR7A)

Table 22 (UK-CR7A): IRB approach – Disclosure of the extent of the use of CRM techniques		Total exposures £m	Dec-22 Credit Risk Mitigation techniques											Credit risk Mitigation methods in the calculation of RWEAs £m	
			Funded credit Protection (FCP)									Unfunded credit Protection (UFCP)			
			Part of exposures covered by **Financial Collaterals (%)**	Part of exposures covered by **Other eligible collaterals (%)**	Part of exposures covered by **Immovable property Collaterals (%)**	Part of exposures covered by **Receivables (%)**	Part of exposures covered by **Other physical collateral (%)**	Part of exposures covered by **Other funded credit protection (%)**	Part of exposures covered by **Cash on deposit (%)**	Part of exposures covered by **Life insurance policies (%)**	Part of exposures covered by **Instruments held by a third party (%)**	Part of exposures covered by **Guarantees (%)**	Part of exposures covered by **Credit Derivatives (%)**	RWEA post all CRM assigned to the obligor exposure class	RWEA with substitution effects
	A-IRB	a	b	c	d	e	f	g	h	i	j	k	l	m	n
1	Central governments and central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2	Institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3	Corporates	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3.1	*Of which Corporates – SMEs*	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3.2	*Of which Corporates – Specialised lending*	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3.3	*Of which Corporates – Other*	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4	Retail	20,199.5	-	100.0%	100.0%	-	-	-	-	-	-	-	-	3,289.9	3,289.9
4.1	*Of which Retail – Immovable property SMEs*	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4.2	*Of which Retail – Immovable property non-SMEs*	20,199.5	-	100.0%	100.0%	-	-	-	-	-	-	-	-	3,289.9	3,289.9
4.3	*Of which Retail – Qualifying revolving*	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4.4	*Of which Retail – Other SMEs*	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4.5	*Of which Retail – Other non-SMEs*	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5	**Total**	**20,199.5**	**-**	**100.0%**	**100.0%**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,289.9**	**3,289.9**

5.5 The Standardised approach to Credit Risk

Ratings Methods

The Society uses Moody's and Fitch as ECAIs. ECAI ratings are used for backstop limit purposes only in the Society's credit assessments and for assigning capital to Treasury exposures. This applies to central governments, central banks, public sector entities, multilateral development banks, financial institutions, covered bonds and securitised assets under the standardised approach. The ratings from the ECAIs are mapped across to the Credit Quality Step requirements in the UK CRR using EBA mappings.

The Society does not have a trading book.

Standardised Credit Risk Exposure and CRM effects (UK-CR4)

Table 23 (UK-CR4) : Standardised approach – Credit risk exposure and CRM effects		Dec-22					
		Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWAs and RWAs density	
	Exposure classes	On-balance-sheet exposures	Off-balance-sheet exposures	On-balance-sheet exposures	Off-balance-sheet amount	RWAs	RWAs density (%)
		a	b	c	d	e	f
1	Central governments or central banks	3,424.0	-	3,424.0	-	-	0.0%
2	Regional government or local authorities	-	-	-	-	-	-
3	Public sector entities	132.9	-	132.9	-	-	0.0%
4	Multilateral development banks	125.8	-	125.8	-	-	0.0%
5	International organisations	-	-	-	-	-	-
6	Institutions	290.6	-	290.6	-	58.1	20.0%
7	Corporates	-	-	-	-	-	-
8	Retail	-	-	-	-	-	-
9	Secured by mortgages on immovable property	523.3	12.2	523.3	2.4	221.7	42.2%
10	Exposures in default	4.6	-	4.6	-	4.6	100.0%
11	Exposures associated with particularly high risk	-	-	-	-	-	-
12	Covered bonds	459.7	-	459.7	-	46.0	10.0%
13	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
14	Collective investment undertakings	-	-	-	-	-	-
15	Equity	-	-	-	-	-	-
16	Other items	2.3	-	2.3	-	-	0.0%
17	**TOTAL**	**4,963.2**	**12.2**	**4,963.2**	**2.4**	**330.4**	**6.7%**

		Dec-21					
		Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWAs and RWAs density	
	Exposure classes	On-balance-sheet exposures	Off-balance-sheet exposures	On-balance-sheet exposures	Off-balance-sheet amount	RWAs	RWAs density (%)
		a	b	c	d	e	f
1	Central governments or central banks	2,813.5	-	2,813.5	-	-	0.0%
2	Regional government or local authorities	-	-	-	-	-	-
3	Public sector entities	186.9	-	186.9	-	-	0.0%
4	Multilateral development banks	184.9	-	184.9	-	-	0.0%
5	International organisations	-	-	-	-	-	-
6	Institutions	96.4	-	96.4	-	19.3	20.0%
7	Corporates	-	-	-	-	-	-
8	Retail	-	-	-	-	-	-
9	Secured by mortgages on immovable property	345.6	-	345.6	-	158.7	45.9%
10	Exposures in default	6.5	-	6.5	-	6.5	100.0%
11	Exposures associated with particularly high risk	-	-	-	-	-	-
12	Covered bonds	273.6	-	273.6	-	27.3	10.0%
13	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
14	Collective investment undertakings	-	-	-	-	-	-
15	Equity	-	-	-	-	-	-
16	Other items	2.3	-	2.3	-	-	0.0%
17	**TOTAL**	**3,909.7**	**-**	**3,909.7**	**-**	**211.8**	**5.4%**

Credit Risk

Standardised Risk Weighted Assets by Exposure Class (UK-CR5)

Table 24 (UK-CR5) : Standardised approach		Dec-22																
		Risk weights															Total	Of which unrated
	Exposure classes	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Others		
		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q
1	Central governments or central banks	3,424.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,424.0	-
2	Regional government or local authorities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3	Public sector entities	132.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	132.9	-
4	Multilateral development banks	125.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	125.8	-
5	International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	Institutions	0.1	-	-	-	290.5	-	-	-	-	-	-	-	-	-	-	290.6	-
7	Corporates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	Retail exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Exposures secured by mortgages on immovable property	-	-	-	-	-	465.1	-	-	0.5	60.1	-	-	-	-	-	525.7	525.7
10	Exposures in default	-	-	-	-	-	-	-	-	-	4.6	-	-	-	-	-	4.6	4.6
11	Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	Covered bonds	-	-	-	459.7	-	-	-	-	-	-	-	-	-	-	-	459.7	-
13	Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14	Units or shares in collective investment undertakings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15	Equity exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
16	Other items	2.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2.3	-
17	**TOTAL**	**3,685.1**	**-**	**-**	**459.7**	**290.5**	**465.1**	**-**	**-**	**0.5**	**64.7**	**-**	**-**	**-**	**-**	**-**	**4,965.6**	**530.3**

		Dec-21																
		Risk weights															Total	Of which unrated
	Exposure classes	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Others		
		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q
1	Central governments or central banks	2,813.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,813.5	-
2	Regional government or local authorities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3	Public sector entities	186.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	186.9	-
4	Multilateral development banks	184.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	184.9	-
5	International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	Institutions	-	-	-	-	96.4	-	-	-	-	-	-	-	-	-	-	96.4	-
7	Corporates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	Retail exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Exposures secured by mortgages on immovable property	-	-	-	-	-	284.2	-	-	0.9	60.4	-	-	-	-	-	345.5	345.5
10	Exposures in default	-	-	-	-	-	-	-	-	-	6.5	0.0	-	-	-	-	6.5	6.5
11	Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	Covered bonds	-	-	-	273.6	-	-	-	-	-	-	-	-	-	-	-	273.6	-
13	Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14	Units or shares in collective investment undertakings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15	Equity exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
16	Other items	2.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2.3	-
17	**TOTAL**	**3,187.6**	**-**	**-**	**273.6**	**96.4**	**284.2**	**-**	**-**	**0.9**	**66.9**	**0.0**	**-**	**-**	**-**	**-**	**3,909.6**	**352.0**

5.6 Credit Risk Mitigation

Residential

The Society's main source of collateral, and therefore means of mitigating credit risk, held against the IRB portfolios is residential property. The recognition of eligible collateral requires a number of factors to be considered such as legal certainty of charge and an appropriate form of valuation. The Society require the collateral valuation to be conducted by an appropriately qualified valuer, independent of the credit decision process and customer at the time of borrowing. This includes the use of automated valuation models based on market data, subject to criteria around the accuracy of the estimate and the LTV of the property. Climate data is also used to assess physical risks (e.g. flooding and subsidence) and transitional risks (e.g. Energy Performance Certificate data) which are then used to inform any decisions to lend. Post origination, collateral is revalued on a quarterly basis using an appropriate industry indexation approach.

IRB assets are all based in the UK and all new lending is restricted to the UK, and therefore subject to systemic impacts relating to the UK housing market. Limits are in place to protect against excessive concentration at a regional level and new build sites are subject to exposure limits to prevent an over-exposure. Different regional house price assumptions are adopted via regular stress testing exercises to ensure the credit risks are understood.

Wholesale

The form of credit risk mitigation employed by the Society is determined by the nature of the instrument: Loans, Government and Sovereign, Supranational and Agencies (SSA) debt securities are generally unsecured. ISDA (International Swaps and Derivatives Association) Master Agreements, including a Credit Support Annex (CSA), are usually completed with derivative counterparties, allowing for the exchange of collateral to mitigate the credit risk of the derivatives portfolio. Cleared Derivatives Execution Agreements (CDEA) documentation may be employed with counterparties where derivatives transactions will be cleared with a Central Clearing Counterparty (CCP). Covered bonds and securitisations are secured by pools of financial assets.

Under ISDA Master Agreements the derivatives portfolio is typically valued using discounted cash flow models. The terms of a CSA allow for collateral to be passed between parties to mitigate the market contingent counterparty risk inherent in the outstanding positions. Collateral (typically GBP cash) is paid or received on a regular basis (typically daily) to mitigate the mark-to-market exposures.

CSAs grant legal rights of set off for transactions with the same counterparty. Accordingly, the credit risk associated with such positions is reduced to the extent that negative mark-to-market values offset positive mark-to-market values in the calculation of credit risk within each netting agreement.

The Society employs netting where there is a legally enforceable right to set off the recognised amounts. This is the case for derivatives contracts by counterparty.

The Society typically posts and receives cash to mitigate credit risk arising from derivatives; however, its risk appetite also allows for UK government bonds collateral (gilts and Treasury Bills). The covered bonds and securitisations are secured by residential or buy to let mortgages. The Society does not utilise credit derivatives or government guarantees.

Disclosure of the use of CRM techniques (UK-CR3)

Table 25 (UK-CR3) : CRM techniques overview: Disclosure of the use of credit risk mitigation techniques		Dec-22				
		Unsecured carrying amount	Secured carrying amount	Of which secured by collateral	Of which secured by financial guarantees	Of which secured by credit derivatives
£m		a	b	c	d	e
1	Loans and advances	52.2	20,493.4	20,493.4	-	-
2	Debt securities	1,386.8	-	-	-	
3	**Total**	**1,439.0**	**20,493.4**	**20,493.4**	**-**	**-**
4	*Of which non-performing exposures*	*13.6*	*226.8*	*226.8*	*-*	*-*
5	*Of which defaulted*	*-*	*136.0*			

		Dec-21				
		Unsecured carrying amount	Secured carrying amount	Of which secured by collateral	Of which secured by financial guarantees	Of which secured by credit derivatives
£m		a	b	c	d	e
1	Loans and advances	1.2	18,475.4	18,475.4	-	-
2	Debt securities	949.1	-	-	-	
3	**Total**	**950.3**	**18,475.4**	**18,475.4**	**-**	**-**
4	*Of which non-performing exposures*	*18.9*	*233.9*	*233.9*	*-*	*-*
5	*Of which defaulted*	*-*	*142.1*			

5.7 Counterparty Credit Risk

Overview of Counterparty Credit Risk

Counterparty Credit Risk (CCR) is the risk that the counterparty to a transaction could default before the final settlement of the transactions' cash flows. The Society's exposure to CCR arises from entering into derivative contracts, for the purposes of mitigating interest rate risk, and sales and repurchase transactions as part of its liquidity management activities.

As explained in the 'Credit risk mitigation techniques' section, the Society mitigates risk of loss arising from default by its derivative counterparties through legally enforceable CSA agreements with cash collateral usually posted against changes in the net mark to market value of derivative exposures with a particular counterparty. It also enters into ISDA master netting agreements such that outstanding swap transactions with the same counterparty can be settled net following a default. These collateral and netting arrangements are taken into consideration when calculating internal CCR exposure for derivative counterparties.

Wherever possible, the Society clears qualifying derivatives through a CCP via Clearing Brokers as the Society is not itself a direct member of a CCP. Clearing derivatives with a CCP where possible, rather than leaving derivative contracts outstanding with counterparties bi-laterally, further helps to mitigate CCR. The CCP collects initial margin from each member (Clearing Broker) in order that obligations can be fulfilled should a member fail. All open positions with the CCP are then marked to market daily, with valuations agreed between the Society and its Clearing Brokers, such that the appropriate amount of variation margin can be exchanged.

The Society uses the Standardised Methodology to calculate derivative exposure. The Society's derivative contracts would not require the posting of additional collateral in the event of a ratings downgrade. However, the Society's Clearing Brokers are able to request additional initial margin from the Society up to agreed maxima.

Internal capital and credit limits for counterparty credit exposures

The Society uses internal models to assign credit limits for counterparty credit exposures. The models consist of data taken from a range of publicly available and financial information provider sources and incorporates both quantitative and qualitative measures. Counterparty limits are linked to the Society's CET1 and are reviewed at least annually, with regular monitoring and review at ALCO and TCRDA meetings held at least bi-monthly. The institution credit limit framework is formally reviewed as part of the annual Wholesale Credit Risk Policy review.

Policies related to guarantees and other credit risk mitigants

The Society uses derivatives to reduce exposure to market risks. Such derivatives have the potential to create counterparty credit risk. These instruments are only transacted with highly rated institutions and are collateralised under market standard documentation.

The Society's preferred method of documenting derivative activity is the ISDA Master Agreement, together with a CSA to mitigate credit risk on the derivatives portfolio. These agreements help mitigate CCR because they allow the offsetting of amounts due to the same counterparties ('netting benefits') and require cash collateral to be deposited by certain counterparties ('collateral held') to mitigate the mark-to-market exposures on derivatives. Under these agreements the Society typically values its portfolio in-house using discounted cash flow models. Any such valuations are agreed with the relevant counterparties, and collateral is then exchanged to bring the credit exposure within agreed tolerances.

The net derivative credit exposure represents the credit exposure to derivative transactions after taking account of netting agreements and CSAs and after including Potential Future Credit Exposure (PFCE) as required in the calculation of exposure. Regular, typically daily, re-balancing of the collateral requirements reduces the potential increase in future credit exposure.

