Leeds Building Society

Interim Pillar 3 Disclosures 2023

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1 Introduction

This document presents the Pillar 3 disclosures of Leeds Building Society (the Society) for the reporting period to 30 June 2023. 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. More detailed information on the Society's approach to capital management is included in the annual Pillar 3 disclosures published on the "Financial results" section of the Society's website (www.leedsbuildingsociety.co.uk/press/financial-results/).

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

1.1 Scope of application

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's consolidation group is set out in detail in section 2 of the 31 December 2022 annual Pillar 3 disclosures. 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.

1.2 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. 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.

These 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. Unless otherwise noted, 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 material impact on the Society's capital position. The disclosures have been published in conjunction with the publication date of the Society's Interim Results and the information presented is based on those Accounts unless otherwise stated.

1.3 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.

2 Summary of Key Metrics

2.1 Key metrics (UK-KM1)

The table below provides a summary of the key prudential capital ratios and risk measures.

Table 1 (UK-KM1): Key metrics		Jun-23	Dec-22 a	Jun-22 c	Dec-21 e
		T	T-2	T-4	T-6
Available own funds (£m)					
1	Common Equity Tier 1 (CET1) capital	**1,460.1**	1,388.3	1,338.3	1,228.7
2	Tier 1 capital	**1,460.1**	1,388.3	1,338.3	1,231.2
3	Total capital	**1,695.3**	1,622.9	1,568.7	1,458.7
Risk-weighted exposure (£m)					
4	Total risk-weighted exposure amount	**5,172.9**	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 (%)	**28.2%**	33.3%	33.3%	38.0%
6	Tier 1 ratio (%)	**28.2%**	33.3%	33.3%	38.1%
7	Total capital ratio (%)	**32.8%**	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%**	1.6%	1.9%	1.4%
UK 7b	Additional AT1 SREP requirements (%)	**0.5%**	0.6%	0.6%	0.4%
UK 7c	Additional T2 SREP requirements (%)	**0.7%**	0.7%	0.9%	0.6%
UK 7d	Total SREP own funds requirements (%)	**10.8%**	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%	2.5%
UK 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	**-**	-	-	-
9	Institution specific countercyclical capital buffer (%)[2]	**1.000%**	1.000%	-	-
UK 9a	Systemic risk buffer (%)	**-**	-	-	-
10	Global Systemically Important Institution buffer (%)	**-**	-	-	-
UK 10a	Other Systemically Important Institution buffer	**-**	-	-	-
11	Combined buffer requirement (%)	**3.5%**	3.5%	2.5%	2.5%
UK 11a	Overall capital requirements (%)	**14.3%**	14.4%	14.0%	12.9%
12	CET1 available after meeting the total SREP own funds requirements (%)[3]	**18.1%**	22.4%	21.9%	27.6%
Leverage ratio[4]					
13	Leverage ratio total exposure measure (£m)	**23,698.2**	22,516.5	21,969.0	20,317.4
14	Leverage ratio (%)	**6.2%**	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	N/A
UK 14b	Additional AT1 leverage ratio requirements (%)	**N/A**	N/A	N/A	N/A
UK 14c	Additional T2 leverage ratio requirements (%)	**N/A**	N/A	N/A	N/A
UK 14d	Total SREP leverage ratio requirements (%)	**N/A**	N/A	N/A	N/A
UK 14e	Applicable leverage buffer	**N/A**	N/A	N/A	N/A
UK 14f	Overall leverage ratio requirements (%)	**N/A**	N/A	N/A	N/A
Liquidity Coverage Ratio					
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	**3,657.7**	3,554.6	3,278.7	2,913.2
UK 16a	Cash outflows - Total weighted value	**1,977.2**	1,953.8	1,862.3	1,674.9
UK 16b	Cash inflows - Total weighted value	**150.7**	134.8	130.2	112.7
16	Total net cash outflows (adjusted value)	**1,826.5**	1,819.0	1,732.2	1,562.2
17	Liquidity coverage ratio (%)	**216.7%**	195.4%	190.4%	187.2%
Net Stable Funding Ratio					
18	Total available stable funding	**23,272.6**	22,130.4	21,838.7	20,750.3
19	Total required stable funding	**16,520.2**	15,819.6	15,805.2	13,776.6
20	NSFR ratio (%)	**140.9%**	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.
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 and excluding claims on central banks. The Tier 1 capital figure used in the calculation does not include IFRS 9 transitional adjustments (30 June 2023: £nil, 31 December 2022: £0.7m, June 2022: £0.7m, December 2021: £1.4m) or the qualifying AT1 element of PIBS (June 2023: £nil, December 2022: £nil, 30 June 2022: £2.5m, 31 December 2021: £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.