Collateralisation of derivatives introduces two material changes in credit exposure, namely:

- The posting of collateral reduces the impact of the current market value to the difference between the market value of the derivatives and the value of the collateral. This difference is limited by the operational use of 'thresholds' and 'minimum transfer amounts', which set criteria to avoid the movement of small amounts of collateral; and
- If the counterparty fails to post additional collateral required, a default can be enforced within a short timeframe resulting in a substantial reduction in the potential future increases in credit exposure.

Derivative positions and collateral are typically valued daily and compared with counterparty valuations to agree collateral settlement. Any disputes in value are monitored and escalated by the dispute resolution procedures. Market standard CSA collateral allows GBP cash and, in some cases, UK sovereign debt securities, to be accepted or provided as collateral. Currently the Society holds both cash and UK sovereign debt securities.

Policies with respect to Wrong-Way risk

"Wrong-way risk" may occur when exposure to a counterparty is negatively correlated with the credit quality of that counterparty. The Society has no 'wrong-way' risk exposure and no appetite for such exposures. The risk is mitigated by the Society's policy of executing an ISDA Master Agreement, including Credit Support Annex, and agreeing an Eligible Collateral Schedule with each of its counterparties. Exposures are regularly re-margined and usually collateralised with cash. The Society also uses CDEA documentation where derivatives transactions will be cleared with a CCP.

Other risk management objectives and relevant policies related to CCR

The Society also enters into Securities Financing Transactions (SFTs). These transactions demonstrate The Society's ability to monetise the Liquid Asset Buffer and generate incremental income. The counterparty risk arising from SFTs is mitigated in a similar way to how it is mitigated for derivatives. Counterparty credit limits are controlled by TCRDA, and the Society enters into Global Master Repurchase Agreements with its SFT counterparties, which allow for the collateralisation of SFT exposures. Cash collateral is used to pay for all repurchase (repo) transactions. Amounts are adjusted daily to reflect the change in the fair value of the underlying securities.

The amount of collateral the Society would have to provide if its credit rating was downgraded

Liquidity is held for both additional collateral that may have to be posted in the event of a credit rating downgrade and adverse movements in market rates. Collateral requirements following downgrade are assessed on a contractual basis, whereas liquidity for changes in market rates is assessed using historic market rate volatility.

The Society would have to provide no additional collateral in the event of a one notch or two notch downgrade by external credit rating agencies. However, the Society's Clearing Brokers are able to request additional initial margin from the Society up to agreed maxima.

Credit Risk

Analysis of Counterparty Credit Risk exposure by Approach (UK-CCR1)

The Society currently only has exposure to counterparty credit risk through central clearing counterparties (see table 29 UK-CCR8) and own fund requirements for CVA risk (see table 26 UK-CCR2), both of which are excluded from disclosure in UK-CCR1. Therefore, this table has not been presented.

Counterparty Credit Risk Transactions subject to CVA risk (UK-CCR2)

Table 26 (UK-CCR2): Transactions subject to own funds requirements for CVA risk		Dec-22	
		Exposure value	RWEA
£m		a	b
1	Total transactions subject to the Advanced method	-	-
2	(i) VaR component (including the 3× multiplier)		-
3	(ii) stressed VaR component (including the 3× multiplier)		-
4	Transactions subject to the Standardised method	6.0	7.4
UK4	Transactions subject to the Alternative approach (Based on the Original Exposure Method)	-	-
5	**Total transactions subject to own funds requirements for CVA risk**	**6.0**	**7.4**

Credit Risk

Standardised approach – Counterparty Credit Risk exposures by regulatory exposure class and risk weights (UK-CCR3)

Table 27 (UK-CCR3): Standardised approach – CCR exposures by regulatory exposure class and risk weights		Dec-22											
		Risk weight											
		a	b	c	d	e	f	g	h	i	j	k	l
£m	Exposure classes	0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others	Total exposure value
1	Central governments or central banks	-	-	-	-	-	-	-	-	-	-	-	-
2	Regional government or local authorities	-	-	-	-	-	-	-	-	-	-	-	-
3	Public sector entities	-	-	-	-	-	-	-	-	-	-	-	-
4	Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-
5	International organisations	-	-	-	-	-	-	-	-	-	-	-	-
6	Institutions	-	256.3	-	-	0.9	4.8	-	-	-	-	-	262.0
7	Corporates	-	-	-	-	-	-	-	-	-	-	-	-
8	Retail	-	-	-	-	-	-	-	-	-	-	-	-
9	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-
10	Other items	-	-	-	-	-	-	-	-	-	-	-	-
11	**Total exposure value**	**-**	**256.3**	**-**	**-**	**0.9**	**4.8**	**-**	**-**	**-**	**-**	**-**	**262.0**

Composition of collateral for CCR exposures (UK-CCR5)

Table 28 (UK-CCR5): Composition of collateral for CCR exposures		Dec-22					
		Collateral used in derivatives transactions				Collateral used in securities financing transactions (SFTs)	
		Fair value of collateral received		Fair value of collateral posted		Fair value of collateral	Fair value of collateral posted
		Segregated	Unsegregated	Segregated	Unsegregated		
£m	Collateral type	a	b	c	d	e	f
1	Cash	493.6	-	26.6	-	-	-
2	Debt	-	-	-	-	-	-
3	Equity	-	-	-	-	-	-
4	Other	-	-	-	-	-	-
5	**Total**	**493.6**	**-**	**26.6**	**-**	**-**	**-**

Exposure to CCPs (UK-CCR8)

Table 29 (UK-CCR8): Exposures to CCPs		Dec-22	
		Exposure value	RWEA
£m		a	b
1	**Exposures to QCCPs (total)**		**5.1**
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	257.0	5.1
3	(i) OTC derivatives	257.0	5.1
4	(ii) Exchange-traded derivatives	-	-
5	(iii) SFTs	-	-
6	(iv) Netting sets where cross-product netting has been approved	-	-
7	Segregated initial margin	160.8	
8	Non-segregated initial margin	-	-
9	Prefunded default fund contributions	-	-
10	Unfunded default fund contributions	-	-
11	**Exposures to non-QCCPs (total)**		**2.6**
12	Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which	5.7	2.6
13	(i) OTC derivatives	5.7	2.6
14	(ii) Exchange-traded derivatives	-	-
15	(iii) SFTs	-	-
16	(iv) Netting sets where cross-product netting has been approved	-	-
17	Segregated initial margin	-	
18	Non-segregated initial margin	-	-
19	Prefunded default fund contributions	-	-
20	Unfunded default fund contributions	-	-

6 Leverage Framework

6.1 Overview of the Leverage Ratio

The leverage ratio calculation, specific to CRD V, is calculated as Tier 1 capital divided by total exposures (including on- and off-balance sheet items) without any consideration of underlying risk. The leverage ratio reinforces the risk-based capital requirements as a non-risk based 'backstop'. The leverage ratio is calculated on a fully loaded basis. Fully loaded Tier 1 Capital does not include IFRS 9 transitional adjustments (2022: £0.7m, 2021: £1.4m) or the qualifying AT1 element of PIBS (2022: nil, 2022: £2.5m).

The UK leverage ratio is specific to the UK regulatory regime and only applies to financial institutions with deposits of £50bn or more, however, it is monitored by the Society as part of its Purpose Scorecard for information. The calculation excludes deposits with central banks from the leverage exposure measure.

The Society considers both risk-based capital requirements and non-risk-based leverage requirements when determining the Society's strategy and has adopted a range of performance metrics over and above the regulatory minimum as the Society's risk appetite. Capital adequacy is monitored on a monthly basis against a number of key metrics, including the UK leverage ratio, to ensure that it stays within the Board's risk appetite and above the regulatory minima.

The Society projects the leverage ratios over a five year period both as part of its annual corporate plan refresh and via a range of stress test scenarios to ensure that leverage resources are sufficient in both normal and stressed economic conditions. Risk appetite limits are set against a clearly defined threshold system (Black; Red; Amber; Green; Yellow) which act as early warning indicators to ensure sufficient time for management action to restore the capital position, either by increasing capital resources or reducing the size of the balance sheet as appropriate. As the risk of material unexpected movements in the leverage ratio is limited due to the relative stability of the residential mortgage balances that form most of the Society's exposure, the most likely corrective action would be to reduce the size of the balance sheet via a reduction in new lending over the five year planning horizon.

The Society's UK leverage ratio has increased during the year from 6.0% to 6.2%. The main driver of the change in the UK leverage ratio was a £160.3m increase in fully loaded Tier 1 capital driven by earnings after tax, partly offset by a £2,199.1m increase in leverage exposure, primarily due to higher net retail lending in the period. The leverage ratio including deposits with central banks remained at 5.4% (2021: 5.4%).

6.2 Accounting Assets reconcile to Leverage Exposures

Summary reconciliation of accounting assets and leverage ratio exposures (UK-LR1)

	Table 30 (UK-LR1) : Summary reconciliation of accounting assets and leverage ratio exposures	Dec-22 a £m	Dec-21 a £m
1	Total assets as per published financial statements	25,513.9	22,513.7
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of prudential consolidation	-	-
3	(Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference)	-	-
4	(Adjustment for exemption of exposures to central banks)	(2,958.1)	(2,538.7)
5	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the total exposure measure in accordance with point (i) of Article 429a(1) of the CRR)	-	-
6	Adjustment for regular-way purchases and sales of financial assets subject to trade date accounting	-	-
7	Adjustment for eligible cash pooling transactions	-	-
8	Adjustment for derivative financial instruments[8]	(212.3)	119.9
9	Adjustment for securities financing transactions (SFTs)	-	-
10	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	211.0	269.8
11	(Adjustment for prudent valuation adjustments and specific and general provisions which have reduced tier 1 capital (leverage))	-	-
UK-11a	(Adjustment for exposures excluded from the total exposure measure in accordance with point (c) of Article 429a(1) of the CRR)	-	-
UK-11b	(Adjustment for exposures excluded from the total exposure measure in accordance with point (j) of Article 429a(1) of the CRR)	-	-
12	Other adjustments	(38.0)	(47.3)
13	**Total exposure measure**	**22,516.5**	**20,317.4**

[8] Market movements are the primary driver for the difference in the adjustment for derivative financial instruments, however, Dec-22 figures also reflect regulatory changes made during 2022. Dec-21 is reported consistent with the regulations at that date.

Leverage Framework

6.3 Common Leverage Disclosure

Leverage ratio common disclosure (UK-LR2)

Table 31 (UK-LR2): Leverage ratio common disclosure		Dec-22 a £m	Dec-21 b £m
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs, but including collateral)	24,834.0	22,294.4
2	Gross-up for derivatives collateral provided, where deducted from the balance sheet assets pursuant to the applicable accounting framework	-	-
3	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-	-
4	(Adjustment for securities received under securities financing transactions that are recognised as an asset)	-	-
5	(General credit risk adjustments to on-balance sheet items)	-	-
6	(Asset amounts deducted in determining tier 1 capital (leverage))	(38.0)	(47.3)
7	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**24,796.0**	**22,247.1**
	Derivative exposures		
8	Replacement cost associated with SA-CCR derivatives transactions (i.e. net of eligible cash variation margin)	410.3	239.1
UK-8a	Derogation for derivatives: replacement costs contribution under the simplified standardised approach	-	-
9	Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	57.3	100.1
UK-9a	Derogation for derivatives: potential future exposure contribution under the simplified standardised approach	-	-
UK-9b	Exposure determined under the original exposure method	-	-
10	(Exempted CCP leg of client-cleared trade exposures) (SA-CCR)	-	-
UK-10a	(Exempted CCP leg of client-cleared trade exposures) (simplified standardised approach)	-	-
UK-10b	(Exempted CCP leg of client-cleared trade exposures) (original exposure method)	-	-
11	Adjusted effective notional amount of written credit derivatives	-	-
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-
13	**Total derivatives exposures**	**467.6**	**339.2**
	Securities financing transaction (SFT) exposures		
14	Gross SFT assets (with no recognition of netting), after adjustment for sales accounting transactions	-	-
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
16	Counterparty credit risk exposure for SFT assets	-	-
UK-16a	Derogation for SFTs: counterparty credit risk exposure in accordance with Articles 429e(5) and 222 of the CRR	-	-
17	Agent transaction exposures	-	-
UK-17a	(Exempted CCP leg of client-cleared SFT exposures)	-	-
18	**Total securities financing transaction exposures**	**-**	**-**
	Other off-balance sheet exposures		
19	Off-balance sheet exposures at gross notional amount	1,055.1	1,349.3
20	(Adjustments for conversion to credit equivalent amounts)	(844.1)	(1,079.5)
21	(General provisions deducted in determining tier 1 capital (leverage) and specific provisions associated associated with off-balance sheet exposures)	-	-
22	**Off-balance sheet exposures**	**211.0**	**269.8**
	Excluded exposures		
UK-22a	(Exposures excluded from the total exposure measure in accordance with point (c) of Article 429a(1) of the CRR)	-	-
UK-22b	(Exposures exempted in accordance with point (j) of Article 429a(1) of the CRR (on- and off- balance sheet))	-	-
UK-22g	(Excluded excess collateral deposited at triparty agents)	-	-
UK-22k	**(Total exempted exposures)**	**-**	**-**
	Capital and total exposure measure		
23	**Tier 1 capital (leverage)**	1,387.6	1,227.3
24	Total exposure measure including claims on central banks	25,474.6	22,856.1
UK-24a	(-) Claims on central banks excluded	(2,958.1)	(2,538.7)
UK-24b	**Total exposure measure excluding claims on central banks**	**22,516.5**	**20,317.4**
	Leverage ratio		
25	Leverage ratio excluding claims on central banks (%)	6.2%	6.0%
UK-25a	Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)	6.2%	6.0%
UK-25b	Leverage ratio excluding central bank reserves as if the temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income had not been applied (%)	6.2%	6.0%
UK-25c	Leverage ratio including claims on central banks (%)	5.4%	5.4%
26	Regulatory minimum leverage ratio requirement (%)	*LREQ only*	LREQ only
	Additional leverage ratio disclosure requirements - leverage ratio buffers		
27	Leverage ratio buffer (%)	*LREQ only*	LREQ only
UK-27a	Of which: G-SII or O-SII additional leverage ratio buffer (%)	*LREQ only*	LREQ only
UK-27b	Of which: countercyclical leverage ratio buffer (%)	*LREQ only*	LREQ only
	Additional leverage ratio disclosure requirements - disclosure of mean values		
28	Mean of daily values of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivable	*LREQ only*	LREQ only
29	Quarter-end value of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables	*LREQ only*	LREQ only
UK-31	Average total exposure measure including claims on central banks	*LREQ only*	LREQ only
UK-32	Average total exposure measure excluding claims on central banks	*LREQ only*	LREQ only
UK-33	Average leverage ratio including claims on central banks	*LREQ only*	LREQ only
UK-34	Average leverage ratio excluding claims on central banks	*LREQ only*	LREQ only

6.4 On BS Leverage exposures split by class

Split-up of on-balance sheet exposures (UK-LR3)

Table 32 (UK-LR3) : Split-up of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)		Dec-22 a £m	Dec-21 a £m
UK-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**24,834.0**	**22,294.4**
UK-2	Trading book exposures	-	-
UK-3	Banking book exposures, of which:	24,834.0	22,294.4
UK-4	Covered bonds	460.1	273.6
UK-5	Exposures treated as sovereigns	3,426.7	2,815.8
UK-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	259.0	371.2
UK-7	Institutions	290.6	97.0
UK-8	Secured by mortgages of immovable properties	20,598.0	18,629.7
UK-9	Retail exposures	-	-
UK-10	Corporates	-	-
UK-11	Exposures in default	129.4	134.2
UK-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	(329.8)	(27.1)

The movement in other exposures is primarily due to the change in the fair value adjustment for hedged risk on loans and advances to customers.

7 Liquidity Risk

7.1 Approach to Liquidity Risk Management

Management of Liquidity Risk

The Society manages liquidity and funding risks within its Risk Management Framework which includes its policy, strategy, limit setting and monitoring, stress testing and robust governance controls. The Society aims to ensure that, at all times, it holds sufficient high-quality liquid assets, both of amount and quality, as well as having access to additional off-balance sheet liquidity, to cover cash flow mismatches, fluctuations in funding and ensure sufficient funds to meet obligations as they fall due and retain the ability to access funding at a reasonable cost. This is achieved through management and stress testing of business cash flows, setting appropriate risk limits to maintain a prudent funding mix and maturity profile, and maintaining sufficient levels of high-quality liquid assets and appropriate encumbrance levels.

Structure and organisation of the liquidity risk management function

The Board is responsible for setting liquidity and funding risk appetite and ALCO is responsible for monitoring the Society's liquidity and funding risk profile within this defined appetite. Liquidity and funding risk is managed and reported by segregated teams within Treasury and Finance functions in line with the Society's Enterprise Risk Management Framework. The Society operates a Three Lines of Defence model to provide challenge, oversight and assurance of Treasury activity.

The Society manages its liquidity at a group level through its centralised Treasury function.

Scope and nature of liquidity risk reporting and measurement systems

The Society's position against internal and regulatory metrics is monitored and reported on a regular basis, using its Treasury and ALM Management systems.

Policies for hedging and mitigating the liquidity risk and strategies and processes for monitoring the continuing effectiveness of hedges and mitigants

To mitigate liquidity and funding risks generated by its business activities, the Society aims to hold sufficient high-quality liquidity to meet its liquidity risk appetite which is set above regulatory minima.

The Society's liquidity risk appetite is driven by internal stress test scenarios and impacted by either the Liquidity outflows or the management actions the Society undertakes to counter the Stress.

Contingency funding plans

The Society maintains a Resolution and Recovery Plan (RRP) which includes early warning indicators which are monitored to identify signs of an emerging liquidity or funding stress, as well as escalation procedures and a range of actions that could be taken in response to ensure sufficient liquidity is maintained. The RRP is tested periodically to ensure it remains robust. The RRP also maintains a range of management actions that the Society could choose to deploy in Liquidity or Funding stress scenarios.

Stress testing

Stress testing is a key component of the Society's approach to liquidity and funding risk. A range of stress tests are undertaken across multiple-time horizons based on internally generated and regulatory prescribed scenarios. These include regulatory stress test such as the LCR and the PRA110 Cashflow Mismatch Report (CFMR) stresses, as well as internally defined liquidity stress scenarios. Internal stress tests combined with regulatory requirements are used for setting liquidity risk appetite. Internal stress assumptions are reviewed regularly with changes approved annually by the Board as part of the Internal Liquidity Adequacy Assessment Process (ILAAP).

Management declaration on the adequacy of liquidity risk management arrangements of the society

The Society undertakes assessment against the Overall Liquidity Adequacy Rule (OLAR) as part of its annually Board approved ILAAP. This includes setting appropriate risk limits, ensuring that a prudent liquidity and funding risk profile is maintained.

Liquidity risk statement approved by the management body

The Society's Board approved liquidity risk appetite statement has been constructed to ensure that it holds sufficient liquid assets at all times, both as to amount and quality, to cover cash flow mismatches and fluctuations in funding; retain public confidence; and meet financial obligations as they fall due. The risk appetite statement covers minimum Liquidity ratios and Survival periods under a range of liquidity stress scenarios. Throughout 2022 the Society has continued to meet its liquidity risk appetite statement at all times with its unencumbered High-Quality Liquid Assets (HQLA) ratio % SDL averaging 16.8% using the 12 month-ends. Maturity limits are also in place to protect against funding concentration risk.

7.2 Liquidity Coverage Ratios (LCR)

Quantitative information of LCR (UK-LIQ1)

Table 33 (UK-LIQ1): Quantitative information of LCR		Total unweighted value (average)				Total weighted value (average)			
1a	Quarter ending: £m	Dec-22 a	Sep-22 b	Jun-22 c	Mar-22 d	Dec-22 e	Sep-22 f	Jun-22 g	Mar-22 h
1b	Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
	HIGH-QUALITY LIQUID ASSETS								
1	**Total high-quality liquid assets (HQLA)**					**3,554.6**	**3,449.6**	**3,278.7**	**3,037.5**
	CASH - OUTFLOWS								
2	Retail deposits and deposits from small business customers, of which:	16,406.5	15,863.1	15,344.6	14,888.2	1,014.7	978.3	941.0	904.8
3	Stable deposits	8,258.9	8,293.5	8,297.4	8,237.5	412.9	414.7	414.9	411.9
4	Less stable deposits	8,147.6	7,569.6	7,047.2	6,650.7	601.8	563.6	526.1	492.9
5	Unsecured wholesale funding	84.3	89.4	94.0	62.6	57.3	59.7	62.8	31.5
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-	-	-	-	-	-	-
7	Non-operational deposits (all counterparties)	47.0	51.8	54.8	55.8	20.0	22.1	23.6	24.7
8	Unsecured debt	37.3	37.6	39.2	6.8	37.3	37.6	39.2	6.8
9	Secured wholesale funding					0.1	0.1	0.2	0.2
10	Additional requirements	188.5	133.9	127.0	128.4	188.5	133.9	127.0	128.4
11	Outflows related to derivative exposures and other collateral requirements	185.4	131.6	125.2	126.8	185.4	131.6	125.2	126.7
12	Outflows related to loss of funding on debt products	3.1	2.3	1.8	1.6	3.1	2.3	1.8	1.6
13	Credit and liquidity facilities	-	-	-	-	-	-	-	-
14	Other contractual funding obligations	42.5	39.1	32.8	14.2	27.4	24.2	19.0	1.3
15	Other contingent funding obligations	1,421.7	1,464.3	1,424.8	1,315.6	665.8	732.1	712.4	657.9
16	**TOTAL CASH OUTFLOWS**					**1,953.8**	**1,928.3**	**1,862.4**	**1,724.1**
	CASH - INFLOWS								
17	Secured lending (e.g. reverse repos)	-	-	-	-	-	-	-	-
18	Inflows from fully performing exposures	124.8	122.3	123.7	141.2	95.4	87.8	81.7	80.7
19	Other cash inflows	39.4	26.3	48.5	33.9	39.4	26.3	48.5	33.9
UK-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					-	-	-	-
UK-19b	(Excess inflows from a related specialised credit institution)					-	-	-	-
20	**TOTAL CASH INFLOWS**	**164.2**	**148.6**	**172.2**	**175.1**	**134.8**	**114.1**	**130.2**	**114.6**
UK-20a	*Fully exempt inflows*	-	-	-	-	-	-	-	-
UK-20b	*Inflows subject to 90% cap*	-	-	-	-	-	-	-	-
UK-20c	*Inflows subject to 75% cap*	164.2	148.6	172.2	175.1	134.8	114.1	130.2	114.6
	TOTAL ADJUSTED VALUE								
UK-21	**LIQUIDITY BUFFER**					**3,554.6**	**3,449.6**	**3,278.7**	**3,037.5**
22	**TOTAL NET CASH OUTFLOWS**					**1,819.0**	**1,814.2**	**1,732.2**	**1,609.5**
23	**LIQUIDITY COVERAGE RATIO**					**195.4%**	**190.1%**	**189.3%**	**188.7%**

Main drivers of LCR results and evolution of the contribution of inputs to the LCR's calculation over time

The Society's LCR is driven by a combination of the size of the liquid asset buffer, modelled stressed retail net outflows, wholesale funding requirements from upcoming maturities and collateral outflows that could arise in a stress. As the

Liquidity Risk

Society is predominantly retail funded, retail deposit outflows continue to be the largest contributor to net outflows in the LCR.

The 12-month average LCR has increased due to the increase in the size of the liquid asset buffer as a result of greater retail deposits, though this has been moderated by a corresponding increase in the stressed retail deposit outflow requirements across the year.

Concentration of funding sources

The Society is predominantly retail deposit funded but also raises wholesale funding, which comprises a range of secured and unsecured instruments, to ensure that a stable and diversified funding base is maintained across a range of instruments, maturities and investor types.

Composition of the Society's liquidity buffer

The Society's liquid assets are predominantly comprised of reserves held at the Bank of England and highly rated debt securities issued or guaranteed by a restricted range of governments, central banks and supranationals, as well as some high-quality Covered Bonds and Residential Mortgage Backed Securities (RMBSs). The assets held in the liquid asset buffer are all in sterling.

Derivative exposures and potential collateral calls

The Society only uses derivatives to manage and mitigate exposures to market risks, and not for trading or speculative purposes. The LCR net cash outflows related to derivative transactions primarily reflects the risk of potential additional collateral outflows due to adverse market rate changes. Credit ratings downgrades by external credit rating agencies could also lead to collateral outflows which are considered when determining LCR outflows.

Currency mismatch in the LCR

Liquid assets are denominated solely in sterling, with cross currency swaps in place against any euro exposures. This ensures that no material cross currency mismatch arises between the currency composition of the liquid asset buffer and currency profile of stressed outflows in the LCR.

Liquidity Risk

7.3 Net Stable Funding Ratio (NSFR)

Net Stable Funding Ratio (UK-LIQ2)

Table 34 (UK-LIQ2): Net Stable Funding Ratio		Dec-22 Unweighted value by residual maturity (average)				Weighted value (average)
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
		a	b	c	d	e
	Available stable funding (ASF) Items £m					
1	**Capital items and instruments**	**-**	**-**	**-**	**1,574.3**	**1,574.3**
2	Own funds	-	-	-	1,574.3	1,574.3
3	Other capital instruments		-	-	-	-
4	**Retail deposits**		**14,379.7**	**672.4**	**1,510.5**	**15,468.4**
5	Stable deposits		8,219.2	-	-	7,808.2
6	Less stable deposits		6,160.5	672.4	1,510.5	7,660.2
7	**Wholesale funding:**		**416.0**	**303.2**	**4,841.2**	**5,087.7**
8	Operational deposits		-	-	-	-
9	Other wholesale funding		416.0	303.2	4,841.2	5,087.7
10	**Interdependent liabilities**		**-**	**-**	**-**	**-**
11	**Other liabilities:**	**20.8**	**104.2**	**-**	**-**	**-**
12	NSFR derivative liabilities	20.8				
13	All other liabilities and capital instruments not included in the above categories		104.2	-	-	-
14	**Total available stable funding (ASF)**					**22,130.4**
	Required stable funding (RSF) Items £m					
15	**Total high-quality liquid assets (HQLA)**					**53.8**
UK-15a	**Assets encumbered for more than 12m in cover pool**		**64.6**	**62.9**	**3,062.0**	**2,711.1**
16	**Deposits held at other financial institutions for operational purposes**		**-**	**-**	**-**	**-**
17	**Performing loans and securities:**		**404.6**	**245.8**	**15,958.7**	**12,418.2**
18	Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut		-	-	-	-
19	Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions		18.7	-	-	1.9
20	Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:		1.0	0.5	19.1	3,105.0
21	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk		-	-	-	2,629.7
22	Performing residential mortgages, of which:		215.7	207.8	15,938.4	9,206.9
23	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk		191.0	186.0	13,697.4	7,735.9
24	Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products		169.2	37.5	1.2	104.4
25	**Interdependent assets**		**-**	**-**	**-**	**-**
26	**Other assets:**	**-**	**1,625.7**	**4.4**	**506.2**	**636.5**
27	Physical traded commodities				-	-
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs		134.9	-	-	114.6
29	NSFR derivative assets		-	-	-	-
30	NSFR derivative liabilities before deduction of variation margin posted		57.4	-	-	2.9
31	All other assets not included in the above categories		16.0	4.4	506.2	519.0
32	Off-balance sheet items		1,417.4	-	-	-
33	**Total RSF**					**15,819.6**
34	**Net Stable Funding Ratio (%)**					**139.9%**

8 Market Risk

8.1 Market risk overview

Strategies and processes to manage market risk

The Society's market risks arise only in the banking book as it does not have a trading book. Market risk exposures arise mainly from the change in value of fixed-rate mortgages and savings driven by changes in market interest rates.

To reduce this exposure, the Society's Treasury function undertakes hedging activities which include creating natural hedges where the interest rate risks generated from fixed-rate mortgages and savings are offset against each other. The remaining net exposure is managed using derivatives. ALCO set and monitor limits for the quantum of exposure within rolling annual time buckets.

Policies for hedging and mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges

The Society's risk appetite for market risk recognises that to ensure maximum member value a limited amount of market risk will remain due to:

- Enhancing operational efficiency - eliminating all market risk would involve a larger volume of derivative and foreign exchange transactions which increases operational costs; and
- Stability of earnings - hedging risks with derivatives for which effective hedge accounting is not possible could create earnings volatility.

ALCO is responsible for managing the market risk profile within the Board defined risk appetite. Market risk is managed within a comprehensive risk framework which includes policies, limit setting and monitoring, stress testing and robust governance controls. This includes setting and monitoring more granular limits within Board limits with relevant market risk metrics reported monthly to ALCO.

The Society's Market Risk Policy is reviewed and approved annually by the Board. The Market Risk Standard is reviewed and approved regularly by the Director of Treasury.

The Society has appropriate limits put in place to mitigate and allow effective monitoring of market risk. The key measures utilised by the Society include value and earnings sensitivity measures. These metrics are monitored and reported to ALCO monthly.