Capital Ratios and Buffers

The Society's capital position remains strong with CET1 capital of £1,460.1m (31 December 2022: £1,388.3m). The increase to CET1 capital during the period is driven by earnings after tax.

Risk Weighted Exposure Amounts (RWEAs) increased by £1,009.0m during the six month period to £5,172.9m (31 December 2022: £4,163.9m). Underlying asset quality and risk weights have remained broadly stable in the period. The increase in RWEAs observed in June 2023 is primarily driven by a revision to an adjustment that reflects the expected impact of regulatory Internal Ratings Based (IRB) reforms.

As a result of the movement in regulatory capital and RWEAs explained above, the CET1 ratio and TCR have both decreased to 28.2% (31 December 2022: 33.3%) and 32.8% (31 December 2022: 39.0%) respectively.

As of 30 June 2023, the Pillar 2A requirement set by the PRA was 2.8% 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 remained in line at 6.2% as of 30 June 2023 (31 December 2022: 6.2%). The £72.5m increase in fully loaded Tier 1 capital (30 June 2023: £1,460.1m; 31 December 2022: £1,387.6m) was offset by a £1,181.7m 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 30 June 2023, the LCR was 216.7% (31 December 2022: 195.4%) and was above both the regulatory and internal limits set by the Board throughout the year.

Net Stable Funding Ratio (NSFR)

As of 30 June 2023, the NSFR was 140.9% (31 December 2022: 139.9%) and was above both the regulatory and internal limits set by the Board throughout the year.

2.2 Minimum Required Eligible Liabilities

Due to the Society having a balance sheet in excess of £15bn the Bank of England (BoE) have stated a preferred resolution strategy for the Society of 'bail-in' requiring the Society to hold both recovery and resolution MREL requirements. The transitional MREL requirement set for us by the Bank of England was 18% of RWEAs until 20 July 2023. End state MREL requirements are two times minimum regulatory requirements plus any regulatory buffers, active from 21 July 2023. The Society has capital resources in excess of both end state and transitional requirements and continues to forecast headroom moving forward.

The ratio is calculated as MREL eligible resources divided by RWEAs on the last day of the relevant period. As of 30 June 2023, total MREL resources were equal to 39.5% (31 December 2022: 47.4%) significantly in excess of both the 2023 interim and end state requirements, including regulatory buffers, of 21.5% and 26.2% respectively. The reduction in ratios is driven by the same factors described under impact to RWEAs in section 2.1, partly offset by the recognition of audited profits after tax.

Table 2: MREL		Jun-23	Dec-22	Jun-22	Dec-21
Prudential Consolidation Group (Resolution Group Level)		**T**	T-2	T-4	T-6
1	Total MREL Eligible Resources (£m)	**2,045.3**	1,972.9	1,918.7	1,808.7
2	Total MREL Requirement (£m)	**1,112.2**	895.2	822.7	662.4
3	**Headroom over MREL (£m)**	**933.1**	**1,077.7**	**1,096.0**	**1,146.3**
	MREL Ratios (as a % of RWEAs):				
4	MREL	**39.5%**	47.4%	47.8%	56.0%
5	Interim MREL Requirement plus Buffers	**21.5%**	21.5%	20.5%	20.5%
6	End State MREL Requirement plus Buffers	**26.2%**	26.3%	27.4%	25.3%

2.3 New and emerging regulation

Post model adjustments relating to changes in IRB capital requirements have resulted in increased RWEAs and have been in place since January 2022. The upward adjustment to risk weights has been increased in June 2023 to reflect the latest expectations. Further refinement is ongoing across the industry in relation to these regulations and this is expected to be finalised in the next 12 months. The Society is expected to retain significant headroom over risk appetite following the finalisation of these regulatory changes.

Our preparations to meet the requirements of the Basel 3.1 standards, which come into force in January 2025, are well underway. As an IRB lender, the predominant impact will be the new capital floor, expected to be phased in from January 2025 until January 2030.

3 Contact Information

If you have any queries regarding this document, please contact:

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Approved by the Board on 27 July 2023

4 Glossary and Abbreviations

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).
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.
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.
Group	The Society and its subsidiaries including entities under its control.
Institution	An institution is defined in Article 1 of the Capital Requirements Directive (CRD) as a credit institution or investment firm. 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

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	parties and/or the performance of one or more investment activities on a professional basis.
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.
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.
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 qualified as a form of Additional Tier 1 capital under previous regulation, but which have now been fully grandfathered and are classed as Tier 2 capital.
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

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	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.
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.
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).
Society	Leeds Building Society.
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.
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.