Scope and nature of risk reporting and measurement systems

The principal market risks to which the Society is exposed are listed below together with the types of risk reporting measures which are used to monitor such exposures.

Market Risk

Risk type	Definition	Reporting measure
Interest rate risk	The risk that market movements in interest rates negatively impact: • The Society's capital base through a reduction in value of the balance sheet • The Society's stability of earnings driven by changes in net interest income	Economic value of equity sensitivity / Economic value sensitivity / Net Interest income sensitivity / Value at risk / Earnings at risk
Basis Risk	The impact on earnings of relative changes in short-term interest rate benchmarks, for example between Bank Base Rate and SONIA	Net Interest income sensitivity, Earnings at risk
FX currency risk	The impact on earnings due to changes in exchange rates	FX Mismatch
Product option risk	The impact from changes to hedging which may be required when customer behaviour deviates from expectations, principally resulting from early repayment of fixed rate loans	Optionality analysis
Structural interest rate risk	The impact of changes in floating interest rates on net interest income and/or net asset value.	Duration / Net Interest income sensitivity

8.2 Interest rate risk (IRRBB)

The Society's interest rate risk arises in the banking book; it does not have a trading book. Interest rate risk, which is defined as the impact of market movements in interest rates, which affects both value and interest rate margin realised from lending and borrowing activities, is a key component of the Society's market risk framework.

Market risk is managed within a comprehensive risk framework which includes policies, limit setting and monitoring, stress testing and robust governance controls. The Board is responsible for setting market risk appetite, and ALCO is responsible for managing the market risk profile, including interest rate risk, within this defined risk appetite. This includes setting and monitoring more granular limits within Board limits, with relevant risk metrics reported monthly to ALCO. Governance and controls are also in place for the models and systems which are used to measure interest rate risk.

Consistent with other risk categories, IRRBB is subject to the Society's Three Lines of Defence model with oversight undertaken by Second Line and assurance provided by Third Line (Internal Audit). This includes an independent Model Risk Oversight function which sets validation standards and undertakes initial and regular validation of models.

The key interest rate risks to which the Society is exposed are:

- Interest rate risk;
- Basis risk;
- Product option and pipeline risk (fixed-rate mortgage prepayment and take-up risk and fixed-rate savings access risk); and
- Structural interest rate risk.

Refer to the Market Risk section of the Risk Report within the Annual Report and Accounts 2022 for further details of these specific risk types.

IRRBB management and mitigation strategies

Interest rate risk specifically is managed and mitigated through a combination of:

- monitoring and reporting risk exposures;
- matching or offsetting exposures;
- appropriate use of derivatives;

- the design of appropriate product features, such as early repayment charges; and
- setting an appropriate internal transfer price for product risks.

Interest rate risk is measured using a combination of value-based assessments and earnings sensitivity assessments. Internal risk limits are also set for these metrics.

Economic Value (EV) and Economic Value of Equity (EVE) are measured at least weekly and reported to ALCO monthly. EV / EVE measurement is complimented by a PV01 measure and Value at Risk (VaR) which are more risk sensitive simulation of historic market volatility. Each measure can be assessed more frequently in the event of market conditions changing.

Net Interest Income (NII) sensitivities are measured and reported to ALCO monthly. NII is complemented by Earnings at Risk (EaR) which is a more risk sensitive simulation of historic market volatility. A statistically significant number of severe yet plausible interest rate scenarios are computed to obtain a 95% confidence of the EaR exposure.

Interest rate shock and stress scenarios used to estimate changes in economic value and earnings

The Society's EVE and NII sensitivities are calculated in accordance with the PRA's regulatory requirements, with the following six prescribed interest rate shocks applied. Note that NII sensitivity is assessed against the parallel shock up and parallel shock down only.

- Parallel shock up;
- Parallel shock down;
- Steepener shock;
- Flattener shock;
- Short rates shock up; and
- Short rates shock down.

For the purposes of NII sensitivity, more likely scenarios are assessed, which include a +/- 25 basis point change in interest rates. The EaR also assesses NII sensitivity under severe yet plausible interest rate scenarios.

Key modelling and parametric assumptions used in Table 35 (UK-IRRBB1)

The key assumptions used in calculating the EVE sensitivity shown in table 35 (UK-IRRBB1) are as follows:

- The sensitivity represents the difference between the present value of the balance sheet in a baseline scenario and the shock scenarios. The Society's own equity is excluded.
- The balance sheet at the report date is run off over its remaining expected duration.
- The yield curve at the report date is instantaneously shocked in line with the six prescribed scenarios. This includes GBP rates being shocked by 250 basis points and EUR rates by 200 basis points in the parallel shocks. A floor of -100 basis points is applied which is unwound by 5 basis points per annum for twenty years until the rate returns to 0%. This floor and assumed recovery is consistent with regulations and is applied to the relevant shock scenarios where rates would otherwise become significantly negative.
- All commercial margins are excluded from discount rates and cash flows leaving only the base funding interest and principal cashflows
- Behavioural risk modelling is used to estimate the change in the extent to which customers use options contained in retail products, specifically part or full prepayment of fixed-rate mortgages.

- Non-maturing deposits are assumed to reprice in approximately one month unless they have been deemed to be core, in which case they are assumed to reprice in line with their associated hedging.

The key assumptions used in calculating the NII sensitivity shown in template UK IRRBB1 are as follows:

- Constant balance sheet over a one-year horizon, with all assets and liabilities maturing within the year reinvesting in like-for-like products at constant average margin.
- The prevailing yield curve at the report date is implied forward over the one-year horizon to which instantaneous parallel interest rate shocks are applied, with GBP rates being shocked by 250 basis points and EUR rates by 200 basis points in the parallel shocks.
- It is assumed that 100% of any change in interest rates is passed through to retail products, which includes managed rate variable products.
- The sensitivities do not include any management actions which could be taken in response to a change in interest rates and the values are reported on a pre-tax basis.

Other significant modelling assumptions used in Internal Measurement Systems (IMS)

The key assumptions for EVE and NII sensitivity presented in template UK IRRBB1 are consistent with the Society's internal measures. For the purposes of internal reporting, the Society include additional more likely rate scenarios to those prescribed shocks.

Additionally, the Society consider the impact of varying interest rate change pass on assumptions for ourselves and competitors to measure the impact of competitive basis risk and resulting changes in member behaviour.

Interest rate risk hedging

Interest rate risk is hedged primarily through a combination of matching or offsetting exposure and the appropriate use of derivatives.

The Society has a structural hedging programme in place to stabilise earnings as interest rates change for net free reserves and core non-maturing deposits.

Details of the accounting treatment of the Society's derivatives and hedge accounting are set out in note 32 of the Society's Annual Report and Accounts.

Non-Maturing Deposits

The average repricing maturity assigned to non-maturing deposits is 0.5 years. This is calculated using both balances which are assumed to reprice in approximately one month (non-core) and those which have been assigned a term repricing profile (core).

The longest repricing maturity assigned is 4.9 years.

Market Risk

Quantitative information on IRRBB (UK-IRRBB1)

Table 35 (UK-IRRBB1): Quantitative information on IRRBB £m		ΔEVE		ΔNII		Tier 1 capital	
		Dec-22	Dec-21*	Dec-22	Dec-21*	Dec-22	Dec-21*
		a	b	c	d	e	f
010	*Parallel shock up*	(104.4)	-	26.5	-		
020	*Parallel shock down*	53.6	-	(25.8)	-		
030	*Steepener shock*	5.4	-				
040	*Flattener shock*	(29.9)	-				
050	*Short rates shock up*	(61.4)	-				
060	*Short rates shock down*	32.2	-				
070	**Maximum**	**(104.4)**	-	**(25.8)**	-		
080	**Tier 1 capital**					**1,388.3**	**-**

* The disclosure requirements were not live as at 31 December 2021 and have therefore not been reported.

9 Operational Risk

9.1 Operational risk overview

Operational risk is "the risk of financial or reputational loss as a result of inadequate or failed processes, people and systems or from external events." This incorporates resilience risk which is the inability to maintain important business services in response to unexpected or adverse events.

The Society manages operational risk across a range of sub-categories as outlined below:

- Legal & Regulatory
- People Risk
- Information Security Risk
- IT Risk
- Operational Resilience Risk
- Data Risk
- Financial Crime Risk
- Financial Reporting Risk
- Third Party Management

The Operational Risk Management Framework (ORMF) forms part of the broader ERMF, and sets out the Society's approach to managing risks, through various processes, across the business at an operational level. The ORMF promotes a common understanding of operational risks across the Society, through standardised protocols and taxonomies to determine minimum internal standards. The framework is reviewed annually to reflect changes within either the Society's strategy or operating environment.

Under the ORMF it is the responsibility of each business area to ensure that risks are identified, assessed, managed, and monitored to support the achievement of functional and strategic objectives. These risks and associated controls are captured within departmental risk registers and are reviewed on a periodic basis. A formal Risk and Control Self-Assessment (RCSA) is conducted semi-annually to validate the accuracy of the risk and control environment to coincide with the preparation of the annual and interim financial statements. The outputs from each RCSA exercise are reported through to the Board Audit Committee, along with any actions identified to further improve the control environment. Oversight of risk and control assessments is provided by SMEs within Risk and also by Internal Audit through a risk-based approach.

The ORMF also outlines the Society's approach to managing incidents, including those which incur a loss. This process ensures that incidents are investigated and resolved in a consistent and timely manner and are escalated where necessary. Incident reporting is received at either the Conduct and Operational Risk Committee (CORC) or Operational Resilience Committee (ORC), along with any root cause analysis and recommended action.

The Society applies a three lines of defence model to the management of operational risk, as outlined in section 3. This ensures that there is a clear delineation between ownership of risks and controls, oversight and independent assurance. Key accountabilities for the management of operational risk are as follows:

- The first line of defence responsibilities includes using operational risk management tools to identify and manage risks, maintaining an appropriate control environment, monitoring and reporting the operational risk profile, ensuring that the operational risk profile adheres to established risk appetite and tolerances, complying with policies, standards and guidelines and promoting a strong risk culture.
- The second line of defence responsibilities include designing operational risk management tools used by the business to identify and manage risks, applying "independent challenge" to the use and output of the operational risk management tools by the first line, developing and maintaining policies, standards, and guidelines, monitoring and reporting of the operational risk profile, designing and providing operational risk training and promoting a strong risk

culture. This also includes the implementation of the SRA (Strategic Risk Appetite) Framework and review/challenge of proposed calibrations, prior to submission to Management Fora and oversight of monthly SRA reporting.

- Third line of defence responsibilities include independently verifying that the ORMF has been sufficiently well designed and implemented by both the first and second lines of defence, reviewing the “independent challenge” applied by the second line, reviewing monitoring, reporting and governance processes and promoting a strong risk culture.

From a risk governance perspective, the Board has delegated responsibility for the oversight of operational risk to the BRC, via the CORC and the ORC, which itself is supported by specialist Working Groups mandated to maintain an appropriate control environment. All operational risk reporting is overseen by the Society’s Chief Risk Officer.

9.2 Approach to assess Operational Risk Capital Requirements

The Society adopts the Standardised Approach (TSA) for the purpose of calculating its Pillar 1 capital requirement for operational risk. This is determined as average total income over the last three years per defined business line multiplied by a prescribed regulatory risk factor. As a mutual lender, the Society’s operational risk capital requirement is primarily derived from retail banking activities. The operational risk capital holding is approved by the CORC and BRC annually.

The Society also utilises scenario analysis, based on both internal and external loss data, to understand its operational risk profile under extreme, but plausible events. The outputs of these scenarios are then used to inform management whether further capital requirements are required for operational risk, in addition to minimum capital holdings outlined above. As a result of its 2022 stress testing outputs and in line with regulatory requirements, the Society holds additional Pillar 2 capital for operational risk. Levels of capital held for operational risk remain significantly more than the actual loss experience of the Society.

9.3 Operational Risk Weighted Exposure and Capital Requirements

Operational risk own funds requirements and risk-weighted exposure amounts (UK-OR1)

Table 36 (UK-OR1): Operational risk own funds requirements and risk-weighted exposure amounts Retail Banking		Dec-22				
		Relevant indicator			Own funds requirements	Risk weighted exposure amount
		Year-3	Year-2	Last year		
£m		a	b	c	d	e
1	Banking activities subject to basic indicator approach (BIA)	-	-	-	-	-
2	Banking activities subject to standardised (TSA) / alternative standardised (ASA) approaches	196.8	287.0	381.6	34.6	432.7
3	*Subject to TSA:*	196.8	287.0	381.6		
4	*Subject to ASA:*	-	-	-		
5	Banking activities subject to advanced measurement approaches AMA	-	-	-	-	-

10 Securitisation

10.1 Overview

The Society has securitised a number of mortgage loans by pooling them together and transferring the loans to a Special Purpose Vehicle (SPV), Albion No.4 plc (Albion 4) being a standalone RMBS.

The Society undertakes securitisation activities to raise wholesale funding. Securitisation funding forms a balanced portion of the Society's wholesale funding which helps create a diversified investor base. Albion 4 is a publicly issued STS compliant RMBS, with £400m of notes issued and £150m being retained by the Society for contingency purposes.

Securitisation funding is secured against the Society's mortgage assets, as part of the Society's structured funding strategy. This strategy has enabled the Society to obtain both secured funding and created additional collateral, which can be used to source additional funding if required. The Society does not use Securitisation for risk-transfer or regulatory capital relief purposes.

The Society takes the role of servicer, originator (where the Society originates the assets being securitised), cash manager, bank account provider, swap provider and variable funding note registrar as defined in the relevant prospectus for Albion 4.

In addition to the above roles, the Society also acts as investor where it purchases a position in a third-party originated securitisation transaction: (see section 10.3); the Society does not currently act as a sponsor to any securitisations.

10.2 Risk Retained in Own-Originated Transactions

Liquidity Risk inherent in Securitised assets

The SPVs also represent a liquidity risk to the Group due to legal covenants which need to be fulfilled in the event of a downgrade of the Society. The cash flows resulting from these legal covenants are in respect of amounts required to collateralise swaps and are held in the transaction bank accounts and the Guaranteed Investment Contract accounts, representing the net cash position arising from the management of the securitisation programme at any point in time. Funds may need to be either deposited with another institution with the requisite rating or a guarantee obtained from a suitable guarantor (in the event of the Society losing its short-term rating unless the rating agencies confirm that the current ratings of the notes will not be affected). The cash flows required in the event of downgrade are considered in the Society's ILAAP.

The parties holding the notes in issue are only entitled to obtain payment of the principal and interest to the extent that the resources of the RMBS structures are sufficient to support such payment and the holders of the notes have agreed not to seek recourse in any other form.

The Albion 4 securitisation has issued senior tranche instruments with the Society retaining the first loss element.

Management of Interest Rate Risk in Securitisations

To manage interest rate risk, the Society enters into derivative transactions with the SPV, receiving a rate of interest based on the securitised mortgages and paying a rate inherent in the debt issuances. For Albion 4, the Society acts as swap provider. Cash flows arising from these internal derivatives are accounted for on an accruals basis. All other derivatives relating to securitisations are treated as explained in the derivatives and hedge accounting policy, which can be found in note 32 of the Annual Report and Accounts for the year ended 31 December 2022.

10.3 Risk incurred in relation to transactions originated by third parties

The Society invests in securitised assets as part of its overall investment strategy to maintain a diverse and liquid portfolio. The Society's holdings of RMBS and their associated risk weightings for capital purposes are included in tables 37 and 38 in section 10.5.

Prior to investing in a new RMBS transaction, the Society conducts the appropriate due diligence credit analysis on securities in accordance with Article 406 of the CRR. The Society also operates both issuer and individual securitisation limits to guard against concentration risk.

The Society monitors RMBS investments daily and limits are in place to mitigate the risk of over investing. The Society also carries out quarterly stress testing for RMBS as part of the ongoing due diligence requirements set out in the CRR.

The Society's exposure to purchased securitisation positions amounted to £143.6m as at 31 December 2022 (2021: £89.1m) and comprised senior tranches of RMBS.

Purchases and retention of RMBS are undertaken within a clearly defined credit risk policy. RMBS are held as 'at fair value through Other Comprehensive Income' in the Society's Statement of Financial Position. If the assets are sold before maturity, a gain or loss is recognised in the Income Statement.

Leeds Building Society securitisation positions comprise largely of UK Prime RMBS which are STS compliant (99%) and a proportion of BTL MBS which are non-STS (1%).

Approach to calculating the risk weighted exposure amounts applied to securitisation activities

As there has not been a significant transfer of credit risk, the Society does not calculate risk weighted exposure amounts for any positions it holds in the securitisations, and these continue to be calculated in line with capital requirements applied to the underlying mortgage assets on an SEC – ERBA basis. The risk relating to the underlying mortgage pool remains with the Society and is included in the residential mortgage tables detailed throughout this document.

List of Securitisation Special Purpose Entities (SSPEs)

i)	SSPEs which acquire exposures originated by the society	Nil
ii)	SSPEs sponsored by the society	Nil
iii)	SSPEs and other legal entities for which the society provide securitisation-related services, such as advisory, asset servicing or management services	Nil
iv)	SSPEs included in the institutions' regulatory scope of consolidation	Albion no. 4 plc

Legal entities in relation to which the institutions have disclosed that they have provided support in accordance with Chapter 5 of Title II of Part Three CRR

The Society has adopted the SEC-ERBA approach so disclosures relating to Chapter 5 of Title II of Part Three CRR are not applicable.

Legal entities affiliated with the institutions and that invest in securitisations originated by the institutions or in securitisation positions issued by SSPEs sponsored by the institutions

Albion no. 4 plc

10.4 Accounting policies for securitisation activity

As an Originator:

Residential mortgages have been pledged by the Society in order to raise wholesale funding.

The pledged mortgages remain on the balance sheet of the Society as the Society retains the risks and rewards associated with the pledged mortgages. Due to the Society's position with respect to the SPV; it holds legal power, has exposure or rights to variable returns and has the ability to use its power over the SPV. The SPV is fully consolidated in the Group accounts.

These assets are held at amortised cost. Albion 4 is fully consolidated into the Group accounts. The transfers of the mortgage loans to the securitisation companies are not treated as sales by the Society (as originator), and therefore no gains are recognised.

As an Investor:

The Society invests in securitised assets as part of its overall investment strategy to maintain a diverse and liquid portfolio. The Society's holdings of RMBS and their associated risk weightings for capital purposes are included in tables 38 and 39 in section 10.5.

Prior to investing in a new RMBS transaction, the Society conducts the appropriate due diligence credit analysis on securities in accordance with Article 406 of the CRR. The Society also operates both issuer and individual securitisation limits to guard against concentration risk.

The Society monitors RMBS investments daily and limits are in place to mitigate the risk of over investing. The Society also carries out quarterly stress testing for RMBS as part of the ongoing due diligence requirements set out in the CRR.

Purchases and retention of RMBS are undertaken within a clearly defined credit risk policy. RMBS are held as 'at fair value through Other Comprehensive Income' in the Society's Statement of Financial Position. If the assets are sold before maturity, a gain or loss is recognised in the Income Statement.

ECAIs used for securitisations

For investments in securitisations the Society uses Moody's and Fitch. The Treasury policy requires a rating of AAA at investment.

Securitisation

10.5 Disclosure of exposures to securitisation positions

Securitisation exposures in the non-trading book (UK-SEC1)

	Table 37 (UK-SEC1): Securitisation exposures in the non-trading book	Dec-22														
		Institution acts as Originator							Institution acts as Sponsor				Institution acts as Investor			
		Traditional				Synthetic		Sub-Total	Traditional		Synthetic	Sub-Total	Traditional		Synthetic	Sub-Total
		STS		Non-STS					STS	Non-STS			STS	Non-STS		
			of which SRT		of which SRT		of which SRT									
	£m	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
1	**Total exposures**	**110.0**	**-**	**-**	**-**	**-**	**-**	**110.0**	**-**	**-**	**-**	**-**	**142.3**	**1.3**	**-**	**143.6**
2	**Retail (total)**	**110.0**	**-**	**-**	**-**	**-**	**-**	**110.0**	**-**	**-**	**-**	**-**	**142.3**	**1.3**	**-**	**143.6**
3	residential mortgage	110.0	-	-	-	-	-	110.0	-	-	-	-	142.3	1.3	-	143.6
4	credit card	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5	other retail exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	**Wholesale (total)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
8	loans to corporates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	commercial mortgage	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	lease and receivables	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	other wholesale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

		Dec-21														
		Institution acts as Originator							Institution acts as Sponsor				Institution acts as Investor			
		Traditional				Synthetic		Sub-Total	Traditional		Synthetic	Sub-Total	Traditional		Synthetic	Sub-Total
		STS		Non-STS					STS	Non-STS			STS	Non-STS		
			of which SRT		of which SRT		of which SRT									
	£m	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
1	**Total exposures**	**152.1**	**-**	**-**	**-**	**-**	**-**	**152.1**	**-**	**-**	**-**	**-**	**87.3**	**1.7**	**-**	**89.1**
2	**Retail (total)**	**152.1**	**-**	**-**	**-**	**-**	**-**	**152.1**	**-**	**-**	**-**	**-**	**87.3**	**1.7**	**-**	**89.1**
3	residential mortgage	152.1	-	-	-	-	-	152.1	-	-	-	-	87.3	1.7	-	89.1
4	credit card	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5	other retail exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	**Wholesale (total)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
8	loans to corporates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	commercial mortgage	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	lease and receivables	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	other wholesale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Securitisation

Securitisation exposures in the trading book (UK-SEC2)

The Society does not have a trading book; therefore, this table has not been presented.

Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as originator or as sponsor (UK-SEC3)

The Society has securitised mortgage loans through Albion No.4 plc. There are no capital requirements for these securitisation exposures due to no significant risk transfer. Therefore, this template has not been presented.

Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as investor (UK-SEC4)

Table 38 (UK-SEC4): Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as investor		Dec-22																
		Exposure values (by RW bands/deductions)					Exposure values (by regulatory approach)				RWEA (by regulatory approach)				Capital charge after cap			
		≤20% RW	>20% to 50% RW	>50% to 100% RW	>100% to <1250% RW	1250% RW/ deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250%/ deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250%/ deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250%/ deductions
£m		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q
1	**Total exposures**	**143.6**	-	-	-	-	-	**143.6**	-	-	-	**14.2**	-	-	-	**1.1**	-	-
2	**Traditional transactions**	**143.6**	-	-	-	-	-	**143.6**	-	-	-	**14.2**	-	-	-	**1.1**	-	-
3	Securitisation	143.6	-	-	-	-	-	143.6	-	-	-	14.2	-	-	-	1.1	-	-
4	Retail underlying	143.6	-	-	-	-	-	143.6	-	-	-	14.2	-	-	-	1.1	-	-
5	Of which STS	142.3	-	-	-	-	-	142.3	-	-	-	14.2	-	-	-	1.1	-	-
6	Wholesale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	Of which STS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	Re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	**Synthetic transactions**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	Retail underlying	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	Wholesale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	Re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

		Dec-21																
		Exposure values (by RW bands/deductions)					Exposure values (by regulatory approach)				RWEA (by regulatory approach)				Capital charge after cap			
		≤20% RW	>20% to 50% RW	>50% to 100% RW	>100% to <1250% RW	1250% RW/ deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250%/ deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250%/ deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250%/ deductions
£m		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q
1	**Total exposures**	**89.1**	-	-	-	-	-	**89.1**	-	-	-	**9.1**	-	-	-	**0.7**	-	-
2	**Traditional transactions**	**89.1**	-	-	-	-	-	**89.1**	-	-	-	**9.1**	-	-	-	**0.7**	-	-
3	Securitisation	89.1	-	-	-	-	-	89.1	-	-	-	9.1	-	-	-	0.7	-	-
4	Retail underlying	89.1	-	-	-	-	-	89.1	-	-	-	9.1	-	-	-	0.7	-	-
5	Of which STS	87.3	-	-	-	-	-	87.3	-	-	-	8.8	-	-	-	0.7	-	-
6	Wholesale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	Of which STS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	Re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	**Synthetic transactions**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	Retail underlying	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	Wholesale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	Re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Securitisation

Exposures securitised by the institution - Exposures in default and specific credit risk adjustments (UK-SEC5)

Table 39 (UK-SEC5): Exposures securitised by the institution - Exposures in default and specific credit risk adjustments		Dec-22		
		Exposures securitised by the institution - Institution acts as originator or as sponsor		
		Total outstanding nominal amount		Total amount of specific credit risk adjustments made during the period
			Of which exposures in default	
£m		a	b	c
1	**Total exposures**	**208.1**	**0.7**	**-**
2	**Retail (total)**	**208.1**	**0.7**	**-**
3	residential mortgage	208.1	0.7	-
4	credit card	-	-	-
5	other retail exposures	-	-	-
6	re-securitisation	-	-	-
7	**Wholesale (total)**	-	-	-
8	loans to corporates	-	-	-
9	commercial mortgage	-	-	-
10	lease and receivables	-	-	-
11	other wholesale	-	-	-
12	re-securitisation	-	-	-

		Dec-21		
		Exposures securitised by the institution - Institution acts as originator or as sponsor		
		Total outstanding nominal amount		Total amount of specific credit risk adjustments made during the period
			Of which exposures in default	
£m		a	b	c
1	**Total exposures**	**271.2**	**0.1**	**-**
2	**Retail (total)**	**271.2**	**0.1**	**-**
3	residential mortgage	271.2	0.1	-
4	credit card	-	-	-
5	other retail exposures	-	-	-
6	re-securitisation	-	-	-
7	**Wholesale (total)**	-	-	-
8	loans to corporates	-	-	-
9	commercial mortgage	-	-	-
10	lease and receivables	-	-	-
11	other wholesale	-	-	-
12	re-securitisation	-	-	-

11 Asset Encumbrance

11.1 Overview of Asset encumbrance

Asset encumbrance occurs through the pledging of assets to secured creditors. The Society may encumber assets for a number of reasons, including 1) to attain short / long term funding through repo/securities lending arrangements; 2) attain long term funding through secured funding transactions, such as securitisations and covered bond issuances; 3) to attain funding from the Bank of England funding schemes such as the Term Funding Scheme with additional incentives for SMEs (TFSME) and their other liquidity facilities; and 4) to collateralise derivative exposures through CSAs with counterparties and through centralised derivative clearing.

There is no difference between the consolidation scope applied for the purposes of asset encumbrance disclosures and that applied for the application of liquidity requirements on a consolidated basis. Similarly, there is no difference between the treatment of assets deemed to have been pledged or transferred and their treatment for the purposes of asset encumbrance disclosures.

The tables below detail for different classes of assets, the level of encumbrance and both the carrying and fair value of those assets on a prudential consolidation group basis in the year ended 2022. The disclosures have been compiled in accordance with PRA Guidelines and are based on median values on a quarterly basis over the last twelve months. As a result, the below disclosures will differ from equivalent data presented in the Annual Report and Accounts, which reflect balances at the end of the financial year.

The Society maintains a level of asset encumbrance in line with the scale and scope of its operations. The majority of its encumbrance arises from its wholesale funding activities: its covered bonds and residential mortgage backed security programme (Albion 4), as well as Bank of England funding schemes and sale and repurchase transactions. Please refer to section 10 for more information. A further source of encumbrance arises in relation to collateral arrangements pertaining to derivative contracts.

For capital purposes, the Society is required to calculate and maintain regulatory capital ratios on a consolidated basis. As a result encumbrance is also considered and reported on a consolidated basis; there is no material difference in the level of encumbrance at Group and Society level.

The Society voluntarily maintains a buffer of over-collateralisation across its covered bond and securitisation programmes. The Society is also over-collateralised in relation to certain LCH Clearnet contracts. Collateralisation agreements are discussed in section 5.7 of this document.

All encumbered assets are denominated in sterling as they primarily relate to mortgages originated in the UK.

Residential mortgages comprise the majority of unencumbered assets in table 40 (UK-AE1) providing potential additional contingent funding capacity. Only a small proportion of the unencumbered assets are deemed unavailable for encumbrance such as intangible assets, deferred tax, property, plant and equipment and derivatives.

The mortgage assets in the secured funding pools, excluding those relating to securitisations repurchased by the Society, are considered encumbered for regulatory reporting purposes.

Row 120 “other assets” in table 40 (UK-AE1) primarily relates to loans and advances to customers. Encumbrance arises where mortgages are used as collateral for secured funding, with the corresponding liabilities included in Row 010 “carrying amount of selected financial liabilities” of table 42 (UK-AE3). As noted above, mortgage assets used as collateral for securitisations repurchased by the Society are excluded from UK-AE3.

Asset Encumbrance

11.2 Quantitative information on asset encumbrance

Encumbered and unencumbered assets (UK-AE1)

Table 40 (UK-AE1): Encumbered and unencumbered assets		Dec-22							
		Carrying amounts of encumbered assets	of which: notionally eligible EHQLA and HQLA	Fair value of encumbered assets	of which: notionally eligible EHQLA and HQLA	Carrying amounts of unencumbered assets	of which: notionally eligible EHQLA and HQLA	Fair value of unencumbered assets	of which: notionally eligible EHQLA and HQLA
£m		010	030	040	050	060	080	090	100
010	**Assets of the reporting institution**	**7,282.5**	**-**			**14,424.3**	**-**		
030	Equity instruments	-	-	-	-	-	-	-	-
040	Debt securities	77.8	-	77.8	-	1,217.3	980.4	1,217.3	980.4
	of which:								
050	Covered Bonds	-	-	-	-	357.3	357.3	357.3	357.3
060	Securitisations	-	-	-	-	95.0	92.6	95.0	92.6
070	Issued by general governments	77.8	-	77.8	-	433.1	381.5	433.1	381.5
080	Issued by Financial Corporations	-	-	-	-	784.2	449.9	784.2	449.9
090	Issued by Non-Financial Corporations	-	-	-	-	-	-	-	-
120	Other assets	7,204.7	-			13,207.0	-		

		Dec-21							
		Carrying amounts of encumbered assets	of which: notionally eligible EHQLA and HQLA	Fair value of encumbered assets	of which: notionally eligible EHQLA and HQLA	Carrying amounts of unencumbered assets	of which: notionally eligible EHQLA and HQLA	Fair value of unencumbered assets	of which: notionally eligible EHQLA and HQLA
£m		010	030	040	050	060	080	090	100
010	**Assets of the reporting institution**	**6,327.3**	**-**			**15,204.9**	**-**		
030	Equity instruments	-	-	-	-	-	-	-	-
040	Debt securities	61.1	-	61.1	-	853.6	845.6	853.6	845.6
	of which:								
050	Covered Bonds	-	-	-	-	287.5	286.8	287.5	286.8
060	Securitisations	-	-	-	-	95.2	93.0	95.2	93.0
070	Issued by general governments	61.1	-	61.1	-	256.3	256.6	256.3	256.6
080	Issued by Finanical Corporations	-	-	-	-	578.9	378.8	578.9	378.8
090	Issued by Non-Financial Corporations	-	-	-	-	-	-	-	-
120	Other assets	6,266.3	-			14,351.3	-		

Asset Encumbrance

Collateral received by the reporting institution (UK-AE2)

Table 41 (UK-AE2): Collateral received by the reporting institution		Dec-22			
£m		Fair value of encumbered collateral received or own debt securities issued	of which: notionally eligible EHQLA and HQLA	Fair value of collateral received or own debt securities issued available for encumbrance	of which: notionally eligible EHQLA and HQLA
		010	030	040	060
130	**Collateral received by the reporting institution**	**-**	**-**	**418.0**	**-**
140	Loans on demand	-	-	-	-
150	Equity instruments	-	-	-	-
160	Debt securities	-	-	-	-
170	of which: covered bonds	-	-	-	-
180	of which: securitisations	-	-	-	-
190	of which: issued by general governments	-	-	-	-
200	of which: issued by financial corporations	-	-	-	-
210	of which: issued by non-financial corporations	-	-	-	-
220	Loans and advances other than loans on demand	-	-	-	-
230	Other collateral received	-	-	418.0	-
240	**Own debt securities issued other than own covered bonds or securitisations**	**-**	**-**	**-**	**-**
241	**Own covered bonds and asset-backed securities issued and not yet pledged**			**77.0**	**-**
250	**Total assets, collateral received and own debt securities issued**	**7,282.5**	**77.8**		

		Dec-21			
£m		Fair value of encumbered collateral received or own debt securities issued	of which: notionally eligible EHQLA and HQLA	Fair value of collateral received or own debt securities issued available for encumbrance	of which: notionally eligible EHQLA and HQLA
		010	030	040	060
130	**Collateral received by the reporting institution**	**-**	**-**	**99.3**	**-**
140	Loans on demand	-	-	-	-
150	Equity instruments	-	-	-	-
160	Debt securities	-	-	-	-
170	of which: covered bonds	-	-	-	-
180	of which: securitisations	-	-	-	-
190	of which: issued by general governments	-	-	-	-
200	of which: issued by financial corporations	-	-	-	-
210	of which: issued by non-financial corporations	-	-	-	-
220	Loans and advances other than loans on demand	-	-	-	-
230	Other collateral received	-	-	99.3	-
240	**Own debt securities issued other than own covered bonds or securitisations**	**-**	**-**	**-**	**-**
241	**Own covered bonds and asset-backed securities issued and not yet pledged**			**100.0**	**-**
250	**Total assets, collateral received and own debt securities issued**	**6,326.7**	**-**		

Asset Encumbrance

Sources of encumbrance (UK-AE3)

Table 42 (UK-AE3): Sources of encumbrance		Matching liabilities, contingent liabilities or securities lent		Assets, collateral received and own debt securities issued other than covered bonds and securitisations encumbered	
		Dec-22	Dec-21	Dec-22	Dec-21
		010	010	030	030
010	**Carrying amount of selected financial liabilities**	**4,678.2**	**3,997.8**	**7,020.4**	**6,129.4**

12 Remuneration

12.1 Governance

Remuneration Committee

The Society's Remuneration Committee is established to support the Board in achieving its objectives and responsibilities. The Remuneration Committee reports directly to the Board. Details of the composition of the Remuneration Committee can be found in the Directors' Remuneration Report on page 155 of the Society's Annual Report and Accounts.

The Committee ensure that the remuneration policies, principles and practices support the long-term interests of the Society and are appropriate to attract, reward and retain talented Executive Directors and Material Risk Takers (MRTs) of the quality required to run the Society successfully. The Committee ensures performance related elements of remuneration are gender neutral, transparent, stretching and rigorously applied, having regard to the risk appetite of the Society and the views of members and other stakeholders.

The Society's Remuneration Policy is designed to provide fair remuneration packages, which support the long-term interests of the Society, and which attract, reward and retain talented colleagues, to enable the delivery of business objectives to support the Society's strategy, whilst providing value for members.

There were four scheduled Remuneration Committee meetings held during the financial year. In addition, there were three ad-hoc meetings.

External consultants

The Remuneration Committee seeks the advice of independent external consultant as required. The external advisers to the Remuneration Committee in 2022 were PricewaterhouseCoopers LLP (PwC), who provided professional advice, guidance and training to the Committee. The appointment of advisers is carried out on a basis of careful evaluation of potential providers against agreed criteria. PwC have confirmed that they do not have any conflict of interest in advising the Remuneration Committee.

Remuneration Policy

The Remuneration policy applies to all colleagues of the Society. It is Society policy to comply with all applicable laws and regulations, based on the Society's level 2 status, which includes the use of share-like instruments and different deferral and retention arrangements.

Staff or categories of staff whose professional activities have a material impact on institutions' risk profile

The Society identifies MRTs in accordance with CRD V. All colleagues who are assessed as having a material impact on the Society's risk profile which includes senior management, colleagues who assume risks and colleagues who exercise control functions. The Society implements quantitative and qualitative criteria as prescribed in the regulation to determine colleagues who meet the definition. In addition, the Society conducts a localised risk assessment of all roles to ensure that potential MRTs that could impact the business are considered. According to the above criteria, the identified staff comprised 32 colleagues across the Society at year-end 2022, accounting for approximately 2.1% of total staff. (2021: 27).

12.2 Design and Structure of Remuneration System

Key features and objectives of the remuneration policy

The Remuneration Policy is designed to provide 'fair' remuneration packages to attract, reward and retain desired colleagues focussing on ensuring effective and sound risk management through:

- a robust governance structure for setting objectives and considering outcomes in the context of a defined risk assessment process;
- including both financial and non-financial goals in performance objectives and results assessments;
- alignment with the Society's strategy, values, long-term objectives, environmental, social and governance (ESG) related objectives and key priorities;
- ensuring that fixed salary is the main component of total remuneration, to create an acceptable and fair relationship between risk and reward;
- ensuring that monetary and/or non-monetary forms of remuneration does not introduce incentives whereby Relevant Persons favour their own interests, or the institution's interests, to the detriment of consumers;
- ensuring remuneration and recognition practices promote a healthy culture that is consistent with our purpose, behaviours and strategy;
- ensuring remuneration and recognition practices promote diversity and inclusion and avoid unconscious bias;
- ensuring that variable pay elements are transparent, avoid unnecessary complexity and do not encourage risk taking outside the level of risk tolerated by the Society; and,
- ensuring that variable remuneration does not trigger a breach of regulatory prescribed or internal limits.

The Society commits that an advisory vote on the Remuneration Policy will take place once a year, unless the approved Policy remains unchanged, in which case it commits to propose a similar resolution at least every three years. This vote is in addition to the annual advisory vote on the Directors' Remuneration Report. Further details in relation to the roles of the relevant stakeholders in the decision-making process used for determining the remuneration policy can be found throughout these disclosures, and the Committee Terms of Reference are available at:

www.leedsbuildingsociety.co.uk/your-society/about-us

Information on the criteria for performance measurement and ex ante and ex post risk adjustment

The Society uses variable pay to align reward with performance by assessing a range of measures, considering risk and long-term performance. Our risk adjustment framework provides a discretionary assessment of performance against our risk appetite as set out in the Society plan. In determining the level of appropriate risk adjustment, consideration will be given to Corporate Objectives, Personal Performance, Ex-post Incident, Deferral, Ex-Ante and Clawback Adjustments. The Risk Function submits an annual report to the Remuneration Committee (following BRC endorsement) summarising proposals for risk and performance adjustment. This report considers the application of ex-ante and ex-post adjustments in the context of risk appetite, control failings, crystallised loss events and inappropriate management behaviour. The report will also consider the application of malus or clawback arrangements, if appropriate.

Review of remuneration policy

During the year ending 2022 the Remuneration Committee conducted its annual review of the remuneration, based on key principles, guided by:

- ensuring compensation is structured to attract, motivate and retain high performing colleagues;
- remuneration should promote a healthy, diverse and inclusive culture;

- remuneration should support the business strategy; and
- promoting alignment of approach across the organisation.

Changes made to the remuneration policy during 2022 included:

- Additional flexibility to make retention awards specifically to executive directors in exceptional cases, where we believe it is necessary in the interests of members and the Society to retain the service of an executive.

Further details on the Remuneration Policy are set out in the Directors' Remuneration Report on pages 157 to 168 of the Annual Report and Accounts for the year ended 31 December 2022.

Remuneration for staff in internal control functions

MRTs in charge in Control Functions (Risk, Compliance, HR and Internal Audit), payment of variable remuneration is determined on the achievement of personal objectives (linked to the delivery of the requirements within the function) and demonstration of behaviours.

The individual objectives of these positions are aligned to the performance of the control function rather than business results. Performance of the control function must be assessed by senior colleagues who are independent of the business units being supervised. Fixed remuneration of MRTs in charge of Control Functions align to our Society wide policy: being gender neutral, determined based on the role and position of the individual colleague, including professional experience, seniority, responsibility, job complexity, market conditions, and having due regard to the remuneration trends across the rest of the Society.

Policies and criteria applied for the award of guaranteed variable remuneration and severance payments

The Society does not award guaranteed variable remuneration to colleagues, including MRTs, unless there is an exceptional circumstance. Such an award would be restricted to hiring new colleagues in their first year of service. Where it is necessary to make a variable remuneration award, payments will be subject to the requirements of the Remuneration PRA Handbook and FCA dual-regulated Remuneration Code.

Payments made due to termination of employment (e.g. redundancy) are based on the employment contract reflecting factors such as performance, length of service. No awards would be made due to material misconduct.

12.3 Risk in Remuneration

Description of the ways in which current and future risks are taken into account in the remuneration processes

All elements of variable pay are subject to risk and performance adjustment at the time of the award and risk adjustment on an ex post basis (malus) during the deferral period and also on an ex-ante basis.

The Remuneration Committee seeks input from the Board Risk Committee when determining whether any performance or risk adjustments are required. The Remuneration Committee, in determining the final awards, may apply judgement to assess performance in the round. When assessing performance in the round the Remuneration Committee may take into account, inter alia, wider market, regulatory and stakeholder considerations. In its absolute discretion, the Remuneration Committee may, in circumstances where a metric(s) or objective(s) can no longer be met, or fails, or would fail, to meet the principles of the Remuneration Policy, modify, remove or substitute the relevant metric(s) or objective(s).

Ratios between fixed and variable remuneration

All variable pay schemes are reviewed regularly to ensure that the fixed and variable components are appropriately balanced and that the fixed element represents sufficiently high proportion of total remuneration to allow the possibility to pay no variable remuneration. The level of fixed pay is set at a level deemed sufficiently high so that inappropriate risk-taking is not encouraged.

All variable pay in respect of year ending 31 December 2022 operated within the Society remuneration policy and the regulatory limit of no greater than 100% of fixed pay.

12.4 Performance related Remuneration

Overview of main performance criteria and metrics for the Society, business lines and individuals

The Society's performance management framework forms the basis of measuring the performance of colleagues, which in turn determines the level of awards to individuals. Colleagues' objectives (and the assessment) are based on performance of the individual. The assessment of performance considers the behaviours and delivery of objectives.

To receive an award under any variable pay arrangement, all colleagues including MRTs must meet a satisfactory level of individual performance.

The Society's variable pay schemes are designed to:

- Encourage the delivery of business objectives to support the Society's strategy and long-term success.
- To reward and retain key leadership people within the Society, by providing competitive variable remuneration as part of the total remuneration package.
- To encourage and reward consistent and superior performance and consistent behaviours.

The Society's challenging performance objectives are aligned to our Corporate Plan, recognising short-, medium- and long-term goals. The elements are made up of financial and non-financial elements which are equally weighted. This approach ensures that performance is assessed at a firm, individual and business unit level.

Details of the measures, targets and performance outcomes under the Society's variable pay arrangements can be found in the Directors Remuneration report set out in the Annual Report and Accounts 2022.

How individual variable remuneration is linked to Leeds Building Society and individual performance

The Society operates a Senior Leadership Bonus Scheme. The maximum amount payable under this scheme is 20% split between:

Society Performance – 10%

Personal Objectives – 10%

Performance measures are agreed by the Remuneration Committee at the start of each year and reflect business priorities.

Personal performance objectives, appropriate to the responsibilities of each executive director and chief officer, are set at the start of each year and agreed by the Remuneration Committee. Included in the personal objectives, 3% of the award will be allocated to the demonstration of colleague behaviours.

The 20% maximum for the executive director, chief officer, or director in a control function, is based on a range of personal objectives only, of which 6% of the award is allocated to the demonstration of colleague behaviours.

Non-executive directors do not receive performance related pay.

All colleagues with the exception of those in a Senior Leadership Scheme participate in an Annual Bonus Scheme which operates an on-target and maximum award opportunities which are set at the start of the performance year and reflect the individual role with the Society. Award outcomes will be determined based on the assessment set above.

Remuneration

All variable pay in respect of the year ending 31 December 2022 operated within the regulatory limit of 100% of fixed pay.

Criteria used to determine the balance between different types of instruments awarded

In line with the requirements of the UK Remuneration Code 50% of variable remuneration awarded to MRTs is made in share-like instruments over the relevant deferral and retention periods. The remainder of any awards is paid in cash.

Measures that the Society will implement to adjust variable remuneration in the event that performance metrics are weak, including criteria for determining 'weak' performance metrics

All variable pay outturns are assessed against a range of financial and non-financial performance measures. Performance is measured by the achievement of a range of corporate objectives based on performance measures, linked to Board approved Society and personal objectives. All elements of the scheme including any potential weak performance metrics are subject to risk adjustment, which are assessed by our risk adjustment framework and methodology at the time of the award and on an ex post basis (malus) during the deferral period, for the full range of reasons set out in the Remuneration Code. The Society's Risk function and Board Risk Committee assess business and personal behavioural performance in their assessment of risk adjustment. The Remuneration Committee is responsible for approving the bonus awards and has full discretion to apply any reduction factor to any payment as a result of the outcome of the risk adjustment process. Clawback will be applied as required by the Remuneration Code.

Policy on deferral, pay-out in instrument, retention periods and vesting variable remuneration

For the senior population, including MRT roles, all variable pay awards are subject to deferral. The deferral and payment in share-like instruments arrangements for MRTs are determined by the requirements of the PRA Rulebook and the FCA Remuneration Code. At least 50% of variable remuneration for MRTs is delivered in share-like instruments. This applies to both upfront and deferred elements of the awards.

The vesting of deferred awards is subject to continued employment (other than in the case of employment being terminated in circumstances where the colleague is a good leaver) and is subject to the Society's rules on performance adjustment, malus and clawback.

Our Risk Adjustment framework provides the process and governance relevant for making decisions in relation to individual performance adjustments, including malus and clawback.

Criteria for ex post adjustments (malus during deferral and clawback after vesting if permitted by national law)

All variable pay awards made to MRTs are subject to malus and clawback arrangements. Awards are subject to clawback for up to ten years in the event of an ongoing internal/regulatory investigation at the end of the seven-year period, in line with regulatory requirements. These requirements will continue to apply if the individual leaves employment with the Society.

All MRTs in receipt of variable pay plans are not allowed to undermine the performance of the arrangement of the Society's ability to take action in relation to their variable pay as a result of any form of risk exposure, by using personal investment strategies such as hedging.

Shareholding requirements that may be imposed on identified staff

Not applicable as the Society is a mutual and therefore does not have shareholders.

Main parameters and rationale for any variable components scheme and any other non-cash benefit

The annual scheme for the Senior Leadership Team provides for a maximum bonus of 20% of basic (reference) salary and comprises of two core elements, Society Performance (Blueprint Performance Measures) and Personal Performance.

Remuneration

The Society Performance Measures element will be made up of four measures (further information is set out in the Annual Report and Accounts 2022) agreed by the Remuneration Committee at the start of the performance year. These four measures carry a maximum bonus of 10%. Each metric is equally weighted.

The personal performance element carries a maximum bonus of 10%. Each member of the Senior Leadership Team will have up to four personal objectives. 30% of the Personal Performance element is allocated to the demonstration of colleague behaviours.

The total remuneration for each member of the management body or senior management

Details of the remuneration of our executive and non-executive directors can be found in the Report of the directors on remuneration set out in the Annual Report and Accounts 2022.

Information on whether the Society benefits from a derogation laid down in Article 94(3) CRD in accordance with point (k) of Article 450(1) CRR:

The Society applied the derogation laid down in Article 94(3)(b) of CRD where an individual's annual variable remuneration (a) does not exceed £44,000 and (b) does not represent more than 33% of the individual's total annual remuneration.

Where this derogation applies, the Society applies the approach set out in section (f) above in relation to the application of deferral and payment in share-like instruments.

Details of the individuals in which this derogation was applied in respect of 2022 are set out below:

Number of staff benefitting from the derogation laid down in Article 94(3)b of CRD for 2022	Total fixed remuneration	Total variable remuneration
27	4,326,667	530,401

Information on the remuneration of the collective management body (Article 450(2) CRR)

See tables UK REM 1, 2, 3 and 5.

12.5 Quantitative information on remuneration

Remuneration awarded for the financial year (UK-REM1)

Table 43 (UK-REM1): Remuneration awarded for the financial year			Dec-22 MB Supervisory function	MB Management function	Other senior management	Other identified staff
			a	b	c	d
1	Fixed remuneration	**Number of identified staff**	**7**	**4**	**-**	**21**
2		**Total fixed remuneration (£000)**	**526**	**1,861**	**-**	**4,113**
3		Of which: cash-based	526	1,861	-	4,113
UK-4a		Of which: shares or equivalent ownership interests	-	-	-	-
5		Of which: share-linked instruments or equivalent non-cash instruments	-	-	-	-
UK-5x		Of which: other instruments	-	-	-	-
7		Of which: other forms	-	-	-	-
9	Variable remuneration	**Number of identified staff**	**7**	**4**	**-**	**21**
10		**Total variable remuneration (£000)**	**26**	**305**	**-**	**533**
11		Of which: cash-based	26	122	-	514
12		Of which: deferred	-	183	-	19
UK-13a		Of which: shares or equivalent ownership interests	-	-	-	-
UK-14a		Of which: deferred	-	-	-	-
UK-13b		Of which: share-linked instruments or equivalent non-cash instruments	-	152	-	19
UK-14b		Of which: deferred	-	91	-	-
UK-14x		Of which: other instruments	-	-	-	-
UK-14y		Of which: deferred	-	-	-	-
15		Of which: other forms	-	-	-	-
16		Of which: deferred	-	-	-	-
17	**Total remuneration (2 + 10)**		**552**	**2,166**	**-**	**4,646**

			Dec-21 MB Supervisory function	MB Management function	Other senior management	Other identified staff
			a	b	c	d
1	Fixed remuneration	**Number of identified staff**	**8**	**4**	**-**	**15**
2		**Total fixed remuneration (£000)**	**490**	**1,761**	**-**	**3,177**
3		Of which: cash-based	490	1,761	-	3,177
UK-4a		Of which: shares or equivalent ownership interests	-	-	-	-
5		Of which: share-linked instruments or equivalent non-cash instruments	-	-	-	-
UK-5x		Of which: other instruments	-	-	-	-
7		Of which: other forms	-	-	-	-
9	Variable remuneration	**Number of identified staff**	**8**	**4**	**-**	**15**
10		**Total variable remuneration (£000)**	**6**	**175**	**-**	**316**
11		Of which: cash-based	6	54	-	316
12		Of which: deferred	-	121	-	-
UK-13a		Of which: shares or equivalent ownership interests	-	-	-	-
UK-14a		Of which: deferred	-	-	-	-
UK-13b		Of which: share-linked instruments or equivalent non-cash instruments	-	24	-	-
UK-14b		Of which: deferred	-	-	-	-
UK-14x		Of which: other instruments	-	-	-	-
UK-14y		Of which: deferred	-	-	-	-
15		Of which: other forms	-	-	-	-
16		Of which: deferred	-	-	-	-
17	**Total remuneration (2 + 10)**		**496**	**1,936**	**-**	**3,493**

Remuneration

Special payments to colleagues whose professional activities have a material impact on the Society’s risk profile (UK-REM2)

	Table 44 (UK-REM2): Special payments to staff whose professional activities have a material impact on institutions’ risk profile (identified staff)	Dec-22			
		MB Supervisory function	MB Management function	Other senior management	Other identified staff
		a	b	c	d
	Guaranteed variable remuneration awards				
1	Guaranteed variable remuneration awards - Number of identified staff	n/a	-	-	-
2	Guaranteed variable remuneration awards -Total amount (£000)	n/a	-	-	-
3	Of which guaranteed variable remuneration awards paid during the financial year, that are not taken into account in the bonus cap	n/a	-	-	-
	Severance payments awarded in previous periods, that have been paid out during the financial year				
4	Severance payments awarded in previous periods, that have been paid out during the financial year - Number of identified staff	n/a	-	-	-
5	Severance payments awarded in previous periods, that have been paid out during the financial year - Total amount (£000)	n/a	-	-	-
	Severance payments awarded during the financial year				
6	Severance payments awarded during the financial year - Number of identified staff	n/a	-	-	2
7	Severance payments awarded during the financial year - Total amount (£000)	n/a	-	-	418
8	Of which paid during the financial year	n/a	-	-	418
9	Of which deferred	n/a	-	-	-
10	Of which severance payments paid during the financial year, that are not taken into account in the bonus cap	n/a	-	-	418
11	Of which highest payment that has been awarded to a single person	n/a	-	-	310

		Dec-21			
		MB Supervisory function	MB Management function	Other senior management	Other identified staff
		a	b	c	d
	Guaranteed variable remuneration awards				
1	Guaranteed variable remuneration awards - Number of identified staff	n/a	-	-	-
2	Guaranteed variable remuneration awards -Total amount (£000)	n/a	-	-	-
3	Of which guaranteed variable remuneration awards paid during the financial year, that are not taken into account in the bonus cap	n/a	-	-	-
	Severance payments awarded in previous periods, that have been paid out during the financial year				
4	Severance payments awarded in previous periods, that have been paid out during the financial year - Number of identified staff	n/a	-	-	-
5	Severance payments awarded in previous periods, that have been paid out during the financial year - Total amount (£000)	n/a	-	-	-
	Severance payments awarded during the financial year				
6	Severance payments awarded during the financial year - Number of identified staff	n/a	-	-	1
7	Severance payments awarded during the financial year - Total amount (£000)	n/a	-	-	138
8	Of which paid during the financial year	n/a	-	-	138
9	Of which deferred	n/a	-	-	-
10	Of which severance payments paid during the financial year, that are not taken into account in the bonus cap	n/a	-	-	138
11	Of which highest payment that has been awarded to a single person	n/a	-	-	138

Remuneration

Deferred and retained remuneration (UK-REM3)

	Table 45 (UK-REM3): Deferred and retained remuneration	Dec-22							
		Total amount of deferred remuneration awarded for previous performance periods	Of which due to vest in the financial year	Of which vesting in subsequent financial years	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years	Total amount of adjustment during the financial year due to ex post implicit adjustments (i.e. changes of value of deferred remuneration due to the changes of prices of instruments)	Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year	Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods
	£000	a	b	c	d	e	f	UK - g	UK - h
1	**MB Supervisory function**	-	-	-	-	-	-	-	-
2	Cash-based								
3	Shares or equivalent ownership interests								
4	Share-linked instruments or equivalent non-cash instruments								
5	Other instruments								
6	Other forms								
7	**MB Management function**	599	275	324	-	-	-	-	-
8	Cash-based	-	-	-	-	-	-	-	-
9	Shares or equivalent ownership interests	-	-	-	-	-	-	-	-
10	Share-linked instruments or equivalent non-cash instruments	599	275	324	-	-	-	-	-
11	Other instruments	-	-	-	-	-	-	-	-
12	Other forms	-	-	-	-	-	-	-	-
13	**Other senior management**	-	-	-	-	-	-	-	-
14	Cash-based	-	-	-	-	-	-	-	-
15	Shares or equivalent ownership interests	-	-	-	-	-	-	-	-
16	Share-linked instruments or equivalent non-cash instruments	-	-	-	-	-	-	-	-
17	Other instruments	-	-	-	-	-	-	-	-
18	Other forms	-	-	-	-	-	-	-	-
19	**Other identified staff**	-	-	-	-	-	-	-	-
20	Cash-based	-	-	-	-	-	-	-	-
21	Shares or equivalent ownership interests	-	-	-	-	-	-	-	-
22	Share-linked instruments or equivalent non-cash instruments	-	-	-	-	-	-	-	-
23	Other instruments	-	-	-	-	-	-	-	-
24	Other forms	-	-	-	-	-	-	-	-
25	**Total amount**	599	275	324	-	-	-	-	-

		Total amount of deferred remuneration awarded for previous performance periods	Of which due to vest in the financial year	Of which vesting in subsequent financial years	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years	Total amount of adjustment during the financial year due to ex post implicit adjustments (i.e. changes of value of deferred remuneration due to the changes of prices of instruments)	Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year	Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods
	£000	a	b	c	d	e	f	UK - g	UK - h
1	**MB Supervisory function**	-	-	-	-	-	-	-	-
2	Cash-based								
3	Shares or equivalent ownership interests								
4	Share-linked instruments or equivalent non-cash instruments								
5	Other instruments								
6	Other forms								
7	**MB Management function**	798	229	569	-	-	-	-	-
8	Cash-based	-	-	-	-	-	-	-	-
9	Shares or equivalent ownership interests	-	-	-	-	-	-	-	-
10	Share-linked instruments or equivalent non-cash instruments	798	229	569	-	-	-	-	-
11	Other instruments	-	-	-	-	-	-	-	-
12	Other forms	-	-	-	-	-	-	-	-
13	**Other senior management**	-	-	-	-	-	-	-	-
14	Cash-based	-	-	-	-	-	-	-	-
15	Shares or equivalent ownership interests	-	-	-	-	-	-	-	-
16	Share-linked instruments or equivalent non-cash instruments	-	-	-	-	-	-	-	-
17	Other instruments	-	-	-	-	-	-	-	-
18	Other forms	-	-	-	-	-	-	-	-
19	**Other identified staff**	134	-	134	-	-	-	-	-
20	Cash-based	134	-	134	-	-	-	-	-
21	Shares or equivalent ownership interests	-	-	-	-	-	-	-	-
22	Share-linked instruments or equivalent non-cash instruments	-	-	-	-	-	-	-	-
23	Other instruments	-	-	-	-	-	-	-	-
24	Other forms	-	-	-	-	-	-	-	-
25	**Total amount**	932	229	703	-	-	-	-	-

Remuneration in excess of 1 million EUR (UK-REM4)

No colleagues received remuneration in excess of 1 million EUR in 2022. Therefore, table UK-REM4 has not been presented.

Remuneration

Remuneration of colleagues whose professional activities have a material impact on the Society's risk profile (UK-REM5)

Table 46 (UK-REM5): Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff)		Dec-22									
		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
		a	b	c	d	e	f	g	h	i	j
1	**Total number of identified staff**										**32**
2	Of which: members of the MB	7	4	11							
3	Of which: other senior management				-	-	-	-	-	-	
4	Of which: other identified staff				-	-	-	-	-	21	
5	**Total remuneration of identified staff (£000)**	**552**	**2,166**	**2,718**	**-**	**-**	**-**	**-**	**-**	**4,646**	
6	Of which: variable remuneration	26	305	331	-	-	-	-	-	533	
7	Of which: fixed remuneration	526	1,861	2,387	-	-	-	-	-	4,113	

		Dec-21									
		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
		a	b	c	d	e	f	g	h	i	j
1	**Total number of identified staff**										**27**
2	Of which: members of the MB	8	4	12							
3	Of which: other senior management				-	-	-	-	-	-	
4	Of which: other identified staff				-	-	-	-	-	15	
5	**Total remuneration of identified staff (£000)**	**496**	**1,936**	**2,432**	**-**	**-**	**-**	**-**	**-**	**3,493**	
6	Of which: variable remuneration	6	175	181	-	-	-	-	-	316	
7	Of which: fixed remuneration	490	1,761	2,251	-	-	-	-	-	3,177	

13 Contact Information

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Approved by the Board on 23 February 2023

14 Glossary and Abbreviations

Assets and Liabilities Committee (ALCO)	A Society Board level committee which oversees treasury policy, financial risk management, wholesale funding and liquidity.
Basel III Framework	Basel III is the third capital adequacy framework issued by the Basel Committee on Banking Supervision, which defines the capital and liquidity rules for banks and building societies. The framework has been embedded into UK law through the European Capital Requirements Directive V (CRD V).
Capital Requirements Directive (CRD)	Directives enacted by PS29/20 introduced by the PRA on the 28th December 2020 regarding access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms.
Capital Requirements Regulation (CRR)	Regulation (EU) No 575/2013 of the European Parliament on-shored in the UK post-Brexit by the Withdrawal act regarding prudential requirements for credit institutions and investment firms.
Common Equity Tier 1 (CET1) capital	CET1 capital is the highest quality form of capital and comprises general reserves from retained profits, less the book values of any pension surplus, goodwill and intangible assets and other regulatory adjustments as defined under CRD V.
Common Equity Tier 1 (CET1) capital ratio	This is a regulatory ratio, calculated as the total of CET1 capital divided by Risk Weighted Exposure Amounts (RWEAs).
Counterparty Credit Risk	This is the risk that a customer or counterparty is unable to pay the interest or to repay the capital on a loan when required.
Covered bonds	Debt securities which are backed by a portfolio of mortgages which is segregated from the issuer's other assets solely for the benefit of the holders of the covered bonds.
Credit quality steps	A credit quality assessment scale as set out in CRD V (risk weights under the Standardised Approach to credit risk).
Credit risk	The potential to incur losses from the failure of a borrower or counterparty to meet its obligation to pay interest or repay capital on an outstanding loan.
Credit risk mitigation	Techniques to reduce the potential loss in the event that a customer (borrower or counterparty) becomes unable to meets its obligations. This may include the taking of financial or physical security, the assignment of receivables or the use of credit derivatives, guarantees, credit insurance,

	set off or netting.
Credit Support Annex (CSA)	A Credit Support Annex is a legal document which regulates credit support (collateral) for derivative transactions. It is one of the four parts that make up an ISDA Master Agreement but is not mandatory. It is possible to have an ISDA agreement without a CSA but not normally a CSA without an ISDA agreement.
Default	Default occurs when a borrower is deemed unlikely to repay their loan or other amount due to the Society. This occurs when a borrower reaches a predefined arrears status.
Exposure At Default (EAD)	An estimate of the maximum loss that an entity might suffer if a borrower or other counterparty fails to meet their obligations at default.
External Credit Assessment Institution (ECAI)	An ECAI (for example Moody's, Standard and Poor's, Fitch) is an institution that assigns credit ratings to issuers of certain types of debt obligations as well as the debt instruments themselves.
Expected loss (EL)	A calculation to estimate potential losses on current exposures due to potential defaults in the next 12 months; the term is used in relation to exposures modelled under the Internal Ratings Based (IRB) approach and is derived from the multiplication of the PD, LGD and EAD.
Financial Conduct Authority (FCA)	The UK regulatory body responsible for conduct of business regulation and supervision of UK authorised firms. The FCA is also responsible for the prudential regulation of firms which do not fall within the scope of the PRA.
Financial Policy Committee (FPC)	An official committee of the BoE the primary role of which is to identify, monitor, and take action to remove or reduce risks that threaten the resilience of the UK financial system as a whole.
Group	The Society and its subsidiaries including entities under its control.
Internal Capital Adequacy Assessment Process (ICAAP)	The Group's own assessment, as part of CRD V requirements, of the levels of capital that it needs to hold in respect of regulatory capital requirements for risks it faces under a business-as-usual scenario and a variety of stressed scenarios.
Impaired Loans	Impaired loans are those loans where there is objective evidence that an impairment event has occurred, meaning that the Society does not expect to collect all the contractual cash flows or does not expect to collect them when they are contractually due.
Institution	An institution is defined in Article 1 of the Capital Requirements Directive (CRD) as a credit institution or investment firm.

Glossary and Abbreviations

	A credit institution is defined in Article 4 of the Capital Requirements Regulation (CRR) as an undertaking whose business is to take deposits or other repayable funds from the public and to grant credits for its own account. An investment firm is defined in Article 4 of the Markets in Financial Instruments Directive (Directive 2004/39/EC of the European Parliament and of the Council) as any legal person whose regular occupation or business is the provision of one or more investment services to third parties and/or the performance of one or more investment activities on a professional basis.
Interest rate risk	Interest rate risk is the exposure of a firm's financial condition to adverse movements in interest rates.
Internal Liquidity Adequacy Assessment Process (ILAAP)	The Group's own internal assessment of the level of liquidity that it needs to hold in respect of regulatory liquidity requirements in relation to a number of stressed scenarios.
Internal Ratings Based (IRB) Approach	An approach for measuring exposure to credit risk which is more sophisticated than the Standardised Approach, where an entity can calculate its own risk weights for certain assets. The IRB approach may be Foundation or Advanced. IRB approaches can only be used with the permission of the Prudential Regulation Authority.
Leverage Ratio	The leverage ratio calculation, specific to CRD V, is calculated as Tier 1 capital divided by total exposures (including on- and off-balance sheet items) without any consideration of underlying risk. The leverage ratio reinforces the risk-based capital requirements as a non-risk based 'backstop'. The UK leverage ratio is specific to the UK regulatory regime and only applies to financial institutions with deposits of £50bn or more, however, it is monitored by the Society as part of its Purpose Scorecard for information. The calculation excludes deposits with central banks from the leverage exposure measure.
Loan to Value (LTV)	A ratio which expresses the amount of a mortgage as a percentage of the value of the property on which the mortgage is secured. The Group calculates residential mortgage LTV on an indexed basis (the value of the property is updated on a quarterly basis to reflect changes in the house price index (HPI)).
London Clearing House (LCH)	An independent rates and multi-asset clearing house. LCH are a central counterparty which facilitates the exchange of multiple types of transactions.

Glossary and Abbreviations

Loss Given Default (LGD)	A parameter used in relation to credit risk exposures modelled under the IRB approach; an estimate of the difference between the EAD and the net amount recovered, expressed as a percentage of the EAD.
Market risk	The risk that movements in market risk factors, including foreign exchange rates, interest rates and customer-driven factors will create losses or decrease portfolio values.
Maturity	The remaining time the borrower is permitted to take to fully discharge their contractual obligation (principal, interest and fees) under the terms of a loan agreement.
Minimum capital requirement	The minimum amount of regulatory capital that a financial institution must hold to meet the Basel III Pillar 1 requirements for credit, market and operational risk.
Minimum Requirements for Own Funds and Eligible Liabilities (MREL)	MREL is the minimum amount of equity and subordinated debt a firm must maintain to support an effective resolution.
Operational risk	The risk of loss arising from inadequate, inefficient or failed internal processes, human resources, systems or external events (for example fraud).
Permanent Interest Bearing Shares (PIBS)	Unsecured, deferred shares that are a form of Additional Tier 1 capital (subject to phasing to Tier 2).
Loans Past Due	Loans past due occur when a borrower has failed to make a payment when it is contractually due.
Pillar 1	The parts of CRD V which set out the minimum capital requirements for credit, market and operational risk
Pillar 2	Those aspects of CRD V which set out the process by which the Society should review its overall capital adequacy and the processes under which the regulators/supervisors evaluate how well financial institutions are assessing their risks and take appropriate actions in response the institutions' assessments.
Pillar 3	The part of CRD V governing the production of this document. It sets out information disclosures relating to risks, the amount of capital required to cover those risks, and the approach to risk management.
Potential future credit exposure (PFCE)	A measure defined as the maximum expected credit exposure over a specified period of time calculated at some level of confidence.
Probability of default (PD)	A measure of how likely a customer is to reach default over a defined

	period of time.
Provisions	Amounts set aside to cover incurred losses associated with credit risks.
Prudential Regulation Authority (PRA)	The UK regulatory body responsible for the prudential supervision of banks, building societies, insurers and a small number of significant investment firms.
Repurchase agreement (Repo)	A repurchase agreement allows a borrower to use a financial security as collateral for a cash loan at a fixed rate of interest. In a repo, the borrower agrees to sell a commitment to repurchase the asset at a specified price on a given future date. For the party selling the security and agreeing to repurchase the asset in the future, it is a reverse repo.
Residential mortgage backed securities (RMBS)	A category of asset backed security that represent interests in a group of residential mortgages. Investors in these securities have the right to cash received from future mortgage payments (interest and/or principal).
Risk Weighted Exposure Amounts (RWEAs)	A regulatory measure which adjusts the value of assets as recorded in the Statement of Financial Position to reflect the relative level of risk. This measure is used in calculating regulatory capital requirements. Also referred to as Risk Weighted Assets (RWA).
Securitisation	The process by which a group of assets (usually loans) is aggregated into a pool which is used to back the issuance of new securities. A company transfers assets to a special purpose entity which issues securities backed by those assets. The Society has established securitisation structures (using residential mortgages as assets) as part of its funding activities.
Society	Leeds Building Society.
Special Purpose Entity (SPE)	A legal entity (usually a limited company of some type or, sometimes, a limited partnership) created to fulfil narrow, specific or temporary objectives. In the context of the Society, the SPEs are used in relation to securitisation activities.
Standardised approach	The approach used to calculate credit risk exposures and the related capital requirements. The method uses parameters determined by the regulator rather than internally and is less risk sensitive than IRB approaches. This will generally result in a higher capital requirement.
Supervisory Review and Evaluation Process (SREP)	The PRA's assessment of a firm's own capital adequacy assessment (ICAAP) under Basel III Pillar 2.

Glossary and Abbreviations

Tier 1 capital	A measure of financial strength as defined by the PRA. Tier 1 capital is divided into Common Equity Tier 1 and other Tier 1 capital. Common Equity Tier 1 capital is defined above.
Tier 2 capital	A further component of regulatory and financial capital as defined by CRD V.

Appendices

Appendix 1: Tables Index

Appendix 2: Tables not presented

Annex	Reference	Name	Reason for omission
VI	UK-PV1	Prudent valuation adjustments (PVA)	The society does not apply the core approach for the determination of the additional valuation adjustment for prudent valuation.
XVI	UK-CR2	Changes in the stock of non-performing loans and advances	The society has a non-performing loans ratio below the 5% threshold for disclosure.
XVI	UK-CR2A	Changes in the stock of non-performing loans and advances and related net accumulated recoveries	The society has a non-performing loans ratio below the 5% threshold for disclosure.
XVI	UK-CQ2	Quality of forbearance	The society has a non-performing loans ratio below the 5% threshold for disclosure.
XVI	UK-CQ4	Quality of non-performing exposures by geography	Non-domestic exposures are below the 10% threshold (i.e. non-domestic exposures divided by total exposures) for disclosure.
XVI	UK-CQ5	Credit quality of loans and advances to non-financial corporations by industry	As individual commercial loans could potentially be identified from this disclosure, for confidentiality reasons, in line with CRR article 432, table CQ5 has not been presented.
XVI	UK-CQ6	Collateral valuation - loans and advances	The society has a non-performing loans ratio below the 5% threshold for disclosure.
XVI	UK-CQ8	Collateral obtained by taking possession and execution processes – vintage breakdown	The society has a non-performing loans ratio below the 5% threshold for disclosure.
XXII	UK-CR7	IRB approach – Effect on the RWEAs of credit derivatives used as CRM techniques	The society does not use credit derivatives to mitigate credit risk.
XXII	UK-CR9.1	IRB approach – Back-testing of PD per exposure class (only for PD estimates according to point (f) of Article 180(1) CRR)	The society does not follow the approach described in point (f) of Article 180(1) CRR. Article 180(1) only applies to corporates, institutions, central governments, central banks and not retail, hence is not applicable.
XXIV	UK-CR10	Specialised lending and equity exposures under the simple risk weighted approach	The society does not employ slotting for any specialised lending exposures.
XXVI	UK-CCR1	Analysis of CCR exposure by approach	The Society currently only has exposure to counterparty credit risk through central clearing counterparties and own fund requirements for CVA risk, both of which are excluded from disclosure in UK-CCR1. Therefore, this table has not been presented.
XXVI	UK-CCR4	IRB approach – CCR exposures by exposure class and PD scale	The society does not use IRB for counterparty credit risk exposures.
XXVI	UK-CCR6	Credit derivatives exposures	The society does not use credit derivatives to mitigate credit risk.
XXVI	UK-CCR7	RWEA flow statements of CCR exposures under the IMM	The society does not use the Internal Model Method for CCR exposures.
XXVIII	UK-SEC2	Securitisation exposures in the trading book	The society does not have a trading book.
XXVIII	UK-SEC3	Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as originator or as sponsor	The society has securitised mortgage loans through Albion No.4 plc. There are no capital requirements for these securitisation exposures due to no significant risk transfer.
XXX	UK-MR1	Market risk under the standardised approach	The 2% threshold set out in the UK CRR has not been met.
XXX	UK-MRB	RWA flow statements of market risk exposures under the IMA	The society does not use the Internal Model Approach for market risk.
XXX	UK-MR2A	Market risk under the internal Model Approach (IMA)	The society does not use the Internal Model Approach for market risk.
XXX	UK-MR2B	RWA flow statements of market risk exposures under the IMA	The society does not use the Internal Model Approach for market risk.
XXX	UK-MR3	IMA values for trading portfolios	The society does not use the Internal Model Approach for market risk.
XXX	UK-MR4	Comparison of VaR estimates with gains/losses	The society does not use the Internal Model Approach for market risk.
XXXIV	UK-REM4	Remuneration of 1 million EUR or more per year	No colleagues received remuneration in excess of 1 million EUR in 2022 or 2021